Islamic Finance news
A REDmoney Product
Vol 7 Issue 32 11th August 2010
The World's Global Islamic Finance News Provider

Analyze and strategize

As Islamic finance slowly takes root on a global scale, both product and practitioner are yet to decide on which markets best to serve. While the global Muslim community seems to be an easier target, it is ironic that non-Muslim markets are actually more accessible.

The Takaful industry has a big potential in the West, where being insured has become a living necessity. The case is the opposite in most Muslim households where the concept of extended families still exist, rendering insurance not completely necessary according to our Takaful report this week. More importantly, the report reminds us how important it is to understand and identify with the needs and lifestyle of our target market before products can be strategically developed.

Geert Bossuyt, CEO of Dar Al Istithmar will surely agree. He says Islamic finance practitioners need to recognize that the industry's true competitors lie in conventional finance. Bossuyt is featured in our Meet the Head section this week.

Target markets are also a big issue for Indonesia, the focus of our two country reports. Farouk Abdullah of Bank Muamalat Indonesia says that Islamic finance in Indonesia experienced a very slow growth initially as most Indonesians are skeptical about anything Islamic. However, the country has seen rapid growth with its Sukuk legislation giving way to Sukuk issuances, and a rising number of Islamic banks over the past five years.

The effectiveness of Sukuk in Indonesia is debatable. Our second country report lists the main challenge for Indonesia in Islamic finance as apprehension on the part of investors due to perceived risk, which is in turn based on a weak regulatory regime, not to mention limited investment options and lack of proper promotion.

Our first sector report this week questions the acceptability of derivatives from a Shariah perspective. The industry needs to progress towards offering viable hedging solutions to sustain its current growth rate. There needs to be a market standard which can be used to offer Islamic finance customers Shariah complaint hedging solutions, according to Afaq Khan, CEO of Standard Chartered Saadiq.

In creating products and offering viable solutions, the industry also needs to prioritize the assessment and mitigation of risks. Our second sector report by NBD-Abu Dhabi Islamic Bank says that risk management calculations and methodologies in Islamic banks need to be updated substantially to incorporate positive changes.

Our IFN reports also speak of positive change. The Islamic finance landscape in Singapore is boosted with the recent benchmark Sukuk issuance by Khazanah Nasional, the biggest issuance in the island nation to date. (You can find details of the issuance in our Termsheet section.) Turkey's Kuveyt Turk has recently listed its first negotiable gold mutual fund on its stock exchange, despite the country's firm secular stance.

Even in Christian majority Zimbabwe, Islamic finance is being considered as a potential and viable solution to the country's economic woes. Last but not least, Sri Lanka's Shariah compliant Namal Amana Equity Fund reported a 71% capital gain during the last 12 months, overtaking 299 globally monitored funds.

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- **Moody's c**hanges Kuwait's 'Aa2' sovereign ratings from negative to stable
- **Moody's** affirms negative outlook for Bahrain's banking system

MOVES

- Jens Reisch is CEO of **Allianz Malaysia** and **Allianz Life Insurance Malaysia**
- Ed De Sear is partner in **Allen & Overy**'s international capital group
- **JPMorgan Chase & Co** hires Jose Pagan to head public finance operations
- Kevin Walter is head of US Treasury trading at **BNP Paribas CIB**
- **Deutsche Bank** appoints three senior bankers and two directors
- Curtis Arledge will be vice chairman of **BNY Mellon**

AMERICAS

US law firm to open in Asia

US: Law firm King & Spalding has applied for the government's approval to open an office in Singapore.

The move is based on the firm's intention to expand its energy and international arbitration practice in the Asian region. If successful, the Singapore office will be headed by Philip Weems, current global energy chief.

Off the list

US: Dow Jones Indexes announced that Denway Motors will be taken off the Dow Jones Islamic Market China/Hong Kong Titans 30 Index.

The move to delist Denway Motors is due to its acquisition by Guangzhou Automobile Group Company. This change will be effective as of the 17th August 2010.

The Dow Jones Islamic Market China/ Hong Kong Titans 30 Index measures the performance of the 30 largest companies whose primary operations are in mainland China and Hong Kong.

Property venture with KFH

CANADA: Killam Properties is close to finalizing a joint venture with Kuwait Finance House, which will see the partnership take control of US$500 million worth of apartment buildings, said Phil Fraser, the company's president and CEO.

Killam is one of Canada's largest residential landlords.

Islamic finance forum

US: The US-Qatar Business Council and the Arab Bankers Association of North America, in collaboration with the National Council for US Arab Relations, hosted an Islamic finance forum at the George Washington University Law School.

The forum discussed the compatibility of Shariah compliant institutions with US law, Islamic financial regulation and practice in the GCC and Islamic finance in the light of the recent financial crisis.

Yusuf Talal deLorenzo, chief Shariah officer at Shariah Capital and Aamir Rehman, managing director of Fajr Capital were among the panelists at the forum.

ASIA

Buyout approved

MALAYSIA: Bank Negara Malaysia and the finance ministry granted approval for disposal of EONCAP Islamic Bank shares to Hong Leong Bank.

Approvals were also granted to Hong Leong Bank to enter into an agreement with EONCAP Islamic Bank and to take control of its subsidiaries EON Bank and MIMB Investment Bank.

Foreign acquisition

MALAYSIA: Affin Bank (Affin) has bought 80% shares in Indonesia's Bank Ina Perdana for RM138 million (US$43.5 million). The acquisition which is funded internally is Affin's first venture abroad.

"We see this acquisition as a step forward for Affin Bank and Affin Islamic Bank as the potential for Islamic banking in Indonesia is vast," said Zulkiflee Abbas Abdul Hamid, managing director and CEO of Affin.

Bank Ina Perdana made RM4.75 million (US$1.5 million) profit before tax for the financial year ended on the 31st December

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2009. Its net assets for the same period reached RM39.74 million (US$12.5 million).

Funds for development

INDONESIA: Bank Muamalat Indonesia received an IDR670 billion (US$75 million) injection of funds through right issues offered in June and July this year.

Farouk A Alwayni, director of Bank Muamalat Indonesia said, the funds will be used to improve the bank's branches and technology systems and stimulate the business development of the bank.

Outstanding performance

SRI LANKA: Shariah compliant Namal Amana Equity Fund has risen 71% in 2009, beating 299 other international funds, according to a report.

Sivagnanasundaram Jeyavarman, CEO of National Asset Management (NAMAL), said this was because the climate was right for investment, as Sri Lanka's economy recovers after emerging from a civil war.

Established in November 2007, Namal Amana Equity Fund is a joint venture between NAMAL and Amana Investments, the local Islamic financial solutions provider.

(Also see IFN Report on page 11)

Alternative financing

PAKISTAN: Yaseen Anwar, acting governor of the State Bank of Pakistan, said the Islamic finance industry has to diversify its products to sustain growth, by focusing on areas of comparative advantage rather than following the conventional system.

Anwar said that Islamic banks' over reliance on debt-based fixed income products distorts the difference between Islamic and conventional finance, making Islamic banks comparatively less efficient.

He also added that 67% of Islamic financing in Pakistan is focused on the corporate sector through Murabahah, Ijarah, and Diminishing Musharakah.

Anwar was speaking at the opening session of the Islamic Finance *news* roadshow held at the State Bank of Pakistan on the 5th August 2010.

Oil and gas financing

MALAYSIA: Bank Pembangunan Malaysia grants Silk Holdings an RM220 million (US$69.6 million) Bai Istisnah financing.

Mohd Azlan Hashim, executive chairman of the company, said the funding reflects Silk Holdings' potential in the oil and gas sectors.

The facility will be channeled to finance the construction of two anchor handling tug supply (AHTS) vessels. The vessels will be completed and operational by the end of 2012.

Robust profit

PAKISTAN: Shariah compliant Meezan Bank has recorded an increase of 41% to reach PKR71 million (US$829,000) in its after-tax profit for the first half of 2010, which ended on the 30th June.

Under the period, the bank's deposits rose 14% to PKR114.5 billion (US$1.3 billion), while its earnings per share reached PKR1.03 (US$0.01).

Expanding overseas

INDIA: Legal firm Kochhar & Co is expanding to the Middle East by executing collaboration agreements with Law Firm of Khalid Alnowaiser.

Kochhar & Co and Law Firm of Khalid Alnowaiser will cover a full spectrum of legal representation in the Middle East including Islamic finance and infrastructure projects.

Al Rajhi on board

MALAYSIA: Al Rajhi Investment and Banking Corporation Malaysia has registered as a commodity trading participant (CTP) with Bursa Malaysia Islamic Services to trade on the Bursa Suq Al-Sila', a Shariah compliant commodity platform.

Yusli Mohamed Yusoff, CEO of Bursa Malaysia, said Al Rajhi's entry will spur interest for more financial institutions to come in as CTPs and commodity supplying participants and produce greater volume on the Bursa Suq Al-Sila'.

Upcoming Sukuk

MALAYSIA: Local telecommunication firm Axiata Group plans to sell RM4.2 billion (US$1.3 billion) worth of Islamic bonds to refinance debt, according to Yusof Annuar Yaacob, its chief financial officer.

The Sukuk will have maturities of five, seven and 10 years and will be privately placed.

First Islamic bank

MALDIVES: Maldives Islamic Bank (MIB) has been granted a license by the Maldives Monetary Authority (MMA) to establish the country's first Islamic bank. The license took effect on the 2nd August 2010.

Harish Haaroon, managing director of MIB, said they hope that the bank will be established within the next six months in line with MMA regulations.

Increase collaboration

INDONESIA: Rizqullah, head of BNI Syariah, has highlighted the need for more cooperation between Shariah banking practitioners and academics in the Islamic banking sector.

"This will address the problem of product innovation faced by Islamic banks in the country," he said.

Rizqullah also emphasized the role of academics in explaining concepts and types of Islamic banking products to the public.

Shariah mortgage

INDONESIA: Bank Muamalat Indonesia (BMI) has relaunched its housing mortgage called Muamalat Shariah housing funding.

According to Andiran Gunadi, director of BMI, the decision to relaunch was based on the Indonesian property sector's bright prospects, which has an expected growth of 5% to 6% in 2010.

Sukuk for airport

MALAYSIA: Malaysia Airports Holdings has planned to offer up to RM3.1 billion (US$984.7 million) in Islamic bonds to finance the construction of a new terminal and refinance its existing liabilities.

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The Sukuk consists of Islamic Commercial Papers (ICP) and Islamic Medium Term Notes (IMTN). The ICP and the IMTN were assigned a short-term rating by RAM Rating Services at 'P1' and long-term rating of 'AAA' with a stable outlook.

CIMB Investment Bank and Citibank are the jointly appointed principal advisors, lead arrangers and lead managers for the issue.

New Islamic branch

MALAYSIA: Public Islamic Bank has opened its first fully fledged Shariah compliant branch in Kuala Lumpur.

The branch provides a range of deposit products, investment instruments and financial products such as savings accounts, asset financing and hire purchase.

Public Islamic Bank, the Shariah compliant subsidiary of Public Bank, was launched in March 2009.

Sukuk to restructure debt

MALAYSIA: Konsortium Lebuhraya Utara-Timur (Kesturi) has approached Danajamin Nasional to ensure the success of its new Sukuk issue for the Ulu Kelang Expressway (DUKE).

Kesturi has planned to restructure DUKE's debt by issuing a senior Sukuk of up to RM780 million (US$247 million) and a junior Sukuk of up to RM50 million (US$15.8 million) for a 17 year tenure as the restructuring exercise.

The proceeds from this Sukuk issue will be used to redeem an Islamic bond issued in October 2005.

Bank Alfalah's Islamic unit

PAKISTAN: The State Bank of Pakistan (SBP) has granted approval to Bank Alfalah to set up an Islamic bank subsidiary. Bank Alfalah is the first conventional bank that has been granted such approval.

This move is in line with SBP's three step plan to encourage Islamic banking in Pakistan.

This plan includes setting up full-fledged Islamic banks, provision of services through Islamic branches of conventional banks and setting up of subsidiary Islamic banks from existing financial institutions.

Innovation required

MALAYSIA: Islamic banks need to come up with innovative Shariah compliant banking solutions to positively impact the public, says Muhyiddin Yassin, deputy prime minister of Malaysia.

He said there is a need to take on inventive moves in developing management systems that were more efficient for Islamic financial institutions and the Islamic judiciary system.

Car financing agreement

MALAYSIA: Kuwait Finance House (Malaysia) has entered into an automobile end-financing agreement with Nasim, the official distributor of Peugeot in Malaysia.

Under the agreement, both parties will jointly organize marketing and promotional events, besides developing financing packages.

Bigger market share

MALAYSIA: EON Bank Group plans to increase its market share in conventional and Islamic home financing, credit cards and deposits. The group plans to do this through a three month RM1 million (US$316,805) promotional campaign.

"We have RM1.4 billion (US$443.4 million) in Islamic home financing in our portfolio as at June this year and our target for the end of this year is RM1.6 billion (US$506.7 million)," said Rizal Il-Ehzan, senior vice president of corporate planning for EONCAP Islamic Bank.

Cagamas' Sukuk issuance

MALAYSIA: National mortgage corporation Cagamas has issued a three-year RM230 million (US$73 million) variable rate Sukuk commodity Murabahah.

According to Cagamas, the Islamic bond is the largest rated, transferable and tradable variable rate commodity Murabahah note by a firm in the ringgit market.

It is also the company's first variable rate Sukuk issuance via its existing RM60 billion (US$19 billion) Islamic commercial papers and medium term notes program.

CIMB Investment Bank, HSBC Bank Malaysia and Maybank Investment Bank were the joint lead managers for the transaction.

QIB to expand

INDONESIA: Qatar Islamic Bank (QIB) is seeking partners in Indonesia to expand its share in Southeast Asia.

Mohamed Azahari Kamil, CEO of Asian Finance Bank, QIB's division in Malaysia, said the bank has identified a number of Shariah compliant companies in Indonesia as possible partners for QIB.

Takaful for civil servants

MALAYSIA: Takaful Ikhlas was selected by the ministry of finance to the panel of

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insurers providing housing insurance to government employees.

Syed Moheeb Syed Kamarulzaman, president and CEO of Takaful Ikhlas, said government employees will be encouraged to sign with the Takaful provider when they apply for housing loans through the Treasury.

EUROPE

New fund territories

LUXEMBOURG: Apex Fund Services has opened its doors in Luxembourg and was appointed fund administrator for Amiri Shariah Equities Platform.

The platform is a solution for establishing a Luxembourg Shariah compliant fund that allows long and short equity strategies.

The Luxembourg office opens with 10 undertakings for collective investments in transferable securities and regulated SIF Société d'Investissement À Capital variable funds.

Milestone for industry

TURKEY: Shariah compliant Kuveyt Turk has listed its gold-denominated stock market investment fund, GoldPlus on the Istanbul Stock Exchange.

It is the first Islamic bank in Turkey to have an investment fund listed at the bourse.

(Also see IFN Report on page 12)

High expectation

UK: Humphrey Percy, CEO of Bank of London and the Middle East (BLME) expects the bank's performance for the current financial year which ends on the 31st December 2010, to be better than 2009.

Humphrey attributed this to the fact that BLME has been performing well, as more products are being introduced in the market.

BLME has five core businesses — treasury, corporate banking, private banking, asset management, and corporate advisory services.

GLOBAL

Call for Sukuk standardization

GLOBAL: Two heads of the International Islamic Financial Market (IIFM) — Dr Ahmad Rufai Muhammad, head of Shariah, and Ijlal Ahmed Alvi, CEO — agreed that conformity among Shariah supervisory boards of Islamic financial institutions is necessary for the global development of Islamic finance.

They both said that a lack of unified documentation and application leads to inconsistencies between different fatwa rulings regionally and globally.

To circumvent this, they proposed a Shariah board be formed at the global level to play a major role in convergence and facilitation of a unified Islamic financial services industry.

Keep up with change

GLOBAL: Zeti Akhtar Aziz, governor of Bank Negara Malaysia, has urged global Islamic finance industry players to be aware of changes in the international financial system to remain competitive.

She also stressed that development of an active secondary global Sukuk market along with human capital are the two major challenges surrounding the Islamic finance industry.

In her speech entitled "The Global Islamic Financial Market Today: Challenges and the Way Forward", Zeti Akhtar pointed that the Islamic financial system did not exist alone and will continue to develop as an integral part of the global financial system.

Shariah Index sustains

GLOBAL: SEI Investments Middle East (SEI) has reported that the MSCI World Islamic Index continues to outperform the MSCI World Index over the last 13 quarters.

The SEI report said the MSCI World Islamic Index's allocation to non-financial stocks, low debt companies, and avoidance of some of the more volatile securities is a positive investment strategy and continues to work in its favor.

Default prompts positive move

GLOBAL: Sukuk defaults are set to mold Islamic finance to be more transparent, by incorporating mandatory Sukuk ratings, improving clarity on Islamic bond structures and increasing focus on the financial health of borrowers.

"As the restructurings take course and are settled, and creditors' claims are dealt with, it will provide a clear path as to how defaults are handled within the Sukuk context because it is a relatively recent instrument," said Yavar Moini, senior advisor at Morgan Stanley (Dubai).

MIDDLE EAST

GFH signs Murabahah facility

BAHRAIN: Gulf Finance House (GFH) has signed a US$100 million Murabahah facility agreement with WestLB, a German commercial bank.

The facility which is set at a reduced profit rate, has a tenor of two years with an additional one-year term at GFH's discretion.

Good sign

BAHRAIN: The Bahrain Economic Development Board reported that the financial sector was the largest contributor to the GDP, contributing 23% of the total increase in GDP over the last six years.

According to Bahrain's Central Informatics Organization, the financial services grew by 4% in the first quarter of 2010, a 6% growth from the same period in 2009.

The kingdom has a strong Takaful presence with nine companies offering Shariah compliant insurance products, and reported a 5% growth in the insurance sector for the first quarter of 2010, registering a 15% year on year growth.

Freeze operations

UAE: Abu Dhabi based brokerage Makaseb Islamic financial services has requested UAE regulators to grant them a one year suspension of operations after slumps in stocks.

Hatim el Atabani, managing director for Makaseb Islamic financial services, said the company does not see prudence in continuing operations as there is no uptrend in market liquidity.

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According to Ibrahim Obeid Al Zaabi, deputy CEO for licensing, supervision and enforcement of the Securities and Commodities Authority, there were 12 brokerages in the UAE that submitted one year suspension requests, five of which were approved.

TID survives

KUWAIT: Adnan Al-Musallam, chairman and managing director of The Investment Dar (TID) said the company will not shut down as it is making progress with its restructuring plan.

Al-Musallam expressed his confidence that TID will make a strong comeback, as the company has invested in hard assets.

He added that Lebanon's Blom Bank agreed to join in their restructuring plan.

TID, which missed a payment on a US$100 million Sukuk in May 2009, began a process of legal protection in March last year under the country's financial stability law to implement a restructuring plan.

Repayments postponed

UAE: Abu Dhabi Islamic Bank is postponing personal customer repayments for August 2010, during Ramadan.

These repayments will be automatically deferred until September 2010 and applies to customers of finance products including liability settlements, car finance, educational finance, travel finance, shares finance and goods finance.

Consolidation for competition

QATAR: The banking sector is set to see consolidation of banks in the near future, as Al Khaliji Commercial Bank begins merger talks with the International Bank of Qatar (IBQ).

Local banks need critical mass to compete both locally and internationally and consolidation driven by the goverment will allow this to happen, said a local investment banker.

Seizing opportunity

BAHRAIN: Al Salam Bank plans to invest US$500 million of Islamic funds to tap into the growth of the Asian region.

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Yousif A Taqi, CEO for Al Salam Bank, said the fund will be used to invest in real estate, agriculture and the food industry in the next five years, focusing on Malaysia, Indonesia and Singapore.

"Asia is a very fertile land for Islamic banking as this is where the growth is," said Yousif.

UAE's first Islamic credit card

UAE: United Arab Bank (UAB) has launched the first Islamic credit card in the UAE.

Rami Joudah, head of Islamic banking at UAB said the credit card operates by a fixed fee structure basis.

Home financing

SAUDI ARABIA: Deutsche Gulf Finance has launched a Shariah compliant home financing product.

According to Fahad Abdullah Al Rajhi, its chairman, financing rates for this program start at 2.99% and 80% of the land value will be given as financing facility.

He also said the bank has plans to extend the scheme to the eastern and western regions over 2011.

First for industry

UAE: Emirates Islamic Bank is the first financial institution in the UAE to receive a Tayseer-accreditation, according to the land department.

The accreditation will enable the bank to access the Dubai government-backed guarantee scheme and offer funding for development projects.

New IT market

UAE: Path Solutions has set up a regional sales office in Dubai to tap the information technology market in Islamic banks across the UAE.

"UAE is emerging as a prominent market for Islamic finance," said Mohammad Kateeb, chairman and CEO of Path Solutions.

ASIA

Excellent results

MALAYSIA: Malaysian Rating Corporation (MARC) affirmed Kuwait Finance House (Malaysia)'s long- and short-term financial institution ratings at 'AA+/MARC-1'.

MARC said the rating was granted following affirmation of the long-and short-term financial institution rating of its parent company, Kuwait Finance House at 'AAA'/'MARC-'1'.

Outlook sustained

MALAYSIA: Malaysia Rating Corporation (MARC) affirmed ratings on Sunrise's RM400 million (US$126.6 million) Islamic medium term notes facilities at 'A+ID' with a maintained stable outlook.

The affirmed rating is an indication of Sunrise's stable financial performance supported by strong operating margins and large unbilled sales.

Backed by guarantor

MALAYSIA: Malaysia Rating Corporation (MARC) has affirmed its rating of 'AA+IS (bg)' for Aras Sejagat's Sukuk Ijarah issuance of up to RM500 million (US$157.6 million) with a negative outlook.

The rating reflects the strength of the bank guarantee of up to RM420 million (US$132.4 million) by guarantor Kuwait Finance House (Malaysia).

Consistent achievement

MALAYSIA: RAM Rating Services has reaffirmed the 'AA3' rating of independent power producer Jimah Energy Ventures's (JEV) RM4.85 billion (US$1.5 billion) senior Islamic medium term notes facility.

The long-term rating has a stable outlook.

The reaffirmation is based on JEV's sound business profile, supported by the favourable terms of its power purchase agreement with energy company Tenaga Nasional and its strong operating performance.

MIDDLE EAST

Levels maintained

UAE: Capital Intelligence (CI) affirmed United Arab Bank's (UAB) foreign currency ratings at 'BBB+' long-term and 'A2' short-term with a stable outlook.

The financial strength rating is maintained at 'BBB', with the support of UAB's stable profitability, capital adequacy and asset quality.

The ratings are a reflection of the management of UAB by the Commercial Bank of Qatar. Along with that, the rating is also supported by the strength of UAB's balance sheet and liquidity support by the federal government and central bank.

Constant direction

EGYPT: Moody's Investors Service (Moody's) assigned a 'Baa2' rating with a stable outlook to the US$600 million senior unsecured fixed-rate bonds maturing in August 2015, issued by Nile Finance.

National Bank of Egypt (NBE) unconditionally and irrevocably guarantees these bonds.

Proceeds from the bonds will be used to extend financing to NBE, which services the principal and profit of the bonds.

Moody's said the rating is in accordance to NBE's local currency deposit rating. However, it is unconstrained by the 'Baa2' foreign currency bond ceiling for the country.

Impressive start

NEW

JORDAN: Standard and Poor's Rating Services has rated Jordan Islamic Bank for the first time, assigning it a long-term counterparty credit rating of 'BB'/'B' (short term) with a stable outlook.

The move is attributed to the bank's good track record in terms of asset quality, satisfactory funding, liquidity profile and strong retail franchise.

Positive performance

UAE: Moody's Investors Service (Moody's) has assigned the 'Baa1'/'Prime-2' on the long- and short-term deposit ratings to United Arab Bank (UAB).

Simultaneously, Moody's has assigned a standalone bank financial strength rating (BFSR) of 'D+', which maps to a baseline credit assessment of 'Baa3'. All ratings carry a stable outlook.

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The BFSR rating is attributed to UAB's strong core earnings, high capitalization and good asset quality.

Good affirmation

BAHRAIN: Capital Intelligence (CI) has affirmed Ahli United Bank (Bahrain)'s foreign currency long- and short-term ratings at 'A' and 'A2' respectively.

The financial strength rating of 'A' and support level of 3 was maintained.

The outlook for these ratings remains stable.

Fragile condition

UAE: Moody's Investors Service (Moody's) has downgraded the issuer rating for Aldar Properties (Aldar) to 'Ba3' from 'Ba1'.

Simultaneously, it has changed Aldar's 'Ba3' issuer rating into a 'Ba3' corporate family rating and assigned a probability of default rating of 'Ba3'.

Moody's has also downgraded Aldar's US$1.25 billion bond and AED3.75 billion (US$1.02 billion) Sukuk to 'B1' from 'Ba1'.

The ratings are based on Aldar's weak financial results and property market.

Ratings improve

KUWAIT: Moody's Investors Service (Moody's) has revised its outlook for the foreign currency deposit rating of National Bank of Kuwait from negative to stable. All other ratings for the bank remain unchanged.

The outlook change was caused by Moody's Kuwait sovereign rating action which was changed from negative to stable.

Outlook negative for DIFCI

UAE: Standard & Poor's rating services has affirmed DIFC Investments (DIFCI) credit rating at 'B+/B' with a negative outlook.

The rating and negative is based on DIFCI's weak earnings and operating cash flow.

Mark down

KUWAIT: Commercial Bank of Kuwait's individual rating has been downgraded by Fitch Ratings to 'D' from 'C/D'. It has also been removed from rating watch negative.

All other ratings of the bank have been affirmed at long-term issuer default (IDR) 'A+' with stable outlook, short-term IDR 'F1', support '1' and support rating floor 'A+'.

The downgrade in individual rating reflects Commercial Bank of Kuwait's weakening loan quality.

Looking up

KUWAIT: Moody's Investors Service (Moody's) changed its outlook on Kuwait's 'Aa2' sovereign ratings to stable from negative.

The change in rating was prompted by an increase in government effectiveness reflected by parliament's approval of long-awaited items of economic legislation and Kuwait's strong fiscal and external performance.

Bleak outlook

BAHRAIN: Moody's Investors Service (Moody's) affirmed a negative outlook for Bahrain's banking system.

This rating reflects difficult credit and business conditions.

The outlook prospects are centered on Bahrain's weak real estate market and its impact on the economy.

Kick start for Singapore Sukuk market

MALAYSIA: The sovereign wealth fund, Khazanah Nasional has successfully raised SG$1.5 billion (US$1.11 billion) through a Sukuk issuance in Singapore. The largest and longest termed Sukuk issuance in Singapore, it is also the largest Singapore dollar-denominated issuance launched by a foreign issuer in the city-state and first Singapore dollar-denominated issuance initiated by the Malaysia International Islamic Financial Center (MIFC).

Zeti Akhtar Aziz, governor of the central bank of Malaysia, Bank Negara and chairman of MIFC executive committee said this issuance would "evolve Malaysia into a multi currency Sukuk issuance platform."

Although the initial issuance was for SG$1 billion (US$742 million), Khazanah had the option to increase the value by an additional SG$500 million (US$371 million) in case there was high demand. The accelerated book building exercise started on the 3rd August 2010 and in less than three hours, the issuance drew demand as high as 4.3 times the book size.

Having upsized the issuance to accommodate more bidders, the tightest end of the price guidance mechanism was reported at 2.615% for the SG$600 million (US$445 million) five-year Sukuk and 3.725% for the SG$900 million (US$668 million) 10-year Sukuk. This Sukuk issuance was held a week after Khazanah beat India's Fortis Healthcare in a takeover battle for Singapore's Parkway Holdings, which could cost them US$3.5 billion.

Isaac Chua, a credit analyst at Pramerica Fixed Income (Asia) told Islamic Finance *news* that Khazanah's Singapore dollar-denominated Sukuk issuance "increased the demand for Shariah compatible investments in Singapore." Clifford Lee, managing director and head of fixed income, global financial markets of DBS believes that the Sukuk issuance is part of an effort that helped to kick start the Shariah compatible investment market.

The Sukuk issuance attracted 78 local and foreign investors comprising financial institutions, asset management firms, statutory bodies and insurance companies from Singapore, Malaysia, Hong Kong, Brunei and Europe. Islamic Finance *news* learnt that SG$600 million (US$445 million) Sukuk have attracted bids worth SG$2.4 billion (US$1.78 billion) and the other sector which offered SG$900 million (US$668 million) Sukuk received orders worth SG$1.9 billion (US$1.41 billion).

Prior to this launch, the Singapore Sukuk market was valued at SG$489 million (US$363 million). The largest issuance was for US$200 million, initiated by the Islamic Development Bank in 2009. The Khazanah Singapore dollar-denominated Sukuk issuance has changed the boundaries by taking the total Sukuk market value in the city-state to SG$1.989 billion (US$1.476 billion).

Commenting on the Shariah compliant financing market in Singapore, Ong Chong Tee, deputy managing director of the Monetary Authority of Singapore said, Khazanah Singapore dollar-denominated Sukuk issuance adds "depth and diversity."

The joint book runners in this issuance were CIMB, DBS and OCBC. These three financial institutions were also included in the team of joint lead managers in addition to CIMB Islamic, Islamic Bank of Asia and OCBC Al Amin. The Australia and New Zealand Banking Group, BNP Paribas, Malayan Banking and UOB were the co-managers.

Market correction propels Islamic fund

SRI LANKA: Namal Amana Equity Fund recently reported a 71% capital gain aggregated during the last 12 months. This capital appreciation has become the first of its kind that overtook 299 other international funds monitored by a financial media. Apart from Namal Amana Equity Fund, MFC Islamic Long-term Equity in Thailand and Al-Meezan Mutual Fund of Pakistan have gained by 55% and 51% respectively during the last 12 months.

Namal Amana Equity Fund was launched in November 2007 as a joint venture between National Asset Management (Namal) and the country's only Islamic finance house Amana. During the initial public offer, 25 million units were available for investment at INR10 (US$0.09) each, subject to a maturity period of five years.

Sivagnanasundaram Jeyavarman, CEO of Namal told Islamic Finance *news* that investors are confident of the reinvestments made in Shariah compliant listed companies at the Colombo Stock Exchange (CSE) that guaranteed better returns. "Amana Capital provides a list of Shariah compliant listed companies where we hand pick the most suitable. However, we are not capitalizing on speculation but only on fundamentals," said Jeyavarman.

Although this list of recommended companies are revised on a regular basis, Islamic Finance *news* learnt that the most recent list of recommended Shariah compliant investments include Nestle, Tea Small Holders, Ceylon Hospitals, ACL Cables, Chevron Lubricants, Kelani Cables, Lanka Tiles, Kelani Valley Plantations, and Sri Lanka Telecom. All these companies are among the 234 public quoted companies in Sri Lanka.

Looking at future prospects, Jeyavarman plans to open several Islamic equity funds in other countries. "The initial size of the Namal Amana Equity Fund was INR37 million (US$329,000) and has been increased to INR50.5 million (US$449,000)," he said.

With the successful end to the 25-year fight against terrorism, the Sri Lankan economy is making a comeback. The Colombo Stock Exchange (CSE) has seen 100% growth in all sectors in the past year, which were widely used by equity funds for their reinvestment purposes. Taking advantage of this development, Namal Amana Equity Fund, the only Islamic fund in the country, has cautiously placed its investments in selected listed companies at the CSE.

In the last 12 months, Central Bank of Sri Lanka has also reduced its policy rates. The repo and reverse repo rates which were at 10.25% and 11.75% during the first quarter last year has been reduced to 7.25% and 9.50% respectively in July 2010.

Angelo Ranasinghe, a director at Bartleet Mallory Stock Brokers believes that reduced policy interest rates "create a favorable environment for equity capital." He expects that the stock market will continue to develop based on "growth in the banking and insurance sectors."

In response to Islamic Finance *news*, Tushara Jayarathne, manager for business development at the CSE expects more listings to take place during the next few months. "We listed six new companies during the last seven months and welcome Shariah compliant ventures," he added.

Reports by Ashwin Hemmathagama

Islamic finance to mobilize funds

ZIMBABWE: The economy declined sharply in Zimbabwe in the last three decades. Political turmoil and adverse state policies have crippled the economy, exposing the country to hyperinflation and leaving the country with few options to bounce back.

Even though Zimbabwe is a predominantly Christian nation with a population exceeding 12.5 million, it has a sizeable Muslim community of 1.7 million people. These Muslims control a significant percentage of national wealth via conventional banking products and businesses. The introduction of Islamic finance would attract the Muslim monitory to invest their savings in Shariah compliant financial products and could trigger the cash flow cycle in Zimbabwe.

There are currently seven commercial banks, eight merchant banks, six finance houses, and one post office bank in Zimbabwe. Charles Kuwaza, deputy governor of the Reserve Bank of Zimbabwe told Islamic Finance *news* that basic studies would be conducted soon to showcase the "viability and necessary changes needed to implement Islamic finance" in Zimbabwe.

One easy exit from the domestic financial crisis could be by tapping its diamond mines, which the government is now looking into. Selling a part of its cut and polished diamonds in stock could raise US$1.7 billion. These funds could be used to settle part of the domestic debt estimated at US$5.5 billion. Debt servicing could improve the country's sovereign ratings where Sukuk issuances and attracting fresh investments would be much easier.

Since independence in 1980, Zimbabwe has taken little interest in sustainable development. Agriculture remains the single largest contributor to the country's GDP and provides direct employment opportunities for more than 300,000.

However, since Mugabe's goverment, land ownership regulation has changed. The government believes that all land belongs to its people in Zimbabwe and states that land should be vested with the state in order to be transferred to the public. Nginya Mungai Lenneiya, country manager for the World Bank told Islamic Finance *news* that the country is improving "but needs more investment to develop land and other infrastructure."

Although these law reforms are controversial, the respective lands could be used to attract fresh investments into Zimbabwe. Sovereign Sukuk would be the first option that could be considered. The state lands and farms could be used as underlying assets in most cases to support Islamic finance.

The funds could be used to develop the agriculture, infrastructure, healthcare and education sectors. Since the government has banned speculation in Zimbabwe, Islamic banking and finance could be used as the most suitable platform to attract Shariah compliant investments from the Middle East.

The urgent need for infrastructure financing makes the case for Islamic banking a compelling one. In the long term, Islamic banking could be a vehicle through which foreign direct investment can be attracted from Middle Eastern sovereign funds. In the short to medium term, Islamic banking could be used to mobilize internal resources for the purpose of infrastructural development.

First Islamic fund listed

TURKEY: Kuveyt Turk has listed its gold exchange traded fund (ETF) at the Istanbul Stock Exchange (ISE). The listing has made Kuveyt Turk the first participation bank in the country with an ETF listed on the ISE. This gives them an option to invest in gold through the capital market in a Shariah compliant manner. The listing has also offered higher liquidizing capability for investments based on international gold prices, especially when it takes advantage of price hikes.

This fund is also known as GoldPlus and the first negotiable gold mutual fund to be listed in Turkey. Each unit of GoldPlus represents 1 gram of gold that helps the forming and executing of portfolios as preferred by investors. However, these portfolios follow strict regulatory guidelines set for participatory banks in Turkey.

Ufuk Uyan, general manager and CEO of Kuveyt Turk confirms that the listing has been made as a part of the company's objectives to offer innovative products and services in Turkey. He says that Kuveyt Turk would continue to explore the possibilities to introduce "new interest free investments and treasury instruments".

The initial public offering (IPO) of GoldPlus began on the 22nd July 2010. With the completion of the IPO, Kuveyt Turk has completed the fund listing as part of its plans to attract investments from other regions to fulfill its interest free investment banking targets. These regions include the Middle East, Central Asia, and Europe.

An analyst at BMD Securities told Islamic Finance *news* that the GoldPlus mutual fund could be the "starting point to form and list Islamic funds at the stock exchange despite state secularism".

Turkey is the sixth largest Muslim country in the world. However, government secularism has prevented its people from participating in many aspects of Shariah, including religious mention in banking and finance. Although Turkey has four Islamic banks, these banks are identified as participatory or interest free banks with defined activities governed by the Banking Act 2005. This Act has allowed participatory banks to accept deposits and provide interest free lending although the products are structured differently from conventional banking.

An official at the Participation Banks Association of Turkey (PBAT) appreciate Kuveyt Turk's efforts to introduce Shariah compliant investment funds in the country. PBAT told Islamic Finance *news* that the people have already begun to use participatory banking products and services.

"The government has prevented the banks from using some specific words essential to describe Islamic financial products and services. Although Kuveyt Turk listed its GoldPlus fund, we have not seen any change in state regulations," explained the PBAT official.

According to PBAT, there are 560 branches of participation banks in Turkey. Participation banks accounts for 4% market share of the total banking sector in Turkey. These banks were successful in collecting US$18 billion worth of funds last year. The lending has been reported at US$16.7 billion and the total asset volume has increased to US$22.5 billion during the period in focus. In addition to this growth, the Turkish Treasury has issued an estimated US$1.05 billion worth of Sukuk like interest free bond instruments last year.

Reports by Ashwin Hemmathagama

The Growth of Islamic Finance in Indonesia

By Farouk Abdullah Alwyni

Islamic finance is basically derived from Islamic economics that envision the creation of a fair and just global development and monetary system. However, as a financial entity with its own shareholders and depositors, Islamic banking is still required to offer good returns to its stakeholders like any other financial entity.

It must be noted that social and moral objectives should not contradict the short term objectives of making profits. The two should in fact reinforce one another. Here, Islamic banking really needs to integrate between form and substance. It cannot just take the form of Islamic banking, and forget its spirit. Only after these aspects are integrated will Islamic banking add value to society.

Islamic finance has been growing globally at a fast pace. It has spread not only in the Muslim countries, but also in the countries where Muslims are a minority such as the UK and Germany.

Indonesia, as the largest Muslim country, has also witnessed the growth of Islamic finance in the last three years, although it experienced slow growth in the beginning. There are some important events which have fostered the growth of Islamic finance in the country.

Among others, it includes the enactment of the Sukuk Law (2008) in the country and the enactment of Law 42 in 2009 to waive the double taxation under the Murabahah mode of financing. The country has also witnessed the increasing numbers of fully fledged Islamic banks in the last two years. This article will discuss the growth of Islamic finance in Indonesia and the opportunities and challenges faced.

> "Given the choice, and offered the same quality of products and services, people will tend to choose businesses which are in line with their beliefs and values"

The current assessment in Indonesia

Indonesia has only recently really looked into the potential of Islamic finance. It has, to some extent, been somewhat suspicious of things associated to Islam as part of the legacy of the new order government under General Soeharto. Since the establishment of Bank Muamalat Indonesia in 1992, Islamic finance has relatively recorded slow growth in the country. As a result, it was late in taking advantage of the growth of Islamic finance, especially on the regulatory side.

The issue of 'double-taxation' for Murabahah financing was just recently solved at the end of 2009, something which foreign Islamic financial institutions wanting to expand in Indonesia have been waiting for some time. Other than that, the Sukuk law was enacted in 2008, which finally enabled the Indonesian government to issue Sukuk. Before this, the government did not have the legal foundation to issue Sukuk, a vast difference to Malaysia that issued its first sovereign sukuk in 2002. All these regulatory bottlenecks contributed to the slow growth of Islamic finance in Indonesia.

However, in the last three years, there have been some encouraging signs for the growth of Islamic finance in the country. First, after the enactment of the Sukuk law mentioned above, the government of Indonesia has been quite active in issuing Sukuk.

By the 1st April 2010, the government of Indonesia had issued Islamic securities amounting to IDR34.04 trillion (US$3.8 billion), US$650 million of which was from a global Sukuk traded in the international market. It is most likely that the trend will continue in the coming years.

Another encouraging sign is the rapid growth of the Islamic banking sector over the last three years. The number of fully fledged Islamic banks has grown from three in 2007 to six in 2009 to reach 10 by June 2010. The new banks are mostly the subsidiaries of major Indonesian banks such as Bank Central Asia, Bank Negara Indonesia, and Panin Bank.

This fast growth of Islamic banks has grown the number of offices by more than 100%, from 597 in 2007 to 1,230 by April 2010. The number of human resources employed by fully fledged Islamic banks also increased by more than 100% during the same period, from 4,311 in 2007 to 11,919 in April 2010.

Although the total assets of Islamic banking is still relatively small (less than 5%) compared to the banking industry in general, it has risen at double the pace of the total banking industry. In average, the growth of total assets of Islamic banking from 2007 to 2009 is 35%, whereas the banking industry in general only recorded 14%.

In terms of financing, the Murabahah (purchase and resale) mode of financing is still dominant. Together with other similar purchase and resale contracts such as Istisnah and Salam (the two are in much lower proportion), Murabahah contributed to 59% of total financing by April 2010.

It is important to note however, that Islamic banking has played an important role in supporting the growth of the real sector, since 70% of its financing was directed toward businesses compared to only 30% toward consumers. Small and medium enterprises received around 76% of the financing.

Leveraging opportunities, overcoming challenges

Indonesia has an economy forecast to reach US$678.4 billion by the end of 2010. With the growing awareness of Islamic banking in the country, it is set to be an important Islamic finance player in the world. It is always preferable that given the choice, and offered the same quality of products and services, people will tend to choose businesses which are in line with their beliefs and values. This fact alone shows that there is tremendous opportunity for investors, foreign and domestic to enter into Islamic finance business in the country.

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The Growth of Islamic Finance in Indonesia (continued)

It is also important to note that Islamic finance is actually a new form of financing, depositing, and investing. The advantage of Islamic finance is that it has a wider segment of users. Both Shariah inclined and conventional users can use Islamic finance, but for conventional finance, it can only be used by conventional users.

However, despite the opportunities mentioned above, there are a number of challenges that need to be dealt with to develop Islamic finance in Indonesia further, including taxation, regulatory, human resource issues, and more.

On taxation, the last tax related law enacted deals with the issue of double taxation pertaining to the Murabahah transaction. This created another issue of 'retroactivity of the law', meaning that, does the law cover past transactions? Soon after the enactment of the law, one Islamic bank raised the concern that they were still taxed for a past transaction and asked for a waiver.

In view of this, the government needs to take a decisive action and show a strong message to the market that the law is indeed retroactive. Because at the end, the officials in the tax directorate need to understand and implement this.

Other than tax relating to Murabahah, there will be a need to issue similar laws dealing with other forms of transactions relating to other asset based contracts such as Istisnah and Salam. In future, to really support the growth of Islamic finance, the government may even need to consider introducing some sort of tax incentive for the Islamic banking industry as done by Malaysia under the framework of the Malaysian International Islamic Financial Center (MIFC).

With MIFC, the Malaysian government has provided for income tax exemption, witholding tax exemption, special tax treatment for Islamic financing under Musharakah and Mudarabah, tax incentives pertaining to Islamic real estate investment trusts, and human capital issues.

From a regulatory aspect, there is a need to create a more facilitative and conducive regulatory environment in the country. This is especially true in the area of tax as mentioned above, licenses and/or procedures pertaining to the development of new Islamic financial products and also accounting treatment for Ijarah financing.

On human resource issues, there is a shortage of personnel who understand both Islamic law (fiqh) and finance. Based on the data from Bank Indonesia, the country's central bank (2009), the acceleration of asset growth exceeded the availability of human capital.

There has to be serious efforts made to solve this problem through by revising the education curriculum to consider applied finance and real sectors. This could also be done by creating institutional networking between educational institutions and the Islamic banking industry in the form of internships and research programs, to enrich the theory and practice of Islamic finance.

> "From a regulatory aspect, there is a need to create a more facilitative and conducive regulatory environment in the the area of tax"

Conclusion: Islamic finance as a future economic entity

Islamic finance is an inevitable trend in the future of Indonesia. Provided the challenges above are dealt with appropriately, Indonesia could potentially be the largest Shariah market in the world. It may even synergize with the Gulf capitals in reinforcing the process.

However, for Islamic financial institutions to be really beneficial for society at large, it needs to encourage more innovation to its product offering, not merely by imitating conventional products, but by being more creative in developing 'genuine' Islamic financial products and based on principles of Islamic finance.

As we have seen above, the dominant mode of financing still has a bias toward 'debt financing'. It cannot continue like this in the future. Islamic finance should go back to its original spirit of 'profit and risk sharing', and explore product innovation for more 'equity financing'.

Of course, risk management is important here. But in the end, Islamic finance should really show that it can add value to the creation of fair and just financial system in Indonesia. It should position itself as a viable alternative to conventional finance.

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Next Forum Question

The AAOIFI plans to issue new rulings for Shariah scholars that will impact their roles, conduct and number of boards they are allowed to serve. How will this impact the quality and education of scholars, as well as product development and banking services for the Islamic finance industry?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Monday, 16th August 2010.

Indonesia: Late to the Party but Catching Up?

By Joel Shen

The Islamic finance market currently manages some US$1 trillion worth of assets. Although this currently accounts for less than 1% of the global financial markets, it is anticipated that this number will increase over time, particularly in the wake of the global financial crisis, where the events leading to the collapse of large financial institutions and the subsequent meltdown of the global economy were largely attributed to western financial markets. Islamic banking, on the other hand, pays no interest and requires transactions to be substantiated by real assets, offering a back-to-basics approach that appears to have found favor with post crisis investors.

Islamic finance in Southeast Asia

Within Southeast Asia, Malaysia embraced the idea of Islamic finance much earlier than most of its regional counterparts and has built up a broad range of expertise and infrastructure that has helped cement its position among investors as a global centre for Islamic finance. Its first mover advantage is evidenced by a string of global firsts in the last decade: the first global sovereign Islamic bond or Sukuk; the first mortgage-backed Islamic securities, Sukuk index and the first Islamic real estate investment trust (REIT).

Across the border in Brunei, Islamic financial institutions are quickly gaining ground on conventional banks. Already, Bank Islam Brunei Darussalam and Perbadanan Tabung Amanah Islam — respectively the only Islamic bank and Islamic financial institution in the sultanate — account for over a third of all banking assets. In comparison, Islamic banks in Malaysia account for less than 15% of the country's total banking assets.

Even Singapore (where the size of the domestic Muslim population is relatively modest), in recognition of increasing interest of Middle East investors in diversifying and tapping growth opportunities in Asia, the government has revised its regulatory framework and tax structure to accommodate Islamic finance concepts and has introduced various Shariah compliant financial products.

What then of Indonesia? Often dubbed the region's 'sleeping giant', Indonesia boasts a huge economy, yet has failed to make the same impact on the world stage as China or India. Perhaps nowhere is this underperformance more evident than in the area of Islamic finance. With a population of some 250 million, 90% of whom are Muslim, Indonesia is home to the largest Muslim population in the world. However, despite the obvious appeal to its domestic investor base, Indonesia is still struggling to make a success of Islamic finance.

Current challenges

In part, Indonesia's lacklustre performance can be attributed to:

1. Investors' apprehension (both corporate and individual) due to perceived risk stemming from a weak regulatory regime;
2. A lack of (suitably qualified) human resources; and
3. Limited investment options coupled with a deficiency of proper promotion by Islamic financial institutions.

Regulatory issues

While other Southeast Asian countries such as Malaysia have spent the last few decades developing sophisticated regulatory regimes for Islamic finance, it was not until 2008 that Indonesia rolled out dedicated Islamic banking legislation.

Until recently, Indonesia's taxation regime was considered a major reason why its Islamic finance sector has failed to take off in a big way. Prior to 2009, Indonesian tax regulations were considered detrimental to Islamic bonds because investors were essentially taxed twice as the process involves the sale and purchase of assets.

> "The new regulations do not include a retroactive clause, resulting in the need for many Shariah compliant lenders to file individual appeals against taxes undertaken in previous years of assessment"

Following strong calls for tax neutrality between Shariah compliant and conventional bonds by proponents of Islamic finance, the Indonesian government has moved to address at least some of these problems, with parliament passing new legislation last year that will remove double taxation on certain Islamic banking transactions, in particular Murabahah.

Under the new regulations, which came into effect in April this year, when a lender extends finance to a client through a Murabahah scheme, it technically buys an item or product and then sells it to the client at a profit, thus avoiding charging interest.

Although welcomed by the Islamic finance sector, some Indonesian lenders have complained that the legislation did not go far enough. One common criticism is that the new regulations do not include a retroactive clause, resulting in the need for many Shariah compliant lenders to file individual appeals against taxes levied by the Indonesian tax authorities on transactions undertaken in previous years of assessment.

However, while far from perfect, the new tax regulations are just one example of how Indonesian regulators are slowly moving to address the various in adequacies in the regime.

For example Bank Indonesia, Indonesia's central bank, issued new minimum reserve requirement regulations and payment clearing regulations in March 2009 in order to facilitate further growth in Islamic banking. It also created an Islamic interbank money market and issued Shariah compliant promissory notes in order to add liquidity to the

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Indonesia: Late to the Party but Catching Up? (continued)

sector. In April 2008, Bank Indonesia replaced its Wadiah BI certificate with the Islamic BI certificate, offering a comparable rate of return to the traditional BI certificate.

> "Indonesia, while falling behind in the race to nurture and retain talent, has made some progress by entering into a MoU with INCEIF for the development of human resource in Islamic finance"

Human resources

Having an adequate pool of talent and expertise in Islamic finance is clearly key to the development of an Islamic financial services centre. While countries in the region have taken significant steps in cultivating human resources for the Islamic finance sector, Indonesia appears to have fallen behind the curve.

Malaysia, for example, is now home to a growing list of educational and research organisations striving to address the shortage of talent in Islamic finance, chief among which are the International Centre for Education in Islamic Finance (INCEIF) established in 2006 as a university level training institute, and the International Sharia Research Academy for Islamic finance (ISRA), established in 2008 and backed by Malaysia's central bank, Bank Negara.

The Singapore Islamic scholars and religious teachers association have also taken steps to train Islamic religious scholars in banking and finance in order to assist Singapore's aim of becoming a hub for Islamic finance. Notably, by introducing a Shariah advisor training program organized jointly with Kuala Lumpur-based International Institute of Islamic Finance.

Indonesia, while falling behind in the race to nurture and retain talent, has made some progress by entering into a MoU with INCEIF for the development of human resource in Islamic finance.

Investment options

In addition to the usual Sukuk and equities, the capital markets in Malaysia offer a range of Shariah compliant products such as indices of qualified equities and trust funds. As of late 2008, there were 855 such products listed on Bursa Malaysia, the country's stock exchange, and there are indices to track them such as FTSE Bursa Malaysia EMAS Shariah Index and the FTSE Bursa Malaysia Hijrah Shariah Index. In 2005, the country launched its first Islamic REIT and later introduced Asia's first Islamic exchange traded fund (ETF). Today, for almost every financial services product on offer, there is an Islamic version available in Malaysia.

In Brunei, retail participation in Islamic financial services has outpaced that in the conventional banking sector in recent years. Much of this is attributed to strong support from local customers and the competitive pricing of Islamic financial institutions. In 2009, the sultanate rolled out its own halal brand, creating a new niche for local Islamic banks to tap into, giving them a chance to finance the expansion of the domestic food processing sector.

In spite of its late start, Singapore has begun to play catch up and its efforts appear to be paying off. The republic launched the first Shariah compliant pan Asian equity index in 2006, serving as a benchmark for Shariah compliant funds investing in Asian equities and paving the way for the growth of Shariah compliant funds seeking Asian exposure. Today, there are more than SG$500 million (US$371 million) Takaful funds under management.

In comparison, the value of Islamic bonds in Indonesia represents just over 2% of total outstanding bonds. There have also only been about 20 issuances of corporate Sukuk.

However, recent events suggest that things could be changing. In order to plug a looming budget deficit (Indonesia's budget deficit is predicted to reach 1.5% – 1.8% of its GDP in 2010), the Indonesian government has had to raise debt, and in order to diversify its funding sources; it has issued both conventional and Islamic bonds.

In August 2008, the Indonesian government issued Islamic bonds totalling US$414 million. In February 2009, the first auction of a retail domestic Sukuk was valued at US$504 million. In April 2009 Indonesia sold its first international Islamic bonds valued at US$650 million — they were over seven times oversubscribed and represented the largest issuance of US dollar-denominated Sukuk outside the Gulf and the first from an Asian country since 2007, according to Indonesia's ministry of finance.

Conclusion

Although considered by many as being late to the party, Indonesia is slowly making inroads into Islamic finance. It has come a long way since its first Islamic bank opened in 1991. Today, the country boasts five full Islamic banks and 114 rural Islamic banks, in addition to dedicated Islamic banking divisions established by 26 commercial banks.

A growing chorus of experts is urging Indonesian regulators to play a more active role in refining the regulatory regime, opening up the market, initiating discussions and encouraging the introduction of new products. We are beginning to see the effects reverberate through Indonesia's political echelons.

Although the general sentiment is that Indonesia has a long way to go before it can compete with the likes of Malaysia or Singapore, its sheer market size and growth potential cannot be ignored. Slowly, but surely, the sleeping giant stirs.

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Principles for Building a Risk Management System in Islamic Banks

By Abu Bakr Abdel Rahman

An analysis of the balance sheet structure and reports on compliance with the ratios established by the regulator, indicates that the NBD-Abu Dhabi Islamic Bank adheres to a conservative risk management policy. Bank assets consist primarily of liquid assets: cash, balances on correspondent accounts in the Bank of Egypt and commercial banks account in total for approximately 15% of the assets.

Short-term interbank loans and investments in securities (primarily in bonds traded on the financial markets) account for approximately 39% of the assets. At the same time demand liabilities account for approximately 26% of the bank's liabilities, less than the proportion of term liabilities.

Admittedly, the fixed-term liabilities consist primarily of short-term borrowings from other banks and the volume of term liabilities of non banking clients amounts to slightly more than US$7 million, or 1.5% of the bank's assets.

The bank is well in compliance with the Bank of Egypt's mandatory requirements for commercial banks. For example, the bank has a capital adequacy ratio of 32.7%, which is three times higher than the established requirements (capital adequacy ratio of 10%), while the instant and current ratios come to 80.3% and 82.6%, compared to the requirements of 15% and 50%, respectively. A similar picture emerges from analysis of compliance with the Bank of Egypt's requirements for significant credit risks.

The bank seeks above all to maintain long-term mutually advantageous relationships with clients and provide a comprehensive range of services. In particular credit products are usually provided together with other banking services. The bank stipulates that a sufficient volume of settlement transactions must be transferred to the bank, which may be interpreted as additional collateral for the bank's credit exposure.

The regulations on risk assessment and management, adopted by the board of management of the bank in 2004, constitute the main internal risk management regulatory document. These regulations do not fully reflect current bank policy with respect to risk assessment, management and control.

For example, they do not indicate the role of the asset and liability management committee in the risk management system, which plays a key role in the liquidity and market risk management system.

According to the regulations on risk assessment and management policy, the bank identifies credit risk, liquidity risk, market risk, currency risk, operational risk, legal risk and reputation risk. The main goal of the risk management policy is to safeguard the funds of shareholders, clients and investors of the bank.

The bank considers the following as the key principles for its risk management policy:

1. Formalization in internal banking documents of all the procedures governing the provision of banking services and the procedures for performing transactions
2. Maintenance of optimal distribution between the yield of banking operations and the level of corresponding risks that have been taken
3. Development and use of special procedures, centralization of the risk management system in emergencies and for especially big transactions
4 Minimization of the impact of one of the bank's businesses on another
5. Inadmissibility of using banking services and transactions as a tool for legalizing incomes obtained from crime or for financing terrorism
6. Caution and reasonable conservatism when performing banking operations and providing services to clients
7. The impossibility of approving the performance of a banking operation or provision of services to clients without complying with appropriate risk management procedures stipulated by internal banking documents
8. Monitoring of the status of risks on a regular basis
9. Constant improvements in the procedures that are used and the continuity of the banking risk management process
10. The openness and transparency of risk management procedures and mechanisms for shareholders, investors, clients and supervisory bodies
11. Differentiation in the terms for performing transactions, provision of services, depending on the type of business, market trends, the size of the assumed risk and the level of relations with clients
12. Capping of risks on operations and imposition of limits on management decision-making authorities
13. Immediate transfer by all bank subdivisions to the risk management authorities of information on all changes to assets and liabilities, a typical transactions and situations causing changes to banking risks
14. Unconditional compliance with existing legislation and the requirements of the Bank of Russia

To implement the aforementioned principles, the bank uses the following tools:

- A system of limits
- A system for the separation of authorities related to risk management and collegial
- Adoption of decisions related to specific risks
- The existence of an emergency action plan

Current and subsequent monitoring of risky transactions

The system of limits is split into two types: term limits and caps on amounts (position limits) and structural limits, determining the allocation of specific types of risk in the aggregate risk and the relation of the latter to the bank's capital. It should be noted, however, that

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Principles for Building a Risk Management System in Islamic Banks (continued)

strategic limits tend to be set in relation to bank assets, thereby ensuring compliance between the structure of transactions and strategic goals.

There is a clear cut distribution of authorities in the risk management structure of the bank. The board of management of the bank is responsible for reviewing and approving methodological documents on risk management; reports of risk management department and internal control service on the assessment of the level of risk; compliance of the operations performed by departments with the requirements established in the bank; developing and implementing an action plan to get out of emergencies and taking decisions on major risks.

Three committees operate in the bank — the credit, banking, asset and liability management. These committees determine risk management parameters for loans to enterprises and individuals, credit transactions with financial institutions and trading on the financial markets, respectively.

The committees meet several times a month. The staffing and functions of the banking and asset and liability management committees overlap to a large extent, thereby providing grounds for their subsequent merger.

A specialized department, which assesses the level of risks, is responsible for assessing risks on interbank transactions, transactions on the financial market and for establishing corresponding limits. The 'treasury' and credit departments are responsible for assessing the liquidity risk, the risk on credit transactions with non-banking clients and establishing limits for them correspondingly.

The directors of subdivisions perform day to day controls and assume responsibility for compliance with the established limits for corresponding transactions.

Subsequent controls are performed by the risk assessment department and back office subdivisions. The internal control service audits the main operational risks and monitors compliance by divisions with internal and external regulatory documents, and established limits.

Internal documents of the bank do not determine the functions and sphere of responsibility of the supervisory board of the bank in the risk management system.

Assessing, managing and overseeing risks

The bank has not fully completed the formation of the regulatory base for assessing, managing and overseeing risks. Documents regulating a significant proportion of risk management have been developed and approved in the bank. Risk management issues with respect to lending to counter party banks and execution of foreign exchange transactions have been developed most.

Positive aspects include the existence in the bank of independent risk management divisions (risk assessment and 'treasury' department), the separation of accountability of the back office and front office for trading on the financial market, and the independence of the internal control service from the top management of the credit institution.

The bank tries to apply modern approaches to assess and manage risks. For example, the bank has a ramified system of limits, uses the VaR method to assess market risks and broadly performs transactions with financial derivatives to manage positions.

At the same time, many risk management procedures require substantial improvement. In particular, the methodologies used to determine homogenous loans, categorize lenders as mutually related, calculate interest rate risk on the securities trading portfolio and assess liquidity risk, reporting procedures and document flow on operational risks need to be registered in in-house banking documents.

> "It would appear advisable to create a specialized methodology department for describing existing procedures and updating risk management methodologies"

Most of the methodologies mentioned here are required to accord legal status to the procedures that are actually performed at the bank. It should be stressed that most of the risk assessment and management methodologies do not have appendices with the algorithms used to calculate the risk or list of balance sheet and management reporting forms, serving as the basis for the calculations.

As market risks are regulated separately by the bank for different types of risks, there is no one single assessment of the possible losses on transactions with financial instruments. With respect to operational risks, we perceive as a serious drawback the absence in the bank of a procedure for testing new products and services for possible operational risks.

It is also necessary to modify procedures for interaction with clients within the framework of the lending process, to increase the operational efficiency of the process and eliminate superfluous steps in the interaction of the bank with clients.

In view of the high load on the staff of operational subdivisions and risk management structures, it would appear advisable to create a specialized methodology department, which would be responsible for describing existing procedures in subdivisions and updating risk management methodologies.

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Abu Bakr is an Islamic finance practitioner with specific focus on establishing short and long-term strategies in Islamic corporate banking.

Risk Management in Islamic Banking: A Case for Hedging

By Afaq Khan

The growth in demand for Islamic financial services is at an estimated 15% per annum, signaling positive development and growing integration of Islamic banking into the world economy. We have also witnessed an increased number of specialized players focusing on sectors like private equity, real estate, Sukuk and structured finance. An industry which began its development with basic trade related products is now witnessing expansion in all areas of banking and finance. The industry is going through a transition phase where institutions are moving into an advanced stage of product development. With a growing pool of players and talent, product development is shifting to cater for investment and capital raising solutions including project finance, hedging products and investment funds covering diverse asset classes from equities to shipping and aviation funds.

On the wholesale business front, there are two significant perspectives: i) the ability to provide an Islamic alternative to conventional solutions at a competitive price ii) the ability to attract Islamic liquidity and deploy it in long term projects and transactions. This means that Islamic finance players have had to assume a number of risks (involved in Islamic structures) for which solutions were required to make sound investment decisions.

One such risk is the issue related to hedging in Islamic financial transactions. Islamic institutions and consequently Islamic customers — both corporate and retail are exposed to a number of risks, for example, currency risk exposures that have solutions in the conventional sector. However, the Islamic industry is in its infancy with regard to hedging solutions. It needs to progress towards offering viable hedging alternatives to sustain the growth trends that the industry has seen to date.

Hedging has become an important tool for the next phase of development for the Islamic finance industry and many accept the use of hedging as a tool for prudence and risk management. Recent market events have contributed to the demand for Shariah compliant hedging solutions to meet with the rapidly evolving market place. However, there has been considerable discussion among Shariah scholars, regulators, governing bodies and industry players on whether derivatives are acceptable from a Shariah perspective.

The case for hedging solutions

At present the retail portfolio of most Islamic players, carry fixed rate assets structured on a Murabahah basis. In addition, corporate customers who are opting for Islamic solutions are being offered facilities which are based on floating benchmarks. Both of these elements require solutions to meet both sides of balance sheet management. Customers and Islamic financial institutions are exposed to currency fluctuations which could have serious consequences if solutions are not offered and risk is not addressed nor mitigated in an adequate manner.

Historically, when Islamic hedging products were not yet available, there has also been the issue of long term transactions where the underlying transactions have been structured in a Shariah compliant manner but hedged via a conventional instrument. This inconsistency is being addressed as it is imperative to have end-to-end solutions for Islamic transactions. This will benefit the wider development of the industry as well as its reputation for being Shariah compliant and competitive.

As retail products like mortgages and auto finance have gained momentum, the need for offering fixed price solutions in a competitive manner has increased. This argument holds equally true for corporate customers who are looking for end-to-end solutions for capital investment needs for business expansion. This also includes overall hedging solutions to convert their entire financial needs into a Shariah compliant structure.

An ancillary benefit to this will be observed when these corporate customers (publicly listed) become Shariah compliant, as they will be able to attract incremental capital from Islamic investors and Islamic equity fund managers. There are big segments such as pension funds and sovereign wealth funds which are likely to enter the Islamic finance industry once the industry reaches critical mass (as per the definition of these institutional investors, so they may enter and invest in a Shariah compliant manner).

"Hedging has become an important tool for the next phase of development for the Islamic finance industry and many accept the use of hedging as a tool for prudence and risk management"

Another emerging area for hedging which should not be overlooked is commodity hedging. There is a strong case for commodity hedging simply because it can help minimize risks for both large and small scale businesses. Anywhere from a farmer to a metal trader to a large commodity house all require their exposures to be hedged against adverse price movement risk. The availability of hedging solutions can help in efficient planning in relevant sectors, but especially in the commodity sector as it can have a quick and direct impact on businesses, overall society and consumer. The idea, like in all other hedging solutions, is to have effective risk management tools made available when necessary.

Finally, the most compelling need for Islamic hedging solutions is for the management of risks of Islamic financial institutions, and providing them with the capability to compete effectively in the market. The availability of basic hedging instruments will open additional avenues for both investors and customers on a variety of fronts such as debt capital markets, structured trade finance, project finance, and overall balance sheet management for Islamic financial institutions including banks and Takaful companies.

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Risk Management in Islamic Banking: A Case for Hedging (continued)

Need for a common approach

In recent years the Islamic finance industry has seen the emergence of a common platform to create a level of uniform practices. There is an ongoing effort to address the gaps and threats that exist in the industry at both the regulatory and institution level. Some examples include the Accounting and Auditing Organization for Islamic Financial Institutions — AAOIFI, which has made a commendable effort to formulate standards pertaining to accounting, auditing and reporting. Another key contribution of AAOIFI is its compilation of the Shariah standards which provide a unique reference point to institutions in relation to Shariah governance and related contract standards.

On the regulatory front, the Islamic Financial Services Board (IFSB) has attempted to address the issues and topics related to prudent governance and financial stability of Islamic institutions. There is ongoing effort by the IFSB to create a workable risk management framework for Islamic institutions with the help of regulators from participating countries. This has created a willing platform where the working partners have attempted to design a framework that is acceptable to all parties.

> "The level of standardization that the Islamic finance industry has already achieved to date is clear, for example, when we do a global Sukuk under the Reg S or 144A standard"

Recognizing these challenges, the International Swaps & Derivatives Association (ISDA) and the International Islamic Financial Market (IIFM) formally launched the ISDA/IIFM Tahawwut master agreement in March 2010. This was after a long consultative process where Shariah scholars, lawyers and bankers contributed to structure a market standard document which can be used for hedging products across clients and markets. They formed a working committee of Islamic players of which Standard Chartered Saadiq took a leading role as the only bank in the key working group throughout the long consultative process.

The result is a document widely studied by the regulators, counterparts, and Shariah scholars and for which a consensus has been reached. The standardization provides a benchmark in the market (as did the development of the original ISDA master agreement in the 1980s) and contributes to efficiency, liquidity and transparency. As familiarity with the Islamic ISDA grows, it will allow deals to be closed faster. The significance of the master agreement is that it will enable the development of a comprehensive and sophisticated inter-bank, capital and derivatives infrastructure for the Islamic financial market.

Having an ISDA/IIFM Tahawwut document in place will allow conventional and Islamic banks and corporates to do business on a Shariah compliant basis using end-to-end Islamic solutions, and especially for commodity and corporate based customers who have tangible assets and a need to hedge their exposures. This will further enhance the ability of the Islamic market to compete with conventional banks.

ISDA and IIFM's endorsement of the Tahawwut master agreement template will support its acceptance by conventional and Islamic financial institutions, and adopted as apart of the new Islamic market standard.

The level of standardization that the Islamic finance industry has already achieved to date is clear, for example, when we do a global Sukuk under the Reg S or 144A standard. It is rated by any of the well known rating agencies and complies with the same international disclosure, ratings process, listing and trading market practices. The Shariah boards of the Islamic counterparties will also approve the documents which will allow those institutions to invest in the Sukuk. The fact that the Islamic industry from cross geographies is able to invest in the Sukuk offering also reaffirms there is standardization in the processes and transaction documents which is acceptable to Shariah scholars across geographic boundaries.

The development and future of the industry will rely on its ability to integrate into the overall global economy. It will also have to make appropriate adjustments to ensure that it distinguishes itself from interest based activities and yet has the ability to provide alternative and economically viable solutions, as demanded by customers. Such solutions must cater to the needs of Islamic customers and yet should also be acceptable to other participants such as the scholars and regulators as they will continue to play an important part in the growth of the industry.

The current situation faced by the Islamic customer base (especially for the corporate and institution side) makes it imperative to have basic hedging products so that these players can compete with their conventional counterparts. An Islamic mortgage company aiming to provide fixed rate home finance facility can only do so if it is able to address the market risks associated with this type of financing. Otherwise, it will always be at a disadvantage when compared to its conventional counterparts who have access to all types of hedging products.

The success of Islamic hedging products will be dependent on their wider acceptability amongst Shariah scholars, regulators and individual Islamic customers. While the idea of having a hedging product may not be so straightforward, the scholars will need to provide continued guidance on the best way they can meet and improve both the Shariah and business requirements. This, along with efforts from various stakeholders, will play a vital role in making Islamic hedging a key milestone achieved by the Islamic finance industry. When we look back ten years from now, Islamic hedging will be regarded as a viable alternative, in the same way Sukuk is seen today.

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Afaq is a member of a various advisory boards including the Islamic finance advisory council of the Dubai Islamic Financial Centre, International Islamic Finance Market in Bahrain and Islamic Finance Expert Group (UK Government)

Takaful – Can Growth Be Sustained?

By Faisal Khan

Given that the Takaful industry has only just celebrated its first quarter century of existence, its rate of maturity and development has been quite remarkable. These days, almost every quarter brings a brand new Takaful company onto the world stage, adding to the 190 currently operating worldwide.

With that in mind, and the ever increasing free flow of capital from Islamic sources and our own corporate experience of many clients in the sector, the future of this growing industry certainly looks bright. When we consider the expansion potential of Takaful we need to consider a number of factors which are explored below.

Curiously, most analysts and commentators have suggested that the potential for Takaful insurance is significantly higher in the west than in areas of the world where it has already established itself successfully. While the concentration of Muslims in Europe and the US is much lower, legal requirements to have insurance, coupled with a far higher level of disposable income, dictate a propensity to buy insurance in far higher orders of magnitude. In addition, analysts forecast an ever growing need for ethical insurance products in developed economies — a significantly larger market for Takaful insurance than a purely Muslim one.

> "The market is not uniform geographically but exists in concentrated pockets. Using technologies that can reach these pockets are crucial"

All of this suggests that Takaful insurance should now be commonplace, and bursting at full speed into the mainstream marketplace in developed economies. Yet, it has not.

Why is this? One must firstly consider that, while the markets of the Middle East and Southeast Asia can boast a deluge of potential customers, they must also deal with high levels of competition as well as the lack of availability of re-Takaful capacity and the consequent difficulties in making underwriting profits. Add to that a lack of insurance skills; it comes as a surprise that most insurers in these regions also report a lack of investment capability to tap into pent up demand.

But projecting these foreign experiences into different economies, with different circumstances, in order to find success for the same product would prove futile, even ignorant to the unique exigencies of the market itself. Hence, it requires serious analysis before any attempt should be made to formulate a 'go to market' strategy in developed economies.

Every armchair entrepreneur will tell you that knowing your market deeply and having inexpensive access to it is the secret of success. Every practical entrepreneur will know that this especially rings true when the market is crowded with alternatives and there is no compulsion for the buyer to take your product. The first will know that there are two million Muslims in the UK, 350,000 Muslim households, and 1,456 mosques. They will also know that 20,000 Muslims from the UK perform the Haj each year, 7,500 restaurants are owned by Muslims, one in 20 businesses in London is Asian owned, and 20% of lamb and mutton consumption is halal.

The second, however, will be looking at these statistics while analyzing the day to day lifestyle that they represent to formulate a target market approach. These day to day lifestyle analyses are crucial in order for Takaful to grow, facilitating a clear understanding of what consumers want and at what price to sell it to them.

For example, the lifestyle analyst will discover that the extended family is still central to Muslim households in the West. This fact alone suddenly highlights the implications for considering risk when it comes to household insurance: with grandparents at home throughout the day, the risk of theft immediately drops.

Take that to a larger scale, with a larger 'family', and we have the same argument applying to the 1,456 mosques. The examples unfold in swathes, and are likely to be understood more by insurers with specific and unrivalled experience of this lifestyle. They are the ones who themselves know of the risks associated with performing the Haj, for example, better than traditional insurers.

One could therefore conclude that the Muslim community itself is in the best position to take Takaful insurance forward into developed economies. This is a truth that borders on the tautological; the ethos of the term Takaful itself invoking self-help and mutual risk sharing.

A second conclusion is that the market is not uniform geographically but exists in concentrated pockets. Using technologies that can reach these pockets are as crucial as they are abundantly available at realistic cost today.

A third conclusion is that the Takaful market in developed economies has to be 'made' as well as 'sold to', requiring a higher marketing cost supported by minimum investment in fixed overheads. Wherever possible, a variable cost model must be adopted, and can be done so with relative ease with today's insurance companies able to outsource most functions.

Should these factors be addressed, a new generation of sustainable Takaful insurance providers will emerge ready and able to take the bait from analysts and commentators, unleashing that pent up demand.

Another area for consideration in the potential growth of the industry is the broadening of the product range within the portfolio of Takaful offerings. In this context our clients have already taken the first steps into Family Takaful (life insurance).

We know that the potential for Family Takaful, in the high growth geographies of Southeast Asia, the Middle East and North Africa, is in orders of magnitude higher than for General Takaful. These areas are home to a young, rapidly growing population with a burgeoning

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Takaful – Can Growth Be Sustained? (continued)

understanding of the benefits of life insurance, strong economic fundamentals and growth prospects in their geographies. They represent a hugely underpenetrated market that is now accessible to the bancaTakaful distribution channels of successful Islamic banks, providing a better appreciation of how Family Takaful products might be used to promote economic activities.

When we reflect on the fact that there are 1.57 billion Muslims of all ages living in the world today and that this represents about 23% of the 6.8 billion global population estimated in 2009, we can begin to understand the sheer scale of the opportunity available. The major hubs of Muslim populations are in Indonesia, Malaysia, Bangladesh, India, Pakistan, Iran, Turkey, Egypt and Nigeria.

> "While the Takaful industry has been quick to take the functional terms used in conventional insurance and define an equivalent, there is as yet no Shariah compliant version of the term pension"

None of these countries have a heritage of life insurance to speak about, hence must represent a nascent market for the Family Takaful product. The successful experience of Family Takaful in Saudi Arabia, with its smaller population of about 25 million Muslims and a growing per capita income, may be the model that can be replicated in other regions.

The third area for growth consideration is pensions. While the Takaful industry has been quick to take the functional terms used in conventional insurance and define an equivalent, there is as yet no Shariah compliant version of the term pension, a truly 'hot off the press' subject. The developed world's baby boom era of the 1960s is currently being reborn in the Muslim world. However, the Muslim world can and must avoid the current pension crisis of an ageing population that ensued fifty years later, compounded by an ever increasing level of life expectancy.

In the words of the UK government's commission on pensions, "The iron logic of rising life expectancy is that either workers become poorer, pensioners become poorer, or there must be a rise in the average retirement age". These issues are a time bomb waiting to go off in developing Muslim countries where there is a young, rapidly growing population with no state organized pension structure in place to see them through.

This social necessity must and will be a growing area of interest for the Takaful industry. The traditional way in which the older generation has been protected from the risk of prolonged life expectancy has been the all important extended family, where the younger generation make provisions for the needs of the older generation in the extended home. Such a model is already under threat from modern economic exigencies on the family and new models of mutual self-help and risk sharing will need to be developed within the Takaful approach.

The final area for consideration is micro-insurance, for which the equivalent term has indeed already been coined. MicroTakaful defines insurance products that offer coverage to low income households by providing protection to individuals who have little savings, and are tailored specifically for lower valued assets and compensation for illness, injury or death. MicroTakaful has huge relevance in developing countries, including ones with Islamic majorities, where current insurance markets are either inefficient or non existent.

In fact, many insurers consider micro Takaful as a corporate social responsibility initiative, promoting corporate integrity as well as helping the community. But such an approach may not have the permanence that is required to provide insurance for a vast market not currently covered by traditional models.

MicroTakaful should also be seen as a market opportunity. Insurers need to make the investments that are needed to provide valuable protection to big numbers of low income households with distribution controlled by institutions people already trust. Munich Re famously launched such a micro-insurance product some years ago in Indonesia, protecting the most vulnerable against floods.

With a quarter of a century having passed, and with all these factors in mind, one can say that Takaful insurance is definitely here to stay. But there is much work to be done for the many factors of real opportunity to be harnessed in the future by both insurers and systems suppliers such as 3i Infotech.

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Faisal Khan spearheads 3i Infotech's involvement in technology for Islamic finance.

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

Name: Geert Bossuyt

Position: CEO

Company: Dar Al Istithmar

Based: London and Dubai

Age: 40

Nationality: Belgian

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

About 10 years ago, I was working with Deutsche Bank as a conventional banker in London focusing on structured products with no involvement with the Middle East or Islamic finance. As head of new product development, I was confronted with the demand for Islamic products. Before I knew it, I was global head of Islamic business at Deutsche Bank, working with a team in Dubai.

I left Deutsche Bank last year as I wanted to do something on my own. I met the shareholders of Dar Al Istithmar who have a similar view on Islamic finance as I. We then decided to join forces.

What does your role involve?

As any CEO, I like to execute the company's strategic goals by creating an environment where my colleagues and I can work in optimal conditions. As such I see myself as a guide and facilitator.

What is your greatest achievement to date?

I have been able to combine my private and professional life successfully while being able to look at everyone straight in the eye and claim I have always been honest and fair to them.

Which of your products / services deliver the best results?

Our consulting services have been operating successfully since 2004 and are well known in the financial markets, Islamic and conventional. With regards to our new initiatives, although we are in a start up phase, the issuance platform for Islamic money markets and structured notes are gaining a lot of traction and interest from financial institutions, central banks and certain corporates. Further, we are also working on developing Shariah compliant investment products with a view to identify new assets classes and geographical locations to the Islamic investors. Having said that, it is too early to say which of our products and initiatives will deliver the best result.

What are the strengths of your business?

We are a focused entity. We offer Islamic consultancy with the help of the Oxford Centre for Islamic studies. We focus on Islamic liquidity relying on unique infrastructure/structuring capabilities and Islamic tangible products relying on our connectivity with the conventional world and Islamic structuring capabilities. Having focus makes us strong although I have to admit that our lack of diversification is, of course, risky as well. You can put that we 'go for it'. That is probably our biggest strength.

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

As you can appreciate, Dar Al Istithmar is closely linked to the Islamic financial markets. I am proud to say that our consulting business contributes towards the overall growth and innovation within the Islamic financial industry. All our initiatives are ultimately aimed towards helping Islamic finance grow.

Our current initiatives for Islamic money market solutions and the development of Shariah compliant investment products are primarily due to the lack of such solutions and products in the Islamic market. In future, our focus may be a different aspect, which at that time, may fill other gaps in the Islamic financial industry. I would stress that the critical success factor for Dar Al Istithmar is in its closeness and quick reaction to the needs and requirements of the Islamic finance industry.

What are the obstacles faced in running your business today?

Islamic finance can be characterized by large demand and resulting growth. However, it cannot be defined as very innovative. I would go further to say that the rapid growth of the Islamic finance industry has somewhat held back innovation. Why would there be a need to do something different if the business is growing anyway?

In my opinion, Islamic finance practitioners should understand that we are not there yet. There are a lot of things that can be done better, through innovation. The real competition is not with other Islamic financial institutions but with the conventional financial market. Overall, I feel that the risk in Islamic finance is not that, "we aim too high and miss it" but "we aim too low and achieve it".

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

I am optimistic as the demand for Islamic products is there and irreversible. However, the industry has to do better itself to meet that demand. Our capabilities in doing that will define how the industry will evolve. If we fail to offer products on par with conventional finance in terms of quality, liquidity and performance, then Islamic finance will become a niche market. Or we can succeed to provide products on par, and then the Islamic market will become a valid and morally superior alternative to the conventional financial world.

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

I think I have already alluded to it. Islamic finance needs to understand that the competition is conventional finance. Therefore, we will need to embrace innovation and be willing to think outside the box, without giving up the principles that Islamic finance is built on.

SUMMARY OF TERMS & CONDITIONS

SG$1,500 million (US$1.1 million) Trust Certificates

(i) SG$600 million (US$445 million) five-year ("Series 2015 Trust Certificates")
(ii) SG$900 million (US$667 million) 10-year ("Series 2020 Trust Certificates")

11th August 2010

Obligor/Issuer	Issuer: Danga Capital (Danga) Obligor: Khazanah Nasional
Tenor	(i) Five years; (ii) 10 years
Return	(i) 2.615% p.a.; (ii) 3.725% p.a.
Payment	Semi annual
Maturity Date	(i) 11th August 2015; (ii) 11th August 2020
Arrangers	Joint Bookrunners - CIMB Bank, DBS Bank and Oversea-Chinese Banking Corporation Joint Lead Managers - CIMB Bank, DBS Bank, Oversea Chinese Banking Corporation, CIMB Islamic Bank, The Islamic Bank of Asia and OCBC Al-Amin Bank
Trustee	Deutsche Trustees Malaysia
Legal Counsels	Kadir, Andri & Partners; Allen & Gledhill; Zaid Ibrahim & Co; Linklaters Allen & Gledhill; Linklaters
Purpose of issuance	Proceeds will be used for: (i) acquisition of any Shariah compliant assets in Singapore by Khazanah and/or its group of companies and/or (ii) the refinancing of identified Singapore dollar loan facilities granted to Khazanah and/or its group of companies provided that the purpose and utilization of such loan facilities were in compliance with Shariah.
Shariah Advisor	CIMB Investment Bank (backed by CIMB Islamic Shariah Committee), The Islamic Bank of Asia and OCBC Al-Amin Bank

The Q&A was conducted with Mohd Izani Ghani, director and chief financial officer of Khazanah Nasional:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
The first RM issuance from the program under Danga in April 2009 was under the Musharakah structure. It is widely accepted by investors in Malaysia. However when structuring cross-border deals, we want to ensure the widest acceptance to potential investors. Hence, the Wakalah structure which has been applied by GCC issuers for offshore issuances was adopted. The structure was also chosen due to the familiarity of the Monetary Authority of Singapore compared to other structures, thus enabling a smooth approval process.

2. **What were the challenges faced and how were they resolved?**
• Timing: The transaction was completed within a very tight timeframe.
• Market: The introduction of a relatively new Islamic structure such as the Wakalah structure in the SGD market was addressed via an investor education process. Khazanah held a one day roadshow meeting cornerstone investors prior to the launch to address this.

3 **Geographically speaking, where did the investors come from?**
Of the investors, 45% were from financial institutions, 18% from the insurance sector, Am investors 15%, were from 8% were private banks, 6% were sovereign funds and 1% were made up of corporate investors. Most came from Singapore (65%), with 15% from Malaysia, 14% from Hong Kong, 2% from Brunei and the remaining 2% were European.

4. **Was this deal rated?**
Credit rating is not a prerequisite for fixed income issuance in the SGD debt capital market. Given that Khazanah is a sovereign development fund and recognizing that Khazanah is still embarking on its transformation process, a credit rating which demands disclosure may not do justice as to the true worth of Khazanah. Notwithstanding this, the Sukuk demand was overwhelming and testament of Khazanah's strong credit and solid fundamentals.

ALLIANZ MALAYSIA

MALAYSIA: Jens Reisch has been appointed as CEO for Allianz Malaysia and Allianz Life Insurance Malaysia.

Reisch has been with Allianz since 1983. He was previously appointed as CEO of Asuransi Allianz Life Indonesia in 2003. In 2007 Reisch was appointed as country head of Allianz Indonesia.

ALLEN & OVERY

US: Ed De Sear is now a partner in Allen & Overy's international capital group, based in New York.

De Sear will collaborate with partners Lawton Camp on securitizations and Cathleen McLaughlin on securitization transactions in Latin America.

Prior to joining Allen & Overy, De Sear was attached to Bingham McCutchen in New York.

JPMORGAN CHASE & CO

US: JPMorgan Chase & Co has appointed Jose Pagan to manage its public finance operations in South Florida.

Prior to joining the bank, Pagan worked at Bank of America Merrill Lynch, UBS and Lehman Brothers Holdings.

BNP PARIBAS CORPORATE AND INVESTMENT BANKING

US: Kevin Walter is the head of US treasury trading in New York at BNP Paribas Corporate and Investment Banking.

Prior to this, Walter was involved with US treasuries trading for five years at Deutsche Bank.

DEUTSCHE BANK

GLOBAL: Deutsche Bank has hired Zaki Al Hashem to head the bank's corporate flow sales in the eastern and western provinces of Saudi Arabia.

The bank also appointed Ahmed Al Hadeed to head the bank's corporate flow sales focusing on the central province, and Mohammed Modaimeegah as vice president.

In the US, Sean Duff joins Deutsche Bank as a director in the capital introduction group.

Zachary Rubin was appointed as director in global prime finance sales.

BNY MELLON

US: Curtis Arledge will join BNY Mellon as its vice chairman and CEO of its subsidiary, BNY Mellon Asset Management, in the fourth quarter of 2010.

Prior to this appointment, Arledge was the chief investment officer for BlackRock's fundamental fixed income portfolios.

THE QATAR FINANCIAL CENTRE AUTHORITY

QATAR: The Qatar Financial Centre Authority (QFCA) has hired Yousuf Al-Jaida as director of strategic development.

Al-Jaida will be responsible for QFCA's strategic development in asset management and banking sectors.

Prior to this, he was working at Qatar Petroleum and Dolphin Energy.

BMI BANK

BAHRAIN: BMI Bank has appointed Salah Khalifa as head of Islamic financial services responsible for driving the division's strategy.

Prior to this appointment, Khalifa was a director of investments and capital markets at First Investment Bank.

UNITED ARAB BANK

UAE: United Arab Bank has appointed Rami El Zein as its head of marketing.

Prior to joining the bank, El Zein was the head of marketing at the International Wings Group.

HSBC

RUSSIA: HSBC has appointed Huseyin Ozkaya to head the bank's Russian unit.

Ozkaya will replace Stuart Lawson who left the position in June 2010.

Ozkaya currently oversees HSBC's corporate and investment business in Turkey.

STANDARD BANK

UK: South Africa-based Standard Bank has appointed Ian Carton as its global head of cash equity in London.

Previously, Carton was co-head of global markets, financing and services for Europe, Middle East and Africa, at Merrill Lynch.

BARCLAYS WEALTH

UK: Barclays Wealth has appointed Boudewijn Jansen as its head of private equity origination.

Prior to joining the company, Jansen was global head of private equity at HSBC Alternative Investments.

GATEHOUSE BANK

UK: Gatehouse Bank has hired Irfan Afzal as its head of structured trade finance and syndication.

Prior to this, Afzal was the executive director, head of banking and corporate finance at Oceanic Bank.

NOMURA HOLDINGS

HONG KONG: Nomura Holdings (Nomura) has hired Mark Williams to head its equity capital markets team in Asia outside Japan. Williams was formerly with UBS as its head of equity capital markets.

This move comes as Nomura targets a place among the top 10 banks for Asian equity issuance outside China.

FRANKLIN TEMPLETON INVESTMENTS

US: Franklin Templeton Investments has named Jamie Hammond as its new managing director for Europe.

He was previously a senior director at the firm in charge of northern Europe.

HSBC SECURITIES SERVICES

SAUDI ARABIA: HSBC Securities Services has hired Arindam Das as its head of Middle East and Africa operations.

Prior to his appointment, Das was its regional head of custody and deputy head for the same region.

STANDARD CHARTERED BANK JORDAN

JORDAN: Standard Chartered Bank Jordan has named Vasken Ajemian as the head of wholesale banking.

Ajemian who joined the bank in 1995, was previously its head of global markets since 2005.

CITIGROUP

US: Citigroup has hired five individuals to its convertibles sales and trading team for the Asia Pacific.

They are PJ Andersson as global head of pan Asian derivative and convertible sales; Kim Wong and Paul Woods as directors on the convertible bond sales and trading desk and Carol Marah and James Short as director and vice president on the London Asian convertibles desk, respectively.

UBS

HONG KONG: UBS has appointed Julien Bahurel as the head of equity derivatives sales for Asia Pacific.

Bahurel was previously a managing director at Morgan Stanley in the US.

GOLDMAN SACHS GROUP

US: Goldman Sachs Group (Goldman Sachs) has appointed Michael Wise to manage its equity capital markets unit. He will also be a Goldman Sachs partner.

Prior to this appointment, Wise was the chairman of Morgan Stanley's equity capital markets division and co-head of equity capital markets in the Americas.

THE ROYAL BANK OF SCOTLAND

UK: The Royal Bank of Scotland has hired Rory Tapner as the CEO of its wealth division.

Tapner was previously the chairman and CEO of UBS' Asia Pacific business.

Deal tracker

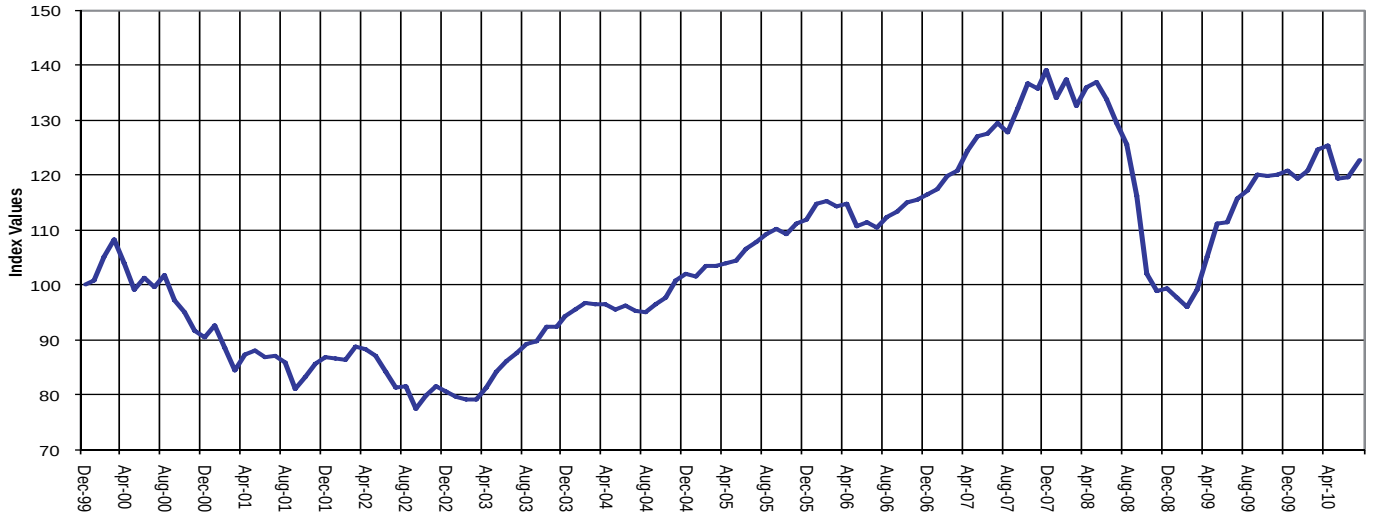
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
South Korea	TBA	Sukuk
Capital Development Authority, Pakistan	PKR20 billion	Sukuk
Bank Muamalat	US$100 million	Sukuk
Malaysia Airports Holdings	RM3.1 billion	Sukuk
Kuwait Turkish Participation Bank	US$100 million	Sukuk
Abu Dhabi Ports Company	US$1 billion	Sukuk
Kazakhstan	US$300 million	Sukuk
Indonesia	US$650 million	Sukuk
Abu Dhabi Islamic Bank	US$5 billion	Sukuk
AmIslamic Bank	RM3 billion	Senior Sukuk Musharakah
Nakheel	TBA	Sukuk
Sumitomo Corporation	TBA	Sukuk
Nomura Holdings	US$100 million	Sukuk
State Bank of Pakistan	TBA	Sukuk
Islamic Bank of Thailand	US$5 billion	Sukuk
Trans Thai Malaysia	TBA	Sukuk
Axiata Group	RM4.2 billion	Sukuk
Lebanon	TBA	Sukuk
Emirates Integrated Telecommunications	TBA	Sukuk
General Electric Capital	TBA	Sukuk
Cahaya Jauhar, Malaysia	RM114 million	Sukuk
Saudi Home Loans Company	TBA	Sukuk
Dubai	TBA	Sukuk
Pakistan	PKR75 billion	Sukuk and conventional bonds
Finance ministry, Indonesia	US$500 million to US$600 million	Global Sukuk
Ahmed Salem Bugshan Group	US$100 million	Sukuk
Finance Ministry of Qatar	QAR5 billion	Sovereign Sukuk
Saudi Electricity Company	TBA	Global Sukuk
Cagamas	US$3 billion	Sukuk
Bahrain	TBA	Sukuk
Qatar Islamic Bank	US$750 million	Sukuk
Standard Chartered, UAE	US$4 billion	Sukuk
US Firm	US$250 million	Sukuk

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

Eurekahedge Islamic Fund Index



YTD returns for ALL funds (as of the 6th August 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Palladium	ETFS Metal Securities	20.80	Jersey
2	CIMB Islamic Small Cap	CIMB-Principal Asset Management	19.78	Malaysia
3	Public Islamic Sector Select	Public Mutual	18.74	Malaysia
4	InterPac Dana Safi	Inter-Pacific Asset Management	17.62	Malaysia
5	Mega Dana Syariah	Mega Capital Indonesia	17.43	Indonesia
6	AlAhli Saudi Trading Equity	The National Commercial Bank	13.33	Saudi Arabia
7	AlAhli Saudi Mid Cap Equity	NCB Capital Company	12.38	UAE
8	PB Islamic Equity	Public Mutual	11.90	Malaysia
9	Public Islamic Opportunites	Public Mutual	11.26	Malaysia
10	Public Islamic Select Treasures	Public Mutual	10.82	Malaysia
	Eurekahedge Islamic Fund Index*		**1.66**	

Sharpe ratio for ALL funds (as of the 6th August 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	SR International Trade Finance - (Al Sunbula)	Samba	3.85	Saudi Arabia
2	Commodity Trading - SAR	Riyad Bank	3.67	Saudi Arabia
3	USD International Trade Finance - (Al Sunbula)	Samba	3.34	Saudi Arabia
4	Watani KD Money Market	National Bank of Kuwait	3.15	Cayman Islands
5	AlAhli Saudi Riyal Trade	The National Commercial Bank	2.90	Saudi Arabia
6	AlAhli International Trade	The National Commercial Bank	2.81	Saudi Arabia
7	Public Islamic Money Market	Public Mutual	2.59	Malaysia
8	Public Islamic Income	Public Mutual	2.19	Malaysia
9	Al Badr Saudi Riyal	Banque Saudi Fransi	2.15	Saudi Arabia
10	AlAhli Diversified Saudi Riyal Trade	The National Commercial Bank	1.88	Saudi Arabia
	Eurekahedge Islamic Fund Index*		**0.00**	

EUREKAHEDGE

Contact Eurekahedge

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

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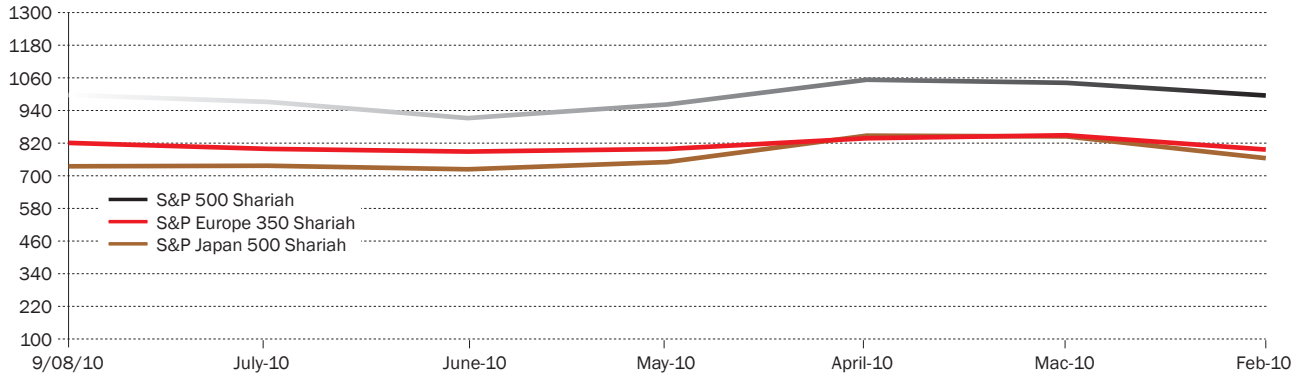
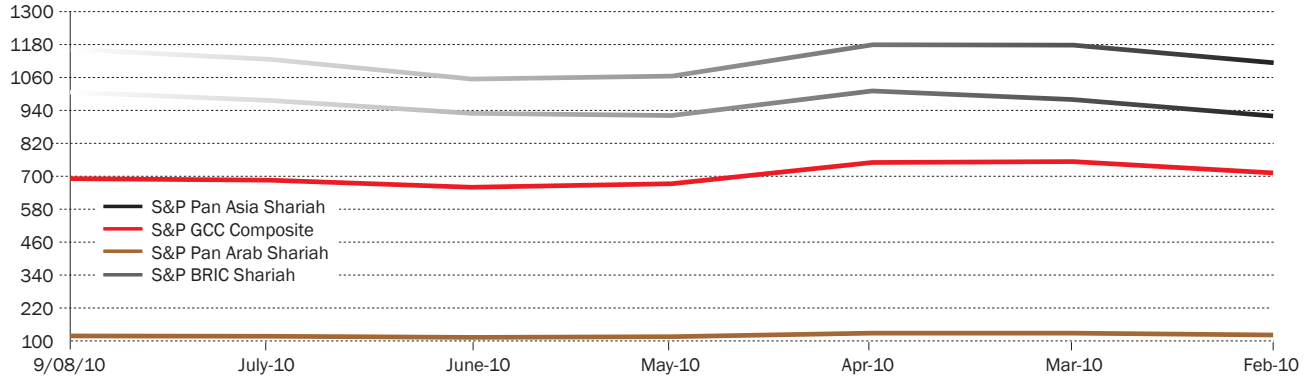
EUREKAHEDGE

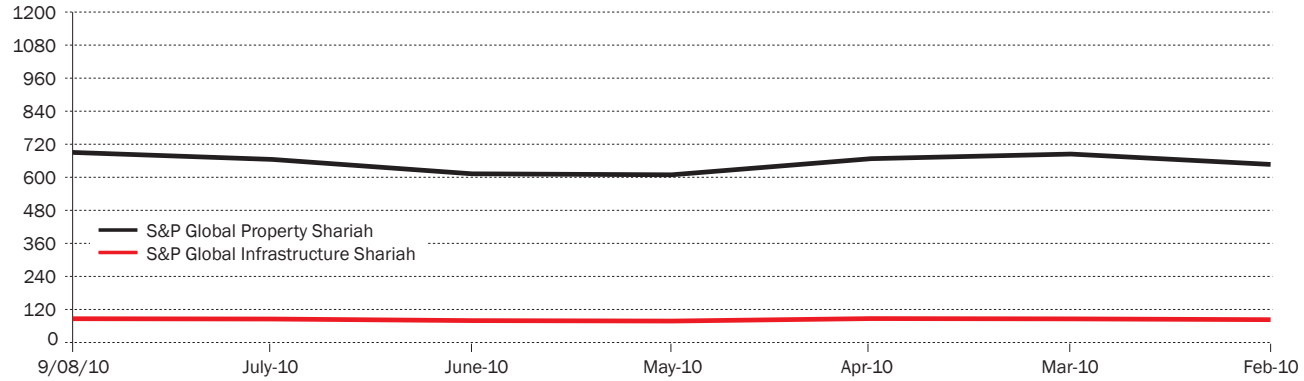
S&P Shariah Indices Price Index Levels



Index Code	Index Name	9/08/10	July-10	June-10	May-10	Apr10	Mar-10	Feb-10
SPSHX	S&P 500 Shariah	997.026	971.473	912.024	962.089	1053.050	1041.681	995.080
SPSHEU	S&P Europe 350 Shariah	820.885	798.851	788.950	798.456	837.896	848.990	796.383
SPSHJU	S&P Japan 500 Shariah	734.853	736.906	723.883	750.472	847.533	844.692	764.677



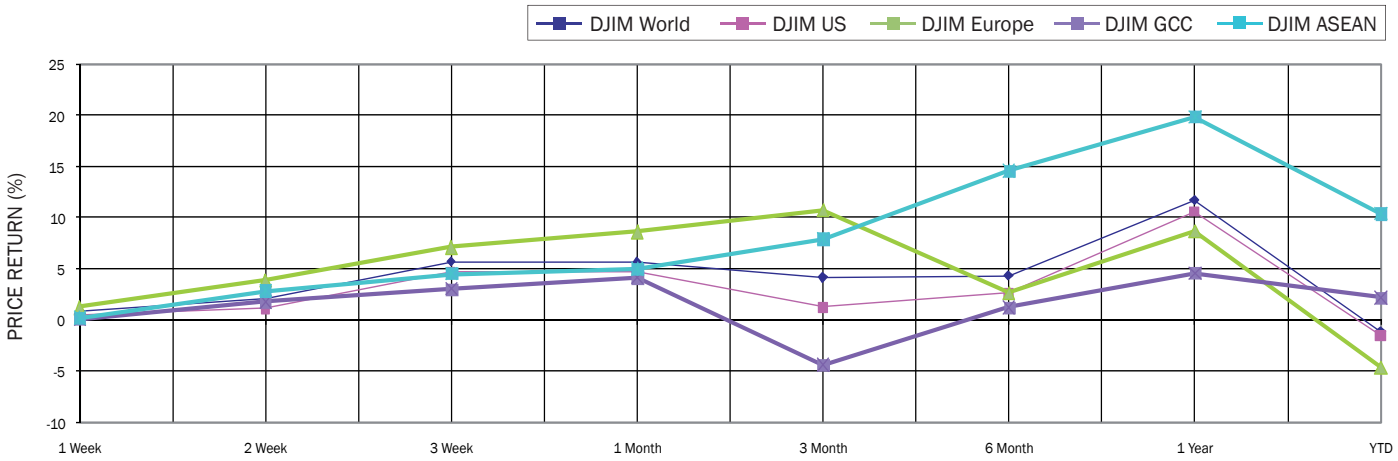
Index Code	Index Name	9/08/10	July-10	June-10	May-10	Apr10	Mar-10	Feb-10
SPSHAS	S&P Pan Asia Shariah	1006.415	976.003	929.342	921.335	1010.900	979.563	919.609
SPSHG	S&P GCC Composite Shariah	691.339	685.668	659.910	672.795	750.159	753.479	712.179
SPSHPA	S&P Pan Arab Shariah	118.092	116.915	112.797	115.358	128.364	128.302	121.503
SPSHBR	S&P BRIC Shariah	1167.441	1130.118	1058.653	1069.475	1183.561	1182.207	1117.929



Index Code	Index Name	9/08/10	July -10	June-10	May-10	Apr10	Mar-10	Feb-10
SPSHGU	S&P Global Property Shariah	690.216	664.799	612.598	608.951	667.56	684.290	646.637
SPSHIF	S&P Global Infrastructure Shariah	86.348	85.243	79.474	77.86	86.827	85.743	82.828

Data as of the 9th August 2010

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	0.78	2.13	5.66	5.58	4.12	4.31	11.71	-1.17
DJIM US	0.45	1.09	4.66	4.70	1.23	2.64	10.59	-1.52
DJIM Europe	1.18	3.89	7.06	8.58	10.74	2.61	8.61	-4.62
DJIM GCC	0.05	1.72	2.99	4.13	-4.39	1.18	4.57	2.11
DJIM ASEAN	0.21	2.83	4.52	4.97	7.93	14.56	19.85	10.37

*all performance is cumulative, based on price return and US$

DESCRIPTIVE STATISTICS	Market Capitalization (US$ billion)							Component Weight (%)	
INDEX	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2346	15062.02	11786.93	5.02	1.05	318.96	0.01	2.71	0.00
DJIM US	585	6433.96	6042.10	10.33	2.62	318.96	0.17	5.28	0.00
DJIM Europe	263	2829.72	2247.92	8.55	2.14	129.61	0.09	5.77	0.00
DJIM GCC	114	202.50	86.29	0.76	0.29	9.59	0.03	11.11	0.03
DJIM MENA	158	353.84	98.92	0.63	0.18	11.65	0.02	11.78	0.02
DJIM ASEAN	203	406.65	162.27	0.80	0.18	15.79	0.01	9.73	0.00
DJIM Titans 100	100	6555.54	5790.76	57.91	38.23	318.96	12.87	5.51	0.22
DJIM Asia/Pacific Titans 25	25	1039.06	669.81	26.79	19.85	71.74	12.87	10.71	1.92

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

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Dow Jones Indexes
A CME Group Company

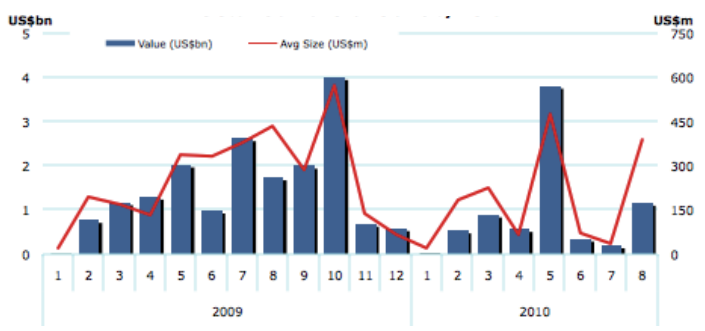
TOP 30 ISSUERS OF ISLAMIC BONDS *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Government of Dubai	UAE	Sukuk	Euro market public issue	1,931,000,000	1	12.7	Standard Chartered, UBS, National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank, Mitsubishi UFJ Financial Group, Emirates NBD, Al Hilal Bank
2	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	12.3	HSBC, Samba Capital
3	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue; Foreign market public issue	1,700,000,000	2	11.2	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB
4	Malaysia	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	8.2	HSBC, Barclays Capital, CIMB
5	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	1	6.6	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
6	Cagamas	Malaysia	Sukuk Murabahah	Domestic market private placement; Domestic market public issue	939,000,000	8	6.2	CIMB, Maybank Investment Bank, Cagamas, HSBC, AmInvestment
7	Islamic Development Bank	Saudi Arabia	Sukuk Wakala	Euro market public issue	850,000,000	1	5.6	Deutsche Bank, BNP Paribas, HSBC, CIMB
8	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	1	3.9	Public Bank, CIMB, Maybank Investment Bank
9	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market private placement	573,000,000	1	3.8	CIMB, Maybank Investment Bank
10	GE Capital Sukuk	US	Sukuk	Euro market public issue	498,000,000	1	3.3	Goldman Sachs, KFH National, Bank of Abu Dhabi, Citigroup
11	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	446,000,000	1	2.9	Goldman Sachs Deutsche Bank, Unicorn Investment Bank
12	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	442,000,000	2	2.9	CIMB, Standard Chartered
13	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	341,000,000	1	2.2	CIMB
14	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	2.0	CIMB
15	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah	Domestic market public issue	193,000,000	1	1.3	Saudi Hollandi Bank, Riyad Bank
16	Islamic Republic of Pakistan	Pakistan	Sukuk	Domestic government debt	174,000,000	1	1.2	Standard Chartered
17	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	172,000,000	1	1.1	HSBC, CIMB
18	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	1.1	CIMB
19	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	1.0	HSBC, CIMB
20	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	1	1.0	HSBC, Maybank Investment Bank
21	Penerbangan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	148,000,000	2	1.0	Bank Muamalat Malaysia, CIMB Group, HSBC, AmInvestment
22	UMW Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	141,000,000	1	0.9	Maybank Investment Bank
23	Nomura Sukuk	Japan	Sukuk Ijarah	Euro market public issue	100,000,000	1	0.7	KFH
24	International Finance	US	Sukuk	Euro market public issue	100,000,000	1	0.7	HSBC, KFH, Dubai Islamic Bank, Liquidity Management Centre
25	Gamuda	Malaysia	Sukuk Musharakah	Domestic market private placement	97,000,000	1	0.6	CIMB, AmInvestment
26	Perusahaan Listrik Negara	Indonesia	Sukuk Ijarah	Domestic market public issue	87,000,000	2	0.6	(Persero) Danareksa Bahana, Securities Bank Mandiri, Trimegah Securities
27	CIMB Islamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	86,000,000	1	0.6	CIMB
28	Citydev Nahdah	Singapore	Sukuk Ijarah	Domestic market private placement	72,000,000	2	0.5	CIMB
29	Haluan Gigih	Malaysia	Sukuk Musharakah	Domestic market private placement	61,000,000	2	0.4	Maybank Investment Bank
30	Syarikat Borcos Shipping	Malaysia	Sukuk Ijarah	Domestic market private placement	48,000,000	1	0.3	Bank Muamalat Malaysia
	Total				**15,203,000,000**	**73**	**100.0**	

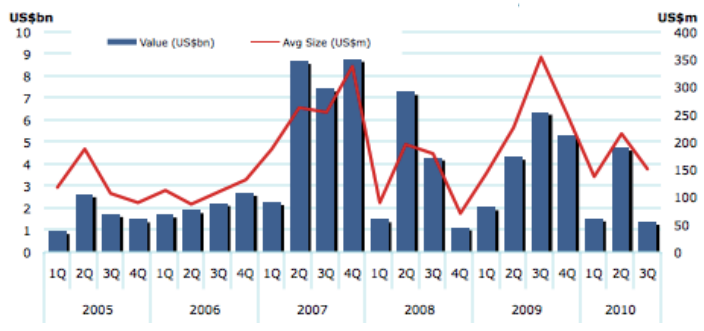
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
3rd Aug 2010	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market public issue	1,089,000,000	OCBC, DBS, CIMB
22nd Jun 2010	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	HSBC, Maybank Investment Bank
14th Jun 2010	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	CIMB
27th May 2010	Malaysia	Malaysia	Sukuk	Euro market public issue	1,250,000,000	HSBC, Barclays Capital, CIMB
24th May 2010	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	CIMB
10th May 2010	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	HSBC, Samba Capital
7th May 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	314,000,000	AmInvestment
27th Apr 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	156,000,000	AmInvestment
1st Apr 2010	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	HSBC, CIMB
31st Mar 2010	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market public issue	612,000,000	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB
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 Bank
25th Dec 2009	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah	Domestic market public issue	193,000,000	Saudi Hollandi Bank, Riyad Bank
21st Dec 2009	Cagamas	Malaysia	Sukuk	Domestic market private placement	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	Islamic	Domestic market private placement	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 Group, 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

GLOBAL ISLAMIC BOND VOLUME BY MONTH



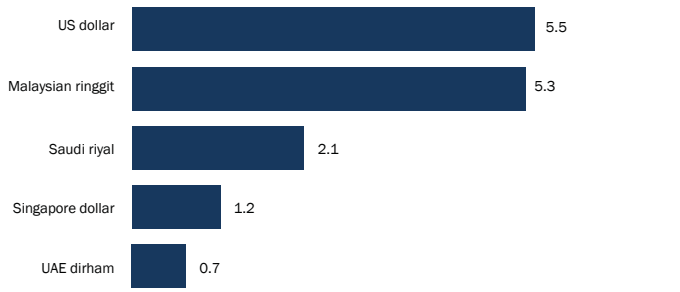
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



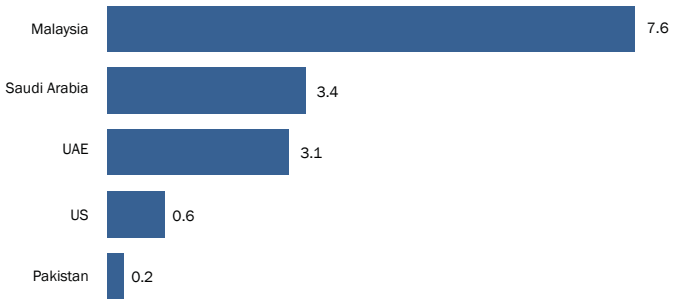
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB	3,430,000,000	32	22.6
2	HSBC	2,355,000,000	13	15.5
3	Standard Chartered Bank	1,081,000,000	9	7.1
4	Maybank Investment Bank	992,000,000	13	6.5
5	Samba Capital	933,000,000	1	6.1
6	AmInvestment	607,000,000	8	4.0
7	OCBC	500,000,000	3	3.3
8	Barclays Capital	417,000,000	1	2.7
9	DBS	370,000,000	2	2.4
10	Deutsche Bank	361,000,000	2	2.4
11	Abu Dhabi Commercial Bank	333,000,000	1	2.2
12	Dubai Islamic Bank	331,000,000	2	2.2
13	KFH	324,000,000	3	2.1
14	Mitsubishi UFJ Financial Group	324,000,000	2	2.1
15	UBS	306,000,000	1	2.0
15	Emirates NBD	306,000,000	1	2.0
17	Goldman Sachs	248,000,000	2	1.6
18	BNP Paribas	213,000,000	1	1.4
19	Bahrain Islamic Bank	208,000,000	1	1.4
20	National Bank of Abu Dhabi	197,000,000	2	1.3
21	Public Bank	197,000,000	1	1.3
22	RHB Capital	159,000,000	2	1.0
23	Unicorn Investment Bank	149,000,000	1	1.0
24	Cagamas	101,000,000	1	0.7
25	Citigroup	100,000,000	1	0.7
26	Al Hilal Bank	97,000,000	1	0.6
27	Saudi Hollandi Bank	97,000,000	1	0.6
27	Riyad Bank	97,000,000	1	0.6
29	Bank Muamalat Malaysia	85,000,000	2	0.6
30	Kenanga Investment Bank	61,000,000	2	0.4
	Total	**15,203,000,000**	**73**	**100**

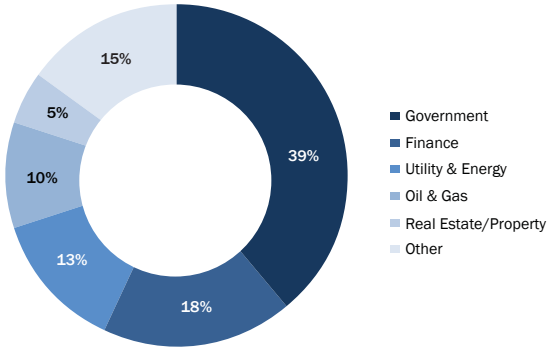
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



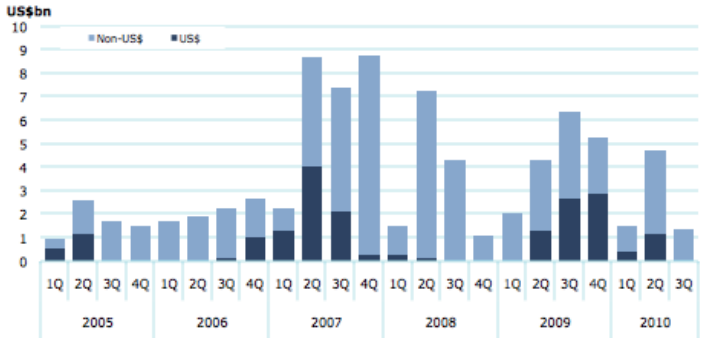
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



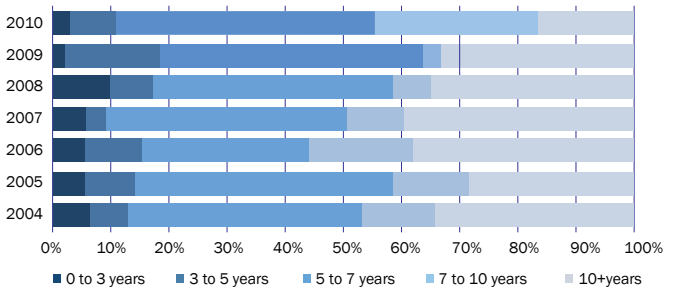
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



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



ALL DATA AS OF THE 9th AUGUST 2010

SUKUK MANAGERS (12 months) AUG 2009 – AUG 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	21,622,118,800	93	54.1
2	CIMB	5,038,344,575	77	12.6
3	Malayan Banking	1,411,923,751	83	3.5
4	Citigroup	1,266,664,629	6	3.2
5	Morgan Stanley	1,215,000,000	5	3.0
6	HSBC Banking Group	1,126,924,593	35	2.8
7	Malaysian Industrial Development Finance	916,483,438	215	2.3
8	Standard Chartered	734,306,431	13	1.8
9	AMMB Holdings	703,434,363	56	1.8
10	RHB Banking Group	691,169,156	32	1.7
11	Dubai Islamic Bank	602,646,875	3	1.5
12=	UBS	482,646,875	2	1.2
12=	Mitsubishi UFJ Financial Group	482,646,875	2	1.2
13	Barclays Bank	412,500,000	1	1.0
15	Cagamas	363,725,918	26	0.9
16	Indonesia (Government)	242,558,020	14	0.6
17	Affin Holdings	212,859,705	20	0.5
18	OCBC Bank	181,645,152	25	0.5
19	EON Capital	175,823,531	72	0.4
20	OSK Holdings	169,336,485	23	0.4

SUKUK MANAGERS (3 months) MAY 2010 - AUG 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	7,466,158,700	30	69.8
2	CIMB	1,250,386,502	21	11.7
3	HSBC Banking Group	500,776,562	5	4.7
4	Barclays Bank	412,500,000	1	3.9
5	Malayan Banking	268,903,627	19	2.5
6	Malaysian Industrial Development Finance	235,134,234	49	2.2
7	RHB Banking Group	101,495,135	4	0.9
8	RBS	77,507,250	1	0.7
9	AMMB Holdings	58,619,410	11	0.5
10	Cagamas	57,222,638	3	0.5
11	EON Capital	54,332,204	16	0.5
12	Bukhary Capital	48,062,090	3	0.4
13	Affin Holdings	46,364,565	4	0.4
14	OSK Holdings	27,288,766	4	0.3
15	Hong Leong Financial Group	10,922,135	1	0.1
16=	Indo Premier Securities	10,822,500	1	0.1
16=	Standard Chartered	10,822,500	1	0.1
18	Public Bank	7,751,460	2	0.1
19=	Asia Sukses Mandiri Sejati	5,530,950	2	0.1
19=	Bumiputera	5,530,950	2	0.1

SUKUK ISSUERS (12 months) AUG 2009 – AUG 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	13,140,841,600	65	29.9
2	Malaysia (Government)	7,539,741,900	26	17.1
3	Bank Indonesia	3,251,971,238	41	7.4
4	Petronas Global Sukuk	3,000,000,000	2	6.8
5	Perusahaan Penerbit Sbsn Indonesia	2,232,327,003	10	5.1
6	Dubai DOF Sukuk	1,930,587,500	2	4.4
7	Cagamas	1,382,135,130	27	3.1
8	Pengurusan Air SPV	1,173,293,540	5	2.7
9	Khazanah Nasional	1,073,562,800	3	2.4
10	TDIC Sukuk	1,000,000,000	1	2.3
11	Esso Malaysia	675,027,150	10	1.5
12	Danga Capital	621,408,000	1	1.4
13	Sime Darby	594,088,000	3	1.4
14	Syarikat Prasarana Negara	577,872,000	2	1.3
15	Dar Al-Arkan International Sukuk	450,000,000	1	1.0
16	Malakoff	331,466,000	2	0.8
17	Projek Lebuhraya Utara-Selatan	303,767,000	1	0.7
18	MISC	288,936,000	3	0.7
19	Rantau Abang Capital	287,900,000	1	0.7
20	Hytex Integrated	254,937,553	47	0.6

SUKUK ISSUERS (3 months) MAY 2010 - AUG 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	4,723,926,900	25	43.8
2	Malaysia (Government)	2,872,773,300	6	26.7
3	Perusahaan Penerbit SBSN Indonesia	785,281,995	2	7.3
4	Cagamas	322,993,350	4	3.0
5	Projek Lebuhraya Utara-Selatan	303,767,000	1	2.8
6	Pengurusan Air SPV	222,575,500	1	2.1
7	Bank Indonesia	219,557,740	4	2.0
8	Maju Expressway	172,521,800	11	1.6
9	National Bank Of Abu Dhabi	155,014,500	1	1.4
10	Esso Malaysia	140,372,250	3	1.3
11	Hytex Integrated	71,098,468	11	0.7
12	Perusahaan Perseroan (Persero) Perusahaan Listrik Negara	55,309,500	2	0.5
13	Syarikat Borcos Shipping	48,062,090	3	0.4
14	Toyota Capital Malaysia	46,511,700	1	0.4
15	Hubline	46,364,565	4	0.4
16	Mm Vitaoils	41,822,444	15	0.4
17	Citydev Nahdah	35,971,600	1	0.3
18	CJ Capital	35,343,306	10	0.3
19	WCT	31,002,900	1	0.3
20	Weida (M)	29,420,790	8	0.3

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

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ALL DATA AS OF THE 9th AUGUST 2010

LOAN MANDATED LEAD ARRANGERS — AUG 2009 – AUG 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	HSBC	1,949,572,333.40	7,710,789,333.62	6	15.5
2	Samba Financial	1,478,102,891.43	5,805,450,449.66	5	11.7
3	National Commercial Bank	1,333,301,973.74	5,315,853,947.47	4	10.6
4	Credit Agricole Corporate & Investment Bank	1,330,989,113.13	6,638,628,226.26	4	10.6
5	Standard Chartered	1,142,422,170.70	3,733,106,140.19	6	9.1
6	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	8.7
7	Arab Bank	811,700,000.00	4,007,800,000.00	2	6.4
8	Al Rajhi Banking & Investment	774,075,000.00	4,002,800,000.00	2	6.1
9	Saudi Hollandi Bank	380,500,000.00	2,283,000,000.00	1	3.0
10	Alinma Bank	319,485,528.84	1,766,221,057.68	2	2.5
11	WestLB	218,232,314.04	291,161,570.19	3	1.7
12	Bank of China	187,875,000.00	1,503,000,000.00	1	1.5
13	Royal Bank of Scotland	175,000,000.00	525,000,000.00	2	1.4
14	Noor Islamic Bank	159,648,190.00	478,944,570.00	2	1.3
15=	Standard Bank Group	155,000,000.00	775,000,000.00	1	1.2
15=	Gulf Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.2
15=	National Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.2
18	Masraf Al Rayan	126,666,666.67	460,000,000.00	2	1.0
19=	National Bank	99,997,333.40	399,989,333.62	1	0.8
19=	Riyad Bank	99,997,333.40	399,989,333.62	1	0.8
21	Arab Banking	84,648,190.00	253,944,570.00	1	0.7
22	Citigroup	53,000,000.00	53,000,000.00	2	0.4
23	Development Bank of Singapore	51,666,666.67	260,000,000.00	2	0.4
24=	Sumitomo Mitsui Financial	26,666,666.67	160,000,000.00	1	0.2
24=	Malayan Banking	26,666,666.67	160,000,000.00	1	0.2
24=	Bank Islam Malaysia	26,666,666.67	160,000,000.00	1	0.2
27=	Mitsubishi UFJ Financial Group	25,000,000.00	100,000,000.00	1	0.2
27=	CIMB Group Holdings	25,000,000.00	100,000,000.00	1	0.2
27=	Oversea-Chinese Banking	25,000,000.00	100,000,000.00	1	0.2
30=	Kuwait Finance House	18,232,314.04	91,161,570.19	1	0.1
30=	Abu Dhabi Commercial Bank	18,232,314.04	91,161,570.19	1	0.1
30=	Standard Bank	18,232,314.04	91,161,570.19	1	0.1
33=	Al Hilal Bank	14,000,000.00	42,000,000.00	1	0.1
33=	BNP Paribas	14,000,000.00	42,000,000.00	1	0.1
33=	National Bank of Abu Dhabi	14,000,000.00	42,000,000.00	1	0.1

LOAN BOOKRUNNERS — AUG 2009 – AUG 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1=	Credit Agricole Corporate & Investment Bank	1,249,900,000.00	2,499,800,000.00	1	28.3
1=	Al Rajhi Banking & Investment	1,249,900,000.00	2,499,800,000.00	1	28.3
3	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	24.8
4	WestLB	291,161,570.19	291,161,570.19	3	6.6
5=	Noor Islamic Bank	159,648,190.00	478,944,570.00	2	3.6
5=	Standard Chartered	159,648,190.00	478,944,570.00	2	3.6
7	Arab Banking	84,648,190.00	253,944,570.00	1	1.9
8	Royal Bank of Scotland	75,000,000.00	225,000,000.00	1	1.7
9	Citigroup	53,000,000.00	53,000,000.00	2	1.2

ISLAMIC LOANS RAISED (12 Months) — AUG 2009 – AUG 2010

	Borrower	Country	Islamic Loan Amount (US$)
1	Zain KSA	Saudi Arabia	2,499,800,000.00
2	Rabigh Independent Power Project	Saudi Arabia	1,503,000,000.00
3	Qatari Diar Real Estate Investment	Qatar	1,500,000,000.00
4	Saudi Binladen Group	Saudi Arabia	1,266,632,889.79
5	Qatari Diar Real Estate Investment	Qatar	1,098,538,943.20
6	Etihad Etisalat	Saudi Arabia	399,989,333.62
7	Riyadh Independent Power Plant	Saudi Arabia	352,828,226.26
8	Asya Katilim Bankasi AS	Turkey	253,944,570.00
9	Dubai International Capital	UAE	225,000,000.00
10	Qatar Airways	Qatar	160,000,000.00
11	Gulf Finance House	Bahrain	100,000,000.00
12	Olam International	Singapore	100,000,000.00
13	Global Investment House	Kuwait	91,161,570.19
14	Al Jaber Aviation	UAE	42,000,000.00
15	Ozkan Demir Celik Sanayi	Turkey	40,000,000.00
16	Adopen Plastik ve Insaat	Turkey	13,000,000.00

ALL DATA AS OF THE 9th AUGUST 2010

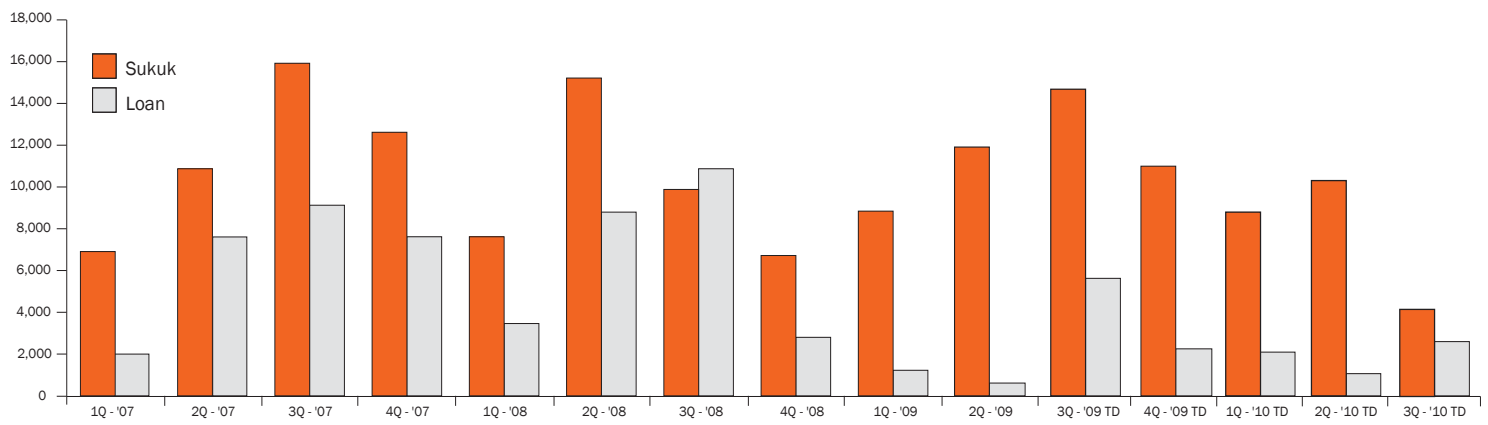
SUKUK BY COUNTRY	(12 Months)	AUG 2009 – AUG 2010
Country	Volume Issued	Volume Outstanding
Malaysia	31,288,753,022	20,868,983,533
Indonesia	5,698,348,259	2,507,770,567
Eurobond	4,430,587,500	4,430,587,500
US	2,075,000,000	2,075,000,000
Saudi Arabia	193,328,500	193,328,500
Pakistan	174,265,020	174,265,020
Singapore	92,728,884	92,728,884
Bahrain	47,436,820	26,521,700
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	AUG 2009 – AUG 2010
Country	Volume (US$)	Market Share (%)
Saudi Arabia	8,568,471,507	68.0
Qatar	3,058,538,943	24.3
UAE	367,000,000	2.9
Turkey	306,944,570	2.4
Singapore	100,000,000	0.8
Bahrain	100,000,000	0.8
Kuwait	91,161,570	0.7

SUKUK BY INDUSTRY	(12 Months)	AUG 2009 – AUG 2010
Industry	Volume Issued	Volume Outstanding
Other Financial	24,181,885,622	15,676,336,728
Sovereign	10,965,978,157	7,775,400,465
Agency	3,413,979,933	3,373,285,553
Manufacturing	2,091,553,819	1,340,886,638
Transportation	1,161,673,755	997,876,415
Energy company	748,170,565	77,485,230
Service company	453,626,747	320,159,268
Banks	435,023,800	435,023,800
Electric power	418,970,597	243,146,597
Consumer goods	108,387,410	108,387,410
Telephone	21,197,600	21,197,600

LOANS BY INDUSTRY	(12 Months)	AUG 2009 – AUG 2010
Industry	Volume (US$)	Market Share(%)
Construction	3,649,632,890	29.0
Telecommunications	2,899,789,334	23.0
Real estate	2,898,538,943	23.0
Utilities	2,119,049,284	16.8
Financial services	670,106,140	5.3
Transportation	160,000,000	1.3
Wholesale	100,000,000	0.8
Aerospace and defense	42,000,000	0.3
General manufacturing	40,000,000	0.3

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



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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
September			
20th – 22nd	Sukuk Asia Forum	Jakarta	IQPC Worldwide
October			
4th – 7th	Islamic Finance World Africa 2010	Johannesburg	Terrappin
6th	IFN Roadshow Saudi Arabia	Saudi Arabia	REDmoney *events*
18th – 22nd	25th East Asian Insurance Congress	Bali, Indonesia	EAIC Organizing Committee
25th – 28th	Global Islamic Finance Forum 2010 (GIFF 2010)	Kuala Lumpur	REDmoney *events*
26th – 28th	IFN *Issuers & Investors* Asia Forum 2010	Kuala Lumpur	REDmoney *events*
November			
9th	IFN Roadshow Canada	Toronto	REDmoney *events*
10th – 11th	Middle East Life & Family Takaful Summit	Dubai	Asia Insurance Review
12th	IFN Roadshow UK	London	REDmoney *events*
22nd – 24th	The World Islamic Banking Conference	Bahrain	MEGA Events
15th	IFN Roadshow France	Paris	REDmoney *events*
December			
1st – 2nd	Annual Conference on Islamic Banking & Finance	Manama	AAOIFI
6th	IFN Roadshow Korea	Seoul	REDmoney *events*
8th	IFN Roadshow Japan	Tokyo	REDmoney *events*
8th – 9th	The Saudi Investor Window 2010	Riyadh	UCI International
13th	IFN Roadshow Brunei	Brunei	REDmoney *events*

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