

# Islamic Finance *news*

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## Unfinished business

Many hypothesize on the untapped potential of Islamic finance. Despite the bright prospects and many inroads made towards building a global Islamic finance structure, there is still far to go.

The London Stock Exchange reports that exchange traded funds is its fastest growing segment that provides a main opportunity for the development of the Islamic finance products at the exchange. Opportunity, which is yet to be taken up.

Our IFN report on Takaful covers the Kenyan Takaful market which has opened up with three new licensed operators. Only one, however, has developed Takaful products, while the remaining two go to market without a product portfolio.

The IMF recently released a report highlighting the key priorities that the global Islamic finance industry needs to address in the aftermath of the global economic crisis. These priorities, it can be argued, have far from reached a point of completion, let alone effective execution. We discuss this in one of our IFN reports.

The issue of Shariah compliance is never without controversy. In another IFN report, we look at how different opinions on the palm oil industry in Malaysia leaves the fate of Bursa Suq Al Sila' as a Shariah compliant commodity trading platform uncertain.

What we can be certain of is that Islamic finance contributes more than US\$20 billion to the Turkish economy. Despite milestones in structured financial transactions, there is still room for Islamic finance growth in the country, based on a Bank Asya report. Turkey's Islamic banking prospects are also

analyzed in another IFN report, where the expansion of Shariah banking in the context of participation banks remain slim.

Though Islamic finance is touted to be a rising competitor in Egypt according to a report by Hegazy & Associates, it would do well for the country to focus on microfinance as a way to swiftly build an Islamic finance market, a move that is yet to be explored.

The Bermuda Stock Exchange (BSE) highlights in a report that Bermuda has made certain bold steps this year towards becoming the offshore jurisdiction of choice for a wider variety of Shariah compliant financial products, except for the fact that none have been listed on the exchange.

Mauritius too, boasts a conducive offshore environment for Islamic finance. However it still needs to create more awareness in terms of knowledge enhancement of local specialists in Islamic finance in a report by HSBC and Apex Fund Services.

Perhaps what is key is the Islamic finance world has yet to agree on formal definitions of the many aspects of Shariah finance, in particular Shariah compliance risk management. Eldred Buck of Eiger Trading Advisors who is this week's Meet the Head believes that the future of Islamic risk management lies in outlining this definition so that Islamic finance structures and products are not benchmarked to its conventional counterparts.

We showcase Malaysian Rating Agency's (MARC) Sukuk rating approach and Amlsamic Bank's US\$967 million Senior Sukuk Musharakah, which was issued in September, is presented in this week's Termsheet. ☺

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## NEWS

- **Al-Arabiya Al-Wataniya** signs deal for nine-year financing
- Egypt to issue Islamic debt guidelines in 2011
- **Gulf Finance House** launches offshore financial centre in Tunisia
- **World Bank** and **IDB** to unveil US\$1 billion MENA infrastructure fund
- **IFSB** to establish Islamic liquidity management firm in Malaysia
- **Bank Negara Malaysia** and **Banque de France** sign an MoU
- Malaysia's ten-year plan to boost local Sukuk market in 2011
- **Bank Rakyat** to disburse over US\$322.4 million financing in Islamic pawn broking
- **Maybank Singapore** unveils new Islamic banking window
- **KFH-Malaysia** provides **Western Union** Money Transfer service
- Islamic finance is one of three sectors to spur Labuan's economy
- **RHB Islamic Bank** launches Commodity Murabahah Deposit-I
- Indonesia's finance ministry raises US\$224 million non-tradable Sukuk
- **Assosiasi Bank Syariah se-Indonesia** urges understanding of Shariah
- Law firms **Duane Morris** and **Arfat Selvam Alliance** JV approved
- **Citibank** accepts **BankIslami's** offer for US\$12.8 million housing financing
- Muslim entrepreneurs in Ireland seek Islamic finance products
- Global Islamic finance industry over-reliant on scholars
- Study shows 54% cannot distinguish Islamic and conventional banking
- Strengthen Islamic finance industry, says **Bank Negara Malaysia**
- **HSBC** aims to launch Shariah compliant ETFs in the Gulf
- Fragile recovery for Gulf Sukuk market expected
- Demand for Islamic finance outweighs supply, says **Qatar First Investment Bank**
- Centralized Gulf Shariah council unlikely to form before 2013, says **AAOIFI**

- Global Islamic bond issuance promotes Sukuk fund growth, according to **S&P**
- Gulf corporate bond market expected to recover, said **Algebra Capital**
- **Tamweel** to chart third quarter earnings similar to first and second quarter
- **Islamic Development Bank** approves US\$772.3 million financing
- Bahrain's status as Islamic finance hub increases fund management prospects
- **Bahrain Association of Banks** publishes handbook on Islamic banking and finance
- **Tamweel's** merger with **Amlak** unlikely
- **Central Bank of the UAE** plans to issue new rules
- **Abu Dhabi Islamic Bank** hires three banks to facilitate sale of its US\$5 billion Sukuk
- UAE's central bank to issue first Commodity Murabahah certificate by year end
- **Qatar Financial Centre's** tax regime to promote it as Middle East financial hub
- **Herbert Smith** is advisor for **Qatar Islamic Bank's** US\$750 million Sukuk
- **Masraf Al Rayan** introduces phone banking and call centre
- **Mashreq Al Islami** launches debit card services
- **MIFC** holds talks with Saudi Arabia to boost Islamic finance ties
- **Saudi Aramco, Total** to raise US\$1 billion via Sukuk to finance Jubail refinery

## TAKAFUL

- Three Takaful firms establish operations in Kenya
- **Pak-Qatar Family Takaful** expansion plans put on hold
- International insurers in the Gulf need to tap into Takaful market

## RATINGS

- **Pemeringkat Efek Indonesia** upgrades outlook of **Indosat** to stable

from negative

- **Fitch** affirms **Petroliam Nasional's** long term foreign and local currency issuer default ratings at 'A'
- **RAM** reaffirms the respective long- and short-term financial institution ratings of **Deutsche Bank (Malaysia)** at 'AA1' and 'P1'
- **RAM** reaffirms 'AAA' rating of **Danga Capital's** Musharakah based US\$2.88 billion Islamic securities
- **RAM** assigns the preliminary ratings of 'AA3' and 'P1' for **Gamuda's** proposed Islamic notes
- **RAM** reaffirmed 'AA3' rating of **Kesas' US\$257.3 million Bai Bithaman Ajil** Islamic debt securities
- **RAM** reaffirmed 'AAA'/'P1' ratings of **Rantau Abang Capital's** US\$934 million Islamic commercial papers/medium term notes program
- **S&P** assigns 'A-/A-2' rating to **Ahli United Bank** for its US\$2.8 billion medium term note program
- **S&P** downgrades **First Takaful Insurance Company's** counterparty credit and insurer financial strength ratings to 'BB+' from 'BBB'
- **Moody's** assigns its first investment manager quality rating in the Middle East of 'MQ2' to **Jadwa Asset Management**

## MOVES

- **Edward King** is **Barclays Capital's** managing director for Asia Pacific
- **National Bank of Abu Dhabi** appoints two trade finance managers for UK and Paris branches
- **UBS** appoints **Andrew Quesy** to its macro directional trading team
- **The Royal Bank of Scotland** appoints **Damien Teisseire** as group head of reward for global banking markets
- **Sandra Lee** will join **iShares** as Asia Pacific head of sales in Hong Kong
- **Bank of America Merrill Lynch** hires **Zhang Xiuping** as co-head of Asia mergers and acquisitions in Hong Kong
- **Bruno Merlino** is **RBS Coutts** team leader for Indonesia
- **Qatar Islamic Bank** appoints **Ahmad Meshari** as acting CEO

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## AFRICA

### Cement plan financing

**EGYPT:** Al-Arabiya Al-Wataniya, the cement unit division of Citadel Capital has signed a US\$193.2 million nine-year financing deal with seven banks.

Arab African International Bank, the main financier of this deal is providing US\$54.8 million. The balance of the financing involves Bank of Alexandria, Bank Audi, National Bank of Greece, Faisal Islamic Bank and two others.

The financing will be channeled to build a 1.6 million tonne cement plant in Egypt. (2)

### Sukuk guidelines in 2011

**EGYPT:** The country will issue its first Islamic debt guidelines in 2011 to fuel Sukuk sales and encourage growth.

Ziad Bahaa El-Din, chairman of the Cairo based Egyptian Financial Supervisory Authority said the move is also to help companies intending to issue Islamic bonds in the country. (2)

### North African offshore centre

**TUNISIA:** Gulf Finance House (GFH) and Tunisia have launched the first offshore financial centre in North Africa worth US\$3 billion as part of Tunis Financial Harbor.

Tunis Financial Harbor will offer a link between the US\$15 billion European Union trade, Tunisia's economy and the North African and sub-Saharan economies, according to GFH.

The harbor development expects to create 16,000 jobs for the Tunisian economy. (2)

## AMERICAS

### MENA's infrastructure fund

**US:** The World Bank and Islamic Development Bank are planning to launch a US\$1 billion MENA fund to support both Shariah compliant and conventional investment to reduce the infrastructure gap in the MENA region.

Robert B Zoellick, president of the World Bank Group said this effort will include technical assistance to help governments

deal with legal, policy and institutional constraints to public-private-partnerships and develop cross-border infrastructure projects.

He added that this initiative will boost new flows of private sector investment to help countries like Egypt, Morocco, Jordan and Tunisia accelerate infrastructure projects that will drive competition and increase job opportunities. (2)

### Islamic liquidity management

**US:** The Islamic Financial Services Board (IFSB) plans to establish the International

Islamic Liquidity Management Corporation (IILM) in Malaysia on the 25<sup>th</sup> October to help Islamic banks manage funds by issuing short term products.

IILM is planning to sell the first global Shariah compliant money-market securities in 2011, which will provide Islamic banks opportunities to invest in reserves and boost profits.

IFSB facilitated the memorandum signing to set up IILM on the sidelines of the IMF/World Bank annual meeting held in Washington DC last week. (2)

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## SHARIAH. TAKAFUL. SUKUK. IJARA.

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Long before other jurisdictions understood Islamic finance, Labuan International Business and Financial Centre was already highly conversant with such intricate terms and complex structures.

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Close to USD16 billion worth of issuances, including sukuk, have been issued through us and 17 private Islamic funds worth USD3 billion established. Leasing assets have grown to USD17 billion and retakaful business premiums increased to USD117 million. In 2008, Dar al-Arkan of Saudi Arabia listed a USD1 billion sukuk on the Labuan International Financial Exchange.

As business relations with Islamic trade partners continue to grow at an astonishing pace, we work closely with the Malaysia International Islamic Financial Centre and our own Shariah Advisory Council to further facilitate endorsements.

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International Business and Financial Centre, Malaysia

## Financial ties booster

**US:** Bank Negara Malaysia and Banque de France have signed an MoU to boost cooperation in the area of conventional and Islamic financial services between the two central banks.

The MoU was signed during the IMF World Bank annual meeting in Washington DC this week.

Through the agreement, both parties will be able to facilitate and promote the development of an effective financial market infrastructure via knowledge and human resource efforts in the two financial services sector. (F)

## ASIA

### Sukuk gets a hand

**MALAYSIA:** The 28% slowdown in ringgit-denominated Sukuk this year may receive a boost in 2011 from Malaysia's 10-year development plan, as the private sector turns to the local Sukuk market to finance their infrastructure projects.

According to RAM Rating Services (RAM) and Malaysian Rating Corporation, a total of US\$444 billion worth of private industry-led projects have been identified, which includes developing the local nuclear energy industry and mass rail network project.

Liza Mohd Noor, CEO of RAM said that these projects will benefit new Sukuk issuances in Malaysia. (F)

### High growth for pawn broking

**MALAYSIA:** Bank Kerjasama Rakyat Malaysia expects to give out over RM1 billion (US\$322.4 million) worth of financing under the Ar-Rahnu or Islamic pawn broking business this year.

Financing disbursements from January to September this year was registered at RM849 million (US\$273.8 million) while the Ar-Rahnu financing balance was RM1.02 billion (US\$328.9 million) up until August 2010. (F)

### New Islamic window

**SINGAPORE:** Maybank Singapore has launched a new Islamic banking window at its Geylang Serai branch.

The branch will now offer online checking and savings accounts as well as an Islamic financing package for small and medium enterprises.

Abdul Wahid Omar, president and CEO of Maybank said the Islamic banking window was set up in Geylang Serai where a majority of the Malay Muslim community in Singapore resides. (F)

### Money transfer service

**MALAYSIA:** Kuwait Finance House Malaysia (KFH-Malaysia) has signed an agreement with Western Union, a global payment services provider, to offer the Western Union Money Transfer service in Malaysia.

The service allows the bank's customers to transfer money to more than 380,000 Western Union agent locations in 200 countries.

"The partnership will enable us to reach out to the Western Union's extensive global network and strengthen our presence internationally," said Jamelah Jamaluddin, CEO of KFH-Malaysia. (F)

### Growth for Labuan

**MALAYSIA:** International Islamic finance has been identified as one of the three sectors to boost Labuan's economy, said Raja Nong Chik Raja Zainal Abidin, Federal Territories and urban wellbeing minister.

Raja Nong added that financial allocations to develop these sectors will be revealed during the country's 2011 budget announcement on the 15<sup>th</sup> October.

He also said that aggressive efforts and promotions will continue to establish Labuan as an international Islamic financial center in the region. (F)

### New fixed deposit product

**MALAYSIA:** RHB Islamic Bank has introduced a fixed deposit product called Commodity Murabahah Deposit-i (CMD-i) which allows customers to earn instant profit upon signing.

CMD-i which is based on the concept of Murabahah Tawarruq will see customers' deposits invested in the buying and selling of commodities by the bank, according to Zulkhairi Zabiri, head of RHB Islamic retail banking. (F)

## Islamic Finance news



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## Private placement Sukuk sold

**INDONESIA:** The finance ministry has sold IDR2 trillion (US\$224 million) of non-tradable Sukuk via private placement to the Haj Fund, owned by the ministry of religious affairs.

The Islamic bonds come with a 7.13% yield. (f)

## Shariah values pertinent

**INDONESIA:** Indonesia's Islamic banking industry is facing challenges in dealing with conversion into Islamic banks from conventional ones, and ensuring that bankers fully understand Shariah values.

Ahmad Riawan Amin, chairman of Asosiasi Bank Syariah se-Indonesia stressed the importance of developing the country's human resource in Islamic banking as it is lagging behind the growth of the industry. (f)

## Legal joint venture

**SINGAPORE:** US based legal firm Duane Morris and Arfat Selvam Alliance have received the government's approval to establish a joint venture (JV) in Singapore.

According to Duane Morris, the decision is attributed to the increasing transactional volumes in Southeast Asia and growth potential in Islamic finance.

Arfat Selvam Alliance is a Singapore based boutique corporate and financial services law firm which provides Islamic finance advisory services. (f)

## Portfolio purchase offer

**PAKISTAN:** Citibank has accepted BankIslami's offer for the acquisition of its housing financing portfolio worth PKR1.1 billion (US\$12.8 million).

According to BankIslami, it is now waiting for the State Bank of Pakistan's approval for the acquisition. (f)

## EUROPE

### Irish Shariah financing

**IRELAND:** Muslim entrepreneurs in Ireland need access to Shariah compliant financial facilities to expand their business.

According to research by Thomas Cooney, academic director of DIT Institute for Minority

Entrepreneurship, a total of 76% of the Muslim business community in Ireland believe securing finance is their biggest problem.

Cooney added that 90% of these respondents stressed the need for a law to govern Shariah compliant financial products in Ireland. (f)

## GLOBAL

### Reliance on too few scholars

**GLOBAL:** The Islamic finance industry does not lack qualified Shariah scholars to meet demand, instead it relies too heavily on a small number of scholars, which in turn limits growth and raises regulatory issues.

There are more than 300 scholars who sit on Shariah boards. However, only 20 scholars appear on 54% of such boards, according to Murat Unal, CEO of Funds@Work, a consultancy firm.

Murat also said that there is an 80% probability that senior Islamic scholars will sit together on the same boards, preventing junior scholars or lesser known scholars from participating in the industry.

Financial institutions need to appoint lesser known scholars to propel growth of the industry, he added. (f)

### Study on banking services

**GLOBAL:** A research study shows that 54% of bank consumers cannot tell the difference between Islamic and conventional banks as they both offer similar products and services.

The study was conducted by research and consulting organization YouGovSiraj. (f)

### Global financial stability

**GLOBAL:** Efforts to strengthen the Islamic finance industry will enhance global financial growth and promote its stability, according to Muhammad Ibrahim, deputy governor of Bank Negara Malaysia, the country's central bank.

Muhammad added that elements of Islamic finance lend strength to the industry's soundness and stability, and address governance issues that the conventional finance system faced in the recent economic crisis. (f)

## Shariah ETFs

**GLOBAL:** HSBC is planning to launch its Shariah compliant exchange traded funds (ETFs) at the end of 2010 in the Persian Gulf.

Razi Fakhri, deputy CEO of HSBC Amanah in Dubai, said these ETFs will give overseas investors wider access to the region's markets.

According to EPFR Global, ETFs may assist local markets to attract a total of US\$49.4 billion that was injected into the emerging stockmarkets this year. (f)

## Gulf Sukuk market recovers

**GLOBAL:** Market experts said that the Gulf Islamic bond market is set to recover following the presence of large corporate and supra-national issues in the market. The recovery is expected to be fragile due to investors' fears.

Rizwan Kanji, senior debt capital markets lawyer at Norton Rose (Dubai) commented that there is a good amount of Sukuk activity in the pipeline and market movement is back to what it was before 2009. (f)

## Demand tops supply

**GLOBAL:** Demand for Islamic financial services exceeds the supply as the Muslim population in Europe and North Africa increases, according to Mike de Graffenried, CEO of Qatar First Investment Bank.

"The more profound demand is for retail finance and home financing," said de Graffenried.

He added that as long as Gulf countries develop excess capital, western governments will need to borrow in a Shariah compliant manner, through Sukuk. (f)

## Centralized Shariah council

**GLOBAL:** The formation of a centralized Shariah council in the Gulf that sets industry rules instead of just issuing guidelines is unlikely to form before 2013, according to Khairul Nizam, assistant secretary general of AAOIFI.

However, Khairul said that such a council will help the Islamic finance industry as it can make AAOIFI standards mandatory as AAOIFI standards are considered guidelines and not industry rules. (f)

## Sukuk growth

**GLOBAL:** The expansion in global Islamic bond issuance offers Sukuk funds an opportunity to grow, according to Standard & Poor's Ratings Services (S&P).

S&P reported that the global Sukuk issuance reached US\$13.7 billion during the first half of 2010, nearly twice the US\$7.1 billion recorded in the same period last year.

S&P attributed this increase to the improvement in global market conditions since the economic slowdown in 2008. (F)

## Bond markets to recover

**GLOBAL:** Corporate bond markets in the Gulf Arab region are expected to recover in the coming months, following the first sovereign bond issuance worth US\$1.25 billion by Dubai.

Mohieddine Kronfol, managing director at Dubai based Algebra Capital said he expected bond issues from energy producers Saudi Arabia and Qatar to lead the recovery.

In Saudi Arabia, the Islamic Development Bank is planning to issue a US\$3.5 billion Sukuk, while Arab Petroleum Investments Corporation intends to sell a conventional bond. Qatar Telecom is also expected to issue a US\$500 million bond. (F)

## MIDDLE EAST

### Similar profit earnings

**UAE:** Islamic mortgage provider Tamweel expects to record a third quarter profit similar to its first and second quarter results in 2010, as it prepares to issue new mortgages in two months, said Sheikh Khaled Zayed Al Nahayan, its chairman.

Tamweel made a first quarter net profit of AED5.1 million (US\$1.39 million) this year, while it achieved an AED5.4 million (US\$1.5 million) in the second quarter net profit.

Sheikh Khaled said this figure is achievable as the company took sufficient provisions in 2009, which enabled it to translate its revenues into profits in the third quarter of 2010. (F)

### US\$772.3 million financing

**SAUDI ARABIA:** The Islamic Development Bank (IDB) has approved financing of US\$772.3 million for new development projects to be channeled to nine of its member countries.

The nine member countries — Albania, Bangladesh, Gambia, Indonesia, Mauritania,

*continued...*



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GIFF 2010 is a high-level multi-track event that brings together regulators, scholars and financial industry players who are key drivers in shaping Islamic finance globally. This event is organised in collaboration with the Association of Islamic Banking Institutions Malaysia (AIBIM), Malaysian Takaful Association (MTA), the International Shariah Research Academy for Islamic Finance (ISRA) and the REDmoney Group.

GIFF 2010 is organised in support of the Malaysia International Islamic Financial Centre (MIFC) initiative to develop Malaysia as a hub for international Islamic finance.

GIFF 2010 is a platform for regulators, Shariah scholars, renowned industry leaders and financial market participants from across the globe to discuss and exchange views and insights on the growth potential and opportunities in the internationalization of Islamic finance.

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continued...

Pakistan, Sudan, Turkmenistan and Uzbekistan will receive funds for a variety of projects.

IDB will also channel financing to non-member countries like Congo, Fiji, India and South Africa for community health and educational projects. (f)

### Bright prospects for funds

**BAHRAIN:** The fund management industry has a bright future in Bahrain backed by its wide range of funds, favorable regulatory environment, highly skilled workforce and status as an international hub of Islamic finance.

According to Sheikh Mohammed Essa Al Khalifa, chief executive of the Bahrain Economic Development Board, the country's diversified economy and risk-averse approach made it less vulnerable to market shocks.

This further contributed to an increase in domestic GDP of over 3% in 2009, and an anticipated GDP increase of 4.5% in 2010. (f)

### New handbook

**BAHRAIN:** Bahrain Association of Banks has published the world's first pocket-sized handbook on Islamic banking and finance.

The handbook, which was launched at the IMF/World Bank meeting in Washington DC last week, covers topics on retail and commercial banking, capital markets, asset management, Islamic insurance and governance, and regulation. (f)

### Merger unlikely

**UAE:** Islamic mortgage firm Tamweel's merger with Amlak is unlikely, according to Sheikh Khaled Zayed al-Nehayan, chairman of Tamweel.

"The biggest shareholder in Tamweel is Dubai Islamic Bank (DIB). There are no longer any thoughts on a merger, at least not at the present moment," he said.

Sheikh Khaled added that DIB will inject financing into Tamweel if the financier wants the firm to expand its real estate business. (f)

## IFN 2010 Issuers & Investors ASIA FORUM

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## Circular for new rules

**UAE:** Central Bank of the UAE is planning to issue a circular by this year on new rules for personal loans and services for local banks, conventional and Islamic finance firms.

This includes loans for automobile, home and credit cards, said Saif Al Shamsi, director of treasury department at the central bank.

The new system will monitor the provision of loan and credit cards and explain the rules on repayment periods. <sup>(f)</sup>

## ADIB Sukuk managers

**UAE:** Abu Dhabi Islamic Bank (ADIB) has hired HSBC, Standard Chartered (StanChart) and Barclays to facilitate sales of its US\$5 billion Sukuk trust certificate program.

HSBC is the underwriter for the Sukuk, while StanChart and Barclays will manage the sale. <sup>(f)</sup>

## First Shariah CDs

**UAE:** Central Bank of the UAE will issue its first Commodity Murabahah based certificate of deposit (CDs) by the end of 2010 to allow Islamic banks to have more investment options, said Afaq Khan, CEO of Standard Chartered Saadiq.

The new Islamic CDs will be offered via daily auctions.

This move will also enhance the liquidity management for these banks, as using

conventional CDs is against Shariah principles. <sup>(f)</sup>

## Tax regime promotes Qatar

**QATAR:** Qatar Financial Centre's (QFC) new tax regime, levying a flat 10% on profits is progressive, well-drafted and will promote the country as a location for financial services companies in the Middle East, according to Finbarr Sexton, senior partner at Ernst & Young.

The QFC new tax law will see the establishment of a standalone QFC tax department separate from the state tax department and allow companies to benefit under Qatar's double-taxation avoidance treaty, added Sexton. <sup>(f)</sup>

## Herbert Smith advises bank

**QATAR:** Qatar Islamic Bank has appointed law firm Herbert Smith as advisor on its US\$750 million Sukuk issuance.

The inaugural dollar-denominated Sukuk which is also the first to be issued in Qatar carries a coupon rate of 3.856%. <sup>(f)</sup>

## Upgrading services

**QATAR:** Masraf Al Rayan has launched phone banking services and a new call centre as a move to upgrade its services.

The phone banking service will allow its customers to make utility and credit card payments in addition to the standard banking transactions, according to Khaled

Ramadan, a senior official at Masraf Al Rayan. <sup>(f)</sup>

## Mashreq offers debit card

**UAE:** Mashreq Al Islami has launched the Mashreq Al Islami Debit Card. The card will give its holders access to over 3,900 ATMs in the UAE and over 1.76 million ATMs around the world. <sup>(f)</sup>

## Boosting relations

**SAUDI ARABIA:** A Malaysia International Islamic Finance Centre (MIFC) delegation, led by Raja Nazrin Shah, its financial ambassador, held discussions last week with Saudi Arabia to boost Islamic finance relations.

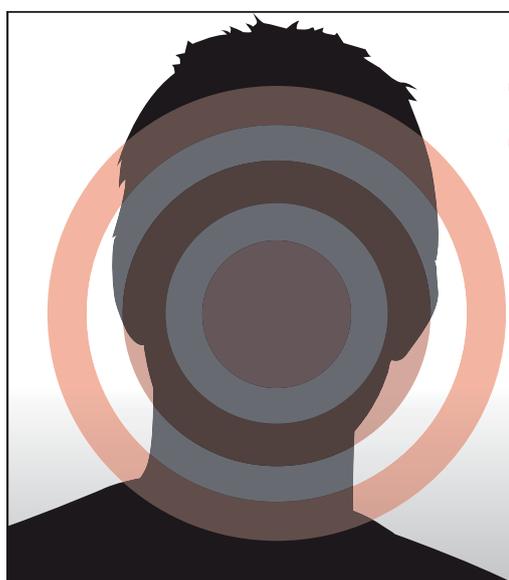
The discussion focused on Saudi Arabia's investment opportunities in Malaysia's Islamic finance industry. <sup>(f)</sup>

## Sukuk financing for oil

**SAUDI ARABIA:** Saudi Aramco and Total are planning to sell a US\$1 billion Sukuk by year end to fund the construction of their joint Jubail refinery, said Simon Eedle, global head of Islamic banking at Credit Agricole.

Credit Agricole, Deutsche Bank and Samba Financial Group are the lead arrangers for the Sukuk.

Eedle added that Credit Agricole is expecting to close two or three Islamic bond deals in the next six months worth up to US\$3 billion. <sup>(f)</sup>



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## AFRICA

### New Takaful firms

**KENYA:** Three new Takaful firms were established in Kenya last week — Gulf Takaful Company, FCB Takaful and Takaful Insurance Agency.

Gulf Takaful Company, the subsidiary of GulfCap Investments, is expected to begin its operations in the first quarter of 2011, with a capital of KES1 billion (US\$12.4 million).

FCB Takaful, a subsidiary of First Community Bank plans to introduce other Shariah compliant insurance products in the future aside from home and motor vehicle Takaful, according to Nathif Adam, managing director of FCB.

Takaful Insurance Agency is a newly formed local Takaful company. ☺

(More in IFN Report on page 11)

## ASIA

### Plans delayed

**PAKISTAN:** Pak-Qatar Family Takaful's (Pak-Qatar) interest to expand in Pakistan has been put on hold due to the country's economic and political instability.

The Takaful industry is facing challenging times in Pakistan because Family Takaful requires a long term investment and the current situation in the country does not allow investors to make such commitments, according to Pervaiz Ahmed, CEO of Pak-Qatar. ☺

## GLOBAL

### Tapping into Takaful

**GLOBAL:** International insurers in the Gulf need to tap into the global Takaful market or pose risk to their businesses, according to analysts.

The insurance market rate penetration in the Gulf is only 1% of the total GDP.

The Takaful market in the Gulf is expected to grow as much as 15% annually in the next five years and exceed US\$7 billion in premium income. ☺

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## ASIA

### Better performance



**INDONESIA:** Local rating agency Perneringkat Efek Indonesia has upgraded the outlook of telecommunication provider Indosat to stable from negative.

The hike is based on the recovery of the subscribers and cellular revenue growths and Indosat's steadier financial background.

The move is also applied to the firm's conventional bonds worth IDR6.6 trillion (US\$739.6 million) and Islamic bonds of IDR1.5 trillion (US\$168 million).<sup>(f)</sup>

### Stable outlook



**MALAYSIA:** Fitch Ratings (Fitch) has affirmed Petrolim Nasional's (Petronas) long term

foreign and local currency issuer default ratings (IDRs) at 'A' and its short term foreign currency IDR at 'F1'. The outlook is stable.

Simultaneously, Fitch has affirmed Petronas' foreign currency senior unsecured rating at 'A' and Petronas Global Sukuk Trust Certificates at 'A'.

The move is based on Petronas' exclusive rights to Malaysian oil and gas reserves, strong operating performance, cash position and its vertically integrated position.<sup>(f)</sup>

### On the right track



**MALAYSIA:** RAM Rating Services has reaffirmed the respective long- and short-term financial institution

ratings of Deutsche Bank (Malaysia) at 'AA1' and 'P1'. The long term rating has a stable outlook.

The move is based on the bank's solid market position in the wholesale banking sector and its ability to leverage on its parent's franchise, network and technical knowledge.<sup>(f)</sup>

### Sound position



**MALAYSIA:** RAM Rating Services (RAM) has reaffirmed 'AAA' rating of Danga Capital's

Musharakah based RM10 billion (US\$2.88 billion) Islamic multi-currency securities program.

Danga Capital is a special purpose vehicle for Khazanah Nasional's Sukuk.

According to RAM, the ratings of the Islamic securities are attributed to the credit strength of Khazanah Nasional as the purchase undertaking obligor.<sup>(f)</sup>

### Positive start



**MALAYSIA:** RAM Rating Services (RAM) has assigned the preliminary ratings of 'AA3' and 'P1' for Gamuda's proposed RM800 million (US\$223 million)

Islamic medium term notes program and RM100 million (US\$29 million) Islamic commercial papers program. The long term rating has a stable outlook.

Gamuda is a local construction based company.

The ratings are based on Gamuda's reputation within the local and overseas construction industries.<sup>(f)</sup>

### Stellar showing



**MALAYSIA:** RAM Rating Services has reaffirmed the 'AA3' rating of Kesas' RM800 million (US\$257.3

million) Bai Bithaman Ajil Islamic debt securities. The long term rating has a stable outlook.

Kesas is the operator of the Shah Alam Expressway (SAE).

The move is supported by SAE's strong traffic-volume growth.<sup>(f)</sup>

### Outstanding performer



**MALAYSIA:** RAM Rating Services (RAM) has reaffirmed the 'AAA'/'P1' ratings of Rantau Abang

Capital's RM3 billion (US\$934 million) based Islamic commercial papers/medium term notes program.

Simultaneously, RAM has also reaffirmed the 'AAA' rating of its RM7 billion (US\$2.3 billion) Islamic medium term notes program. Both long term ratings have a stable outlook.

Rantau Abang Capital is the special purpose vehicle for government investment arm Khazanah Nasional for this Sukuk.

The move is based on the Khazanah's credit strength as the purchase undertaking obligor.<sup>(f)</sup>

## MIDDLE EAST

### Bank's MTN gets 'A-/A-2'



**BAHRAIN:** Standard & Poor's Ratings Services (S&P) has assigned Ahli United Bank (AUB)'A-/A-2' rating for its

long- and short-term senior unsecured EUR2 billion (US\$2.8 billion) medium term note program.

S&P said that the ratings are equivalent to AUB counterparty credit rating and reflect the notes' equal rank to AUB's other senior unsecured debt.<sup>(f)</sup>

### Moving down



**KUWAIT:** Standard & Poor's Ratings Services (S&P) has downgraded First Takaful Insurance Company's counterparty credit and insurer financial strength ratings to 'BB+' from 'BBB'.

Simultaneously, the ratings were removed from CreditWatch, where they were initially placed with negative implications on the 12<sup>th</sup> May 2010. The outlook is stable.

The move is based on the Takaful firm's weak financial and business profile.<sup>(f)</sup>

### First manager quality rating



**SAUDI ARABIA:** Moody's Investors Service (Moody's) assigned an investment manager quality (MQ) rating of 'MQ2' to Jadwa

Asset Management, a division of Jadwa Investment. The rating is the first MQ rating in the Middle East.

The rating is based on the firm's good investment management capabilities, financial profile and investment performance.

However, the rating also highlights the firm's limited operating history, exposure to key risk and potential challenges in managing growth.<sup>(f)</sup>

## Less opportunity for new players

The participation banking industry in Turkey has been able to maintain continuous growth since the 2001 crisis. In 2009, the sector's year-on-year growth was 30.5%, compared to an overall banking sector growth of 13.1%. However, the growth of participation banking looks to be confined within the existing four participation banks, and there seems little future for a fifth bank.

During the first six months of 2010, the participation banks' share of assets stood at 4.07% reaching TRY37 billion (US\$26.2 billion). This is a slight increase from 4.03% the year before which indicates that although the sector is experiencing growth, the market for participation banking remains relatively static.

Tulin Cevizci, partner at Turkish law firm Mikron Training and Consulting Co said there is no potential for new participation banks. Cevizci believes that the current participation banks are trying to win over and convert conventional retail banking customers with their own Shariah compliant banking structures.

Paul Wouters, a counsel at Bener Law Office (Turkey) told *Islamic Finance news* that there was an interested fifth player last year of GCC origin, which was looking at entering the participation banking industry in Turkey. However, the initiative has since been shelved.

Wouter believes that the existing four Islamic banking institutions — Albaraka Turk, Bank Asya, Kuveyt Turk, and Turkiye Finans are performing well and are growing to be relevant in the domestic and international market. Out of the four participation banks in Turkey, Bank Asya is the largest and the only wholly Turkish owned participation bank.

During the first six months of 2010, Bank Asya reported a net profit of TRY123 million (US\$87 million), which is an indication that Shariah compliant banking products do have some recognition despite government secularism. The other three are subsidiaries of Islamic banks.

However, the establishment of the proposed Istanbul International Financial Center should increase participation banking assets to 12% to 15% provided the market is open to foreign Islamic bank and Shariah compliant banking windows, according to Wouters.

Aydin Yabanli, operations executive of Participation Banks Association of Turkey stated that if adequate support is extended by the government, the participation banks will cater to a wider audience in the country who prefers better banking solutions. He believes that the minimum capital requirement of TRY30 billion (US\$21.2 billion) is high for a new entrant to the Turkish banking sector and it discourages the participation banking industry from expanding throughout the country.

However, he agrees that participation banks were instrumental to a certain extent to mobilize some of the idle funds into the banking system in Turkey, funding the commercial and the industrial sectors with lower and competitive financing. <sup>(2)</sup>

## IMF provides guidance for Islamic banking

The International Monetary Fund (IMF) last month published a working paper titled 'The effects of the global crisis on Islamic and conventional banks: a comparative study', examining the elasticity of Islamic banks during the financial crisis in contrast to conventional banks. The report

suggests some key priorities which the industry needs to focus on to avoid future crises and maintain sustainable growth.

The co-authors of this report, Jemma Dridi, an economist with the IMF Middle East and Central Asia department and Maher Hasan, deputy division chief of the IMF capital market department, describe several important challenges for the Islamic banking industry.

Among the key regulatory and supervisory challenges revealed are building a well-functioning infrastructure for liquidity management; aligning reform efforts with the global financial regulatory restructuring agenda; harmonizing regulations and products to foster the efficient and sustainable growth of the Islamic banking industry; and ensuring the supervisory and legal infrastructure for bank resolution, which remain relevant in the rapidly changing Islamic financial landscape.

The IMF analysis confirms that the Islamic banking industry, which is systemically important to some countries and too big to be ignored, fared differently compared with conventional banks during the financial crisis.

This is due to the Islamic finance business model that includes smaller investment portfolios, lower leverage, and adherence to Shariah principles which are not available in conventional banks. Larger Islamic banks fared better than smaller ones due to better diversification, economies of scale, and stronger reputation.

However, although the factors related to Islamic banking helped to maintain some profitability in 2008, the weaknesses in risk management practices in some Shariah compliant banks have led to a large decline in profitability compared to conventional banks in 2009.

Mahin Dissanayake, associate director for the Middle East financial institutions of Fitch Ratings (Dubai) confirmed with *Islamic Finance news* that Islamic banks were the better performers during the financial crisis.

With regards to the IMF report, Dissanayake said he believes in a "one regulator per country" concept, which gives the necessary power to each central bank to govern Islamic financial institutions within their borders. Dissanayake also pointed out that the Dubai crisis and some defaults have created doubts about Islamic banks in the minds of Shariah compliant investors as well as the customers.

In response to *Islamic Finance news*, Badliyah Abdul Ghani, CEO of CIMB Islamic said that Islamic banking will continue to be resilient provided industry stakeholders practice what is in Shariah laws until such time as "somebody abuses the Shariah compliant banking system". <sup>(3)</sup>

## Takaful companies to tap growth potential

Kenya is the latest entrant to the Takaful industry in the Sub-Saharan Africa.

The Insurance Regulatory Authority of Kenya (IRA Kenya) last month issued licences to three Takaful firms — Takaful Insurance of Africa (TIA), FCB Takaful Insurance Agency (FCB Takaful) and Gulf Takaful Company. With the regulatory guidelines in place, recipients are eager to capture a bigger market share within a short period of time.

*continued...*

Although the regulatory recognition was received last month, FCB Takaful was formed in the latter part of 2009 on a small scale. It is the insurance arm of First Commercial Bank, which is the first fully fledged Islamic bank in Kenya. Since its inception last year, FCB Takaful has provided bank assurance solutions, product partnerships and underwriting activities based on a provisional letter issued by IRA Kenya, and will continue to do so.

Sherry Okuku, customer service advisor of FCB Takaful in a discussion with *Islamic Finance news* stated that the regulatory approval will enhance the company's ability to penetrate the Kenyan market with Takaful products. Okuku trusts that FCB Takaful has no competitors because other Takaful firms may have licenses but no products as yet. She believes FCB Takaful could easily spread its services throughout the country within the next few years.

The sudden enthusiasm for Takaful in Kenya is a direct result of Islamic banking which was established in 2007. Although the Shariah compliant financial industry is still in its infancy, the country's two Islamic banks, First Community Bank and Gulf African Bank, registered a combined asset base of US\$200 million and a market share of 1% in 2009 after two years of operations.

The Kenyan government is said to be keen to develop the nation as the first in East and Central Africa to offer Shariah compliant financial solutions. However, by the end of 2008 there were 42 licenced insurance companies, 141 approved insurance brokers, and 19 medical insurance providers.

Hassan Omar Sheikh, a consultant for TIA said to *Islamic Finance news* that Takaful will have better recognition and competitive advantage over conventional insurance service providers once their product promotion program begins in a few months. He predicts that at least one million Kenyans will participate in Takaful in the coming year. Currently, TIA does not have a Takaful product portfolio.

According to Hassan Omar, there are 20 general insurance providers and these companies dominated 65% market share in 2007. The gross premium written was reported as US\$735 million in 2008, an increase of 14.8% compared with US\$641.2 million in 2007.

During the period in focus, the general insurance premium increased by 12% and the Life insurance premium and contributions from deposit administration business grew the Life insurance business by 20.9% providing a market that could easily be converted by Takaful products and services, he added.

The other Takaful license holder, Gulf Takaful Company, was established in October 2010 with a capital base of KES1 billion (US\$12.4 million). It is operated by GulfCap Investment, which is the main shareholder of Gulf African Bank.

Kenya has an estimated 4 million Muslim population, approximately 10% of its 40 million people. <sup>(2)</sup>

## Shariah compliancy of the palm oil industry

Malaysia and Indonesia are jointly responsible for more than 80% of global palm oil production. Last year, Malaysia's commodities market earned RM49.6 billion (US\$16 billion) in revenue from palm oil trading providing 500,000 direct employment opportunities. However, based

on the environmental damage caused by oil palm cultivation, lobby groups identify the palm oil industry as non-Shariah compliant and the money earned from it as non-Islamic.

This creates doubt about Bursa Suq Al-sila', a commodity trading platform and a pioneer effort specifically designed to facilitate Islamic liquidity management. Formerly known as the Commodity Murabahah House, Bursa Suq Al-sila' is a national project formed out of the collaboration between Bank Negara Malaysia, the Securities Commission of Malaysia, Bursa Malaysia, and the industry players in support of the Malaysia International Islamic Financial Center (MIFC) initiative.

In the Bursa Suq Al-sila' concept, the bank buys a commodity directly from the supplier such as a crude palm oil (CPO) producer at the market rate and sells it to a customer at a profit. The customer then sells back the commodity to the consumer or general market for cash. The underlying assets of CPO are known to be Shariah compliant, qualifying its trading at the Bursa Suq Al-sila', according to Bursa Malaysia.

However, according to an analysis published in Conservation Letters, a journal written by Lian Pin Koh and David Wilcove of Princeton University, some 55% to 59% of Malaysia's oil palm plantation expansion that took place between 1990 and 2005 was at the expense of its forests. During this 15-year period, the oil palm industry in Malaysia expanded to reach 3.6 million hectares. Then in 2006, the area for oil palm cultivations alone reached 11 million hectares. The United Nations Environment Program confirms that rising demand for palm oil triggers the clearing of tropical forests.

Talking to *Islamic Finance news*, a senior official of Bursa Malaysia, said the commodity trading platform's Shariah compliance is hanging in the balance based on the level of deforestation, which creates a serious impact over fauna and flora. However, palm oil is the most preferred compared to vegetable, sunflower, rapeseed, or soya oils in terms of wide usage, high yield and comparatively low production cost, he said. Currently there are 27 listed companies on the Bursa Suq Al-sila, all of which are oil palm producers.

Professor Engku Rabiah Adawiyah Engku Ali, professor for Islamic studies from the International Islamic University Malaysia, shared her views with *Islamic Finance news* that the environment is an "unclear area" in terms of Shariah laws. She believes that Shariah compatibility of the oil palm industry is a "matter of different opinion".

During this year, the world market dependence on palm oil is expected to increase, projecting 2.7 million tons in consumption. The European Union alone is expected to witness a 300,000 tons increase in consumption, China by 600,000 tons and India by 500,000 tons. In order to satisfy this demand, world exports of palm oil are forecasted to increase by 1.4 million tons to a record 36.8 million tons creating much potential for Bursa Suq Al-sila'.

Professor Hashim Mehat, Shariah advisor to Citibank (Malaysia) told *Islamic Finance news* that deforestation could be accommodated in terms of wider benefits as mentioned in Shariah. He also approved the usage of fertilizers as long as it does not change the quality of palm oil.

The Malaysian palm oil sector is a highly regulated industry. Currently, this industry adheres to more than 15 laws and regulations including the Land Acquisition Act of 1960, Environmental Quality Act of 1974, Environmental Quality (Clean Air Regulations) of 1978, Pesticides Act of 1974 (Pesticides Registration Rules), Occupational Safety and Health Act of 1977, and Protection of Wildlife Act of 1972. <sup>(2)</sup>

## Egypt: A Rising Competitor in Islamic Finance

By Dr Walid Hegazy and Ruqiya BH Musa

**There was once a time where western influence dominated the areas of trade and finance in Egypt under the renowned French civil code. Today however, we see the incorporation of Islamic finance instruments into French legislation which can only mean one thing: Egypt must finish what it once began.**

The prominent role and presence of Islam is undisputed throughout Egypt as the Shariah embodies the essence of not only the legal system, but of all aspects of private and public life to millions of Muslim believers. During western imperialism, it was the “colonial insensitivity to Islamic and social values” that sparked the rise of political resistance movements.

Most notably, the legitimacy of western banking raised questions among Muslim jurists as they tried to present Islamic rulings as a financial alternative. While Shariah does not address the modern form of finance, it provides a concrete base to which jurists may extract Shariah compliant instruments and services as a substitute to western banking practices. Following the development of Islamic Fiqh, and the ideals of the Muslim Brotherhood, Egypt became the first nation to establish an Islamic bank in the rural town of Mit Ghamr, through the genius of Islamic finance pioneer, Ahmed El Najjar.

However, that was the early 1960's. Present day Egypt has struggled to hold its weight against numerous Islamic finance competitors. What has gone wrong? Some Islamic scholars argue that riba can either be legal or illegal, and accommodating both the Islamic and conventional financial systems poses an inherent contradiction.

Others however, argue that accommodating both systems allows the public to have the power to choose, and this spectrum of choice may encourage greater investment. The problem with Egypt however is not the issue of having two systems operating simultaneously, but rather the “disparity is politically induced” as argued by Ashraf Talaat from the National Bank of Egypt. Political reluctance to the growth of Islamic banking and finance is definitely an obstacle, but it is the aim of this article to show that with the development of the necessary infrastructure, there is still an emerging market for this industry.

### An evolving market

Analyzing the social reality of Egypt is the first step to be taken in order to implement a successful Islamic banking and financial system. Perhaps the main weakness in the Egyptian banking system is the focus on large-scale corporations when arguably, it is the small-scale businesses which represent the masses.

While the Egyptian ministry of investment finalized the law approving the establishment of microfinance companies, the public has already vocalized reluctance on the effectiveness of the regulatory framework. Ranya Abdel-Baki, the executive director of Sanabel emphasized the importance of Islamic microfinance by arguing, “[without Islamic microfinance] we are depriving a huge segment of the population who will not seek microfinance unless there's an Islamic option.”

Dr Mohamed Beltagi would agree with Abdel-Baki's comments that a “cost effective Islamic microfinance product would be met with great demand.” He proposes that the market for Islamic finance can be

cultivated through microfinance enterprises whose financial needs do not coincide with conventional banks.

It seems that due to the precautions surrounding the high risk factor, payment of interest and the lack of commercial and financial experience, conventional banks have not welcomed this form of business model. Dr Beltagi further argues that the Islamic methods of financing such as Salam, Murabahah and Musharakah, would be well suited for microfinance companies.

This would also enable the development of new Islamic finance products in Egypt. The financing of these companies is intended to benefit the lower class. With 22.9% of Egyptians living below the international poverty line, this is the social reality of Egypt which cannot be ignored.

Large market players in the Egyptian Islamic banking system are:

1. Faisal Islamic Bank of Egypt was officially established on the 5<sup>th</sup> July 1979. It is the first Islamic and commercial bank in Egypt which served to represent a model for all Islamic banks around the world.
2. The Egyptian Saudi Finance Bank began its active role on the 21<sup>st</sup> June 1988. Since then, the bank became committed to providing Shariah compliant banking transactions and services. There are currently 11 branches and the remaining three branches will be inaugurated soon.
3. National Bank for Development (NBD) was established in 1980 with the goal of revitalizing Egypt's private sector economy. The bank offers a broad range of Shariah compliant instruments and it is noted for being one of the first banks to promote Islamic banking globally.
4. Bahrain's Al Barakah Banking Group and Abu Dhabi Islamic Bank have bought large stakes in Egyptian Saudi Finance Bank and the NBD respectively, allowing them to join the ranks of the competing members not only in the highest levels in the Egyptian market, but also on a global scale.

### A global financial force

Today there is an estimated amount of 300 Islamic banks worldwide bringing in an estimate of US\$1 trillion in assets. Just last year, it was reported that France had amended its civil code to help promote and enhance a market for the ‘Shariah compliant’ investment, such as the recognition of Sukuk. Furthermore, Michael Bloomberg's recent plan to build an Islamic center “in the heart of arguably the world's most important financial center,” pronounces the impact of Islamic finance as a global phenomenon.

Islamic finance is growing rapidly given its prohibition of speculation and some forms of securitization which are argued to be the main causes of the recent financial crisis. The rising number of non-Islamic states who have incorporated principles of Islamic finance law into legislation suggests the western model may have drained its place in the market.

*continued...*

## Egypt: A Rising Competitor in Islamic Finance (continued)

The impact of the recent financial crisis on the Egyptian banking sector was quite limited due to the precautionary regulatory rules imposed by the Central Bank of Egypt. In addition, the availability of liquidity in the domestic market restricts most of the local banks from the exercise of high risk investment.

The impacts of the crisis on the domestic economy were relatively positive on the inflation rate, but had negative aspects on the economic growth rate, volume of exports, capital markets indicators, unemployment rates and the in-flow of foreign investments.

The Banking Law No 88/2003 required stringent capitalization and capital reserve which has indeed forced a significant number of banks who failed to comply with the minimum capital requirement to either merge or be acquired by stronger ones. The largest number of mergers and acquisitions took place between 2004 and 2009. For instance: in 2006, the Bank of Alexandria became the first fully state owned bank to be privatized in what has been described as the most successful privatization process in Egypt. Misr Exterior Bank merged with Banque Misr in 2004; and Islamic International Bank for Investment and Development has been acquired by the United Bank.

### Moving forward

“That lack of infrastructure is also evident in manpower, highlighting the lack of trained financial advisors able to deliver Islamic finance to consumers ‘efficiently.’ — Angus Blair

This is exactly what Egypt needs and this is exactly what I plan to do. We have assembled a team of well-rounded experts ranging from lawyers, accountants, marketing experts as well as Shariah experts to find the most realistic solution for Egypt. Our method is simple—we believe in working with the system, not against it. Our aim is not

only to develop Islamic finance tools but to cultivate these principles into the core financial transactions of Egyptian banks. The Egyptian Islamic Finance Forum was established in Egypt in July 2010 by a diverse range of practitioners, including myself, with the common aim of developing this industry.

We will be working closely with the government by providing expert opinions and recommendations when necessary, and working with financial institutions to guarantee a collective and consistent growth in the market. Furthermore, an additional asset we have is that our team consists of world class partners from France, Egypt, the US, Malaysia and Mauritius which gives us the international advantage to gain and implement a unique perspective.

Our primary objective is to set an Egyptian standard for Egypt. We are not here to conform to the standard set by global Islamic finance markets – just yet. After all, Egypt is the birthplace of modern Islamic finance, so it is only fitting that we reconstruct the market around our standard. ☺

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Dr Walid has over 15 years of legal experience with a focus on Islamic banking and finance, project financing, corporate restructuring and corporate governance. Ruqiya is an LLB graduate from the University of London specializing in Islamic law.

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## Turkey: Islamic Banking and Recent Structured Finance Transactions

By Levent Sadik Kucukdaban

**For the time being, it looks like Turkey is not benefiting from Islamic banking products due to its own dynamics and regulations. However, looking at recent developments, it is clear that Turkey will soon be among the top players in the Islamic banking league.**

We begin with a brief summary of the banking system and Islamic banking in Turkey. It is no longer new to the Turkish people. It has been 25 years since the first institution was established, and these institutions have been operating successfully to this day. However, they have never been called "Islamic banks". They were first referred to as "special finance houses".

This concept of calling the banks "special finance houses" has led to some misunderstandings. These institutions were confused with other companies that deal with other financial services. Besides, they had difficulty in expressing themselves in the international market. In October 2005, upon enactment of the amendment in the Turkish banking law, these institutions began to be called "participation banks".

Even if their status is not officially "Islamic", participation banks in Turkey are running their activities under the principles of interest-free, trade and equity related financing methods while supporting ethical investments.

Today there are 49 banks in Turkey. This includes 13 development and investment banks, 32 depository banks as well as four participation banks namely Bank Asya, Turkiye Finans, Kuveyt Turk and Al Baraka Turk. Three of these are the subsidiaries of leading Islamic banks in Kuwait, Bahrain and Saudi Arabia. On the other hand Bank Asya (Asya Katılım Bankası) is the only wholly Turkish owned participation bank which is also the leading institution, in terms of assets, deposits, loans and net profit.

Currently, Turkish banking asset volume is around US\$575 billion, deposits are at US\$360 billion and loans at US\$290 billion, of which the participation banks make up 4.1%, 5% and 5.8% respectively. Even if the shares are not so high, participation banks recorded noticeable progress after the 2001 crisis which occurred in Turkey.

Despite the global credit crunch, participation banks also maintained growth. When comparing conventional banks' assets growth rate with participation banks, we notice a significant gap since 2001. In 2009, conventional banks grew by 4.03% while the participation banks grew by 30.5%. The proportion is almost same for deposits as well.

From the point of view of structured finance activities, Islamic finance has become more popular in the recent years, where participation banks are already on the scene. Besides, global banks from the US and Europe have been providing Islamic finance solutions by means of their Bahrain and Dubai based offices. In brief, Murabahah, Musharakah, and Ijarah are the most used instruments in Turkey.

Murabahah syndication is one of the instruments which is used by participation banks. Bank Asya launched its first Murabahah

syndication in 2007 which was a dual tranche (one and two years) facility. In this deal, 37 banks were involved from Europe and the Middle East to provide finance to the borrower's trade transactions. At the time, this was the highest Murabahah syndication (US\$175 million) experienced among the participation banks for the Turkish market.

Furthermore, Bank Asya launched its second Murabahah syndication in April 2009. This is again the highest Murabahah syndication deal ever made in the market with a one-year maturity, US\$255 million equivalent dual currency (EUR and US\$).

This facility was closed with a blowout response from the loan market which launched into syndication at US\$75 million and was closed more than three times oversubscribed, on the back of strong demand from 26 local and international lenders. Those funds were raised to finance Bank Asya's trade finance activities.

ABC Islamic Bank, Noor Islamic Bank and Standard Chartered were the main lead arrangers (MLAs). This deal was followed by AlBaraka Turk with the same MLAs but the deal was closed with US\$240 million.

Turkey has been introduced to the popular instrument Sukuk recently. Kuveyt Turk has introduced this financial product in Turkey with the issuance of a three-year Sukuk bond of US\$100 million. Citibank and Liquidity House were the joint lead arrangers for the issuance.

In this respect, a new financial product with all its benefits is added to the Turkish economy. This new bond is considered a highly significant development for foreign investors looking to purchase interest-free products.

Consequently, if this product attracts wider foreign investments, more funds from global markets will flow into Turkey, especially most appetite is expetited from Gulf Region.

This Islamic finance industry is contributing more than US\$20 billion to the Turkish economy. The industry's volume of employment has reached approximately 12,000 people. Despite the growth and the given industry's current size, there is still more room for Islamic finance. It is still a niche market.

Considering the appetite for Islamic structures both at the international and local levels, prospects for the industry are quite bright. <sup>(f)</sup>

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## Bermuda: The Preferred Offshore Jurisdiction for Sukuk Issuances

By Greg Wojciechowski

*Greg Wojciechowski, CEO of the Bermuda Stock Exchange, explains why Bermuda could fast become the preferred offshore jurisdiction for Shariah compliant financial products and listings.*

Bermuda's geography and sophisticated yet streamlined corporate regulatory regime has cemented its role as a bridge between the North American and European financial markets, particularly in the area of investment funds and (re)insurance.

What is slightly less well known is that Bermuda is also one of the primary jurisdictions for Sukuk issuances backed by aircraft due to its position as the offshore domicile of choice for aircraft registration and finance.

By signing a double taxation agreement (DTA) with Bahrain in April this year, Bermuda has taken an important step towards building on this experience by seeking to become the offshore jurisdiction of choice for a wider variety of Shariah compliant financial products, which could also be listed on the Bermuda Stock Exchange (BSX).

**“The DTA between Bermuda and Bahrain is a reciprocal agreement between the two countries not to tax repatriated income of a company or individual that has already been taxed by the other”**

In its most basic form, the DTA between Bermuda and Bahrain is a reciprocal agreement between the two countries not to tax repatriated income of a company or individual that has already been taxed by the other.

This will create considerable opportunities for both countries to work together to develop their Islamic banking, Islamic insurance and fund industries – all areas that would complement both Bermuda and Bahrain's current economic offerings.

Bermuda's reputation as a centre for financial and corporate excellence began over 30 years ago, when it became the preferred domicile for a large number of insurance captives. Since then, it has grown to become the third largest (re)insurance market in the world after London and New York.

It has also developed a significant funds industry and remains a popular jurisdiction in which to do business because it is a tax efficient economy, which allows 100% foreign ownership and has little restriction on foreign exchange or capital and profit repatriation.

Bermuda is now diversifying its economic offering to keep up with global demand. The BSX for example is home not just to a large number of funds and both domestic and international listed companies.

It also has various niche products listed such as derivative warrants, as well as debt instruments including medium term notes, credit-linked notes, asset-backed securities, convertible bonds, Eurobonds and catastrophe bonds.

The BSX is now ready to expand this even more by listing Shariah compliant products on the exchange and, following discussions with the Bahrain Stock Exchange, hopes to see the listing of the first Sukuk in the very near future.

In terms of geography and infrastructure, the exchange is also in an excellent position to act as a gateway for Bahrain's Islamic financial expertise to enter the vast North American capital market. In turn, Bahrain can provide a bridge for Bermuda's financial expertise to enter the Middle East and North Africa region.

A 'working group' is already underway to develop a market for Takaful, re-Takaful and captive Takaful in Bermuda. While help is being sought from Bahrain to set up the right framework for this, the rules and regulations are already in place to establish a Takaful business on the Island.

What makes Bermuda and the BSX such an obvious choice for developing an Islamic finance market? Bermuda has long stood out among other offshore jurisdictions as being politically stable with a well regulated and a highly developed corporate infrastructure and a number of world-class professional services providers.

Of particular note is the regulator, the Bermuda Monetary Authority (BMA), which prides itself on its commercially-minded legislation while maintaining the highest international standards.

Back in 1989 for example, Bermuda became the first jurisdiction to introduce legislation expressly permitting the creation of non-charitable purpose trusts, making it a popular destination for certain Islamic finance structures.

Since then, that legislation has been subject to amendment and many other offshore jurisdictions have since followed suit. In spite of this, it still acts as an illustration of the innovative and commercially minded way our financial services industry is regulated.

Furthermore, according to the Bermuda headquartered law firm Conyers Dill and Pearman, who advised GE Capital on its US\$500 million Sukuk certificates in 2009, "Bermuda's private trust company legislation is particularly attractive to Islamic finance practitioners because of the simplicity of its provisions with regards to the trustee licensing exemption."

*continued...*

## Bermuda: The Preferred Offshore Jurisdiction for Sukuk Issuances (continued)

What this means, they explain, is that provided the special purpose vehicle's (SPV) capacity as trustee is limited to the trusteeship of a trust or group of trusts specified in its memorandum of association, it will be exempt from licensing. There is no requirement to demonstrate that the SPV is issuing any particular type of financial instrument, that it is unremunerated or that any parties are connected to the others.

International offshore law firm Appleby also points out that "the ability to structure Bermuda vehicles as segregated account companies, the ability to use non-roman characters as a second name, the introduction of special purpose insurers and the ability to establish international pension plan arrangements" makes Bermuda an attractive option for the design and establishment of Shariah compliant pension schemes.

For the funds industry in particular, the ability to obtain prompt approval for a fund and the fact that typically, there are no restrictions on investment objectives or strategies, have been the main attractions of this jurisdiction for that industry, in addition to Bermuda's flexibility and efficiency.

**"The ability to obtain prompt approval for a fund has been one of the main attractions of this jurisdiction in addition to flexibility and efficiency"**

The BSX not only comes under the auspices of the BMA, but it is also a full member of the World Federation of Exchanges and an affiliate member of International Organization of Securities Commission. The exchange is recognized by the US Securities and Exchange Commission, UK Financial Services Authority, UK's HM Revenue and Customs and is an approved stock exchange under Australia's Foreign Investment Funds taxation rules.

This, combined with Bermuda's already proven expertise in financial services, means that issuers and investors alike are assured of the highest international standards of trading technology, regulation and transparency, making it the ideal listing environment for Shariah compliant investment products and for Muslim investors from around the world. (F)

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\* REDmoney Research is primarily, but not exclusively, focused on the Islamic financial sectors

## Shariah Compliant Stockbroking and Trading in India

By Ali Shervani

**The stock markets have always been a mainstay for investors across the globe, as this is one of the cheapest options available for investors to invest in companies.**

The robustness of any stock market is not only a result of the performance of individual companies listed on the stock exchange but also indicates the economic condition of the country. Hence, stock markets of any country are one of the indicators of the level of confidence in the economy of that particular country.

**“Shariah laws state that people can be partners in business either by contributing capital or even joining by providing expertise or both”**

Shariah laws state that people can be partners in business either by contributing capital or even joining by providing expertise or both. But it is not possible for all the investors to join the success story of a big company; hence stock investment provides an opportunity for them to be a part of the same.

The capital requirement for the modern day big corporate houses is huge, and one of the cheapest and easiest ways for procuring capital is through the stock market. This provides an opportunity to the people who have a small sum of money and who want to be part of the success story of a particular company.

Becoming a shareholder by investing in particular company's shares is a Halal activity subject to the company adhering to the provisions of Shariah laws, which in turn is certified by the various Shariah scholars providing guidance to various stock exchanges, investment companies, and such.

With the advent of Islamic finance and its products on the global platform since 1990, demand for Shariah compliant investment options is increasing day by day. This has resulted in the focus now being shifted to affordable investment options which are Shariah compliant.

Shariah compliant stock broking provides a platform for the investors to invest and trade in Shariah compliant stocks. Keeping in mind the growing need for Shariah compliant investment products, the stock brokers have started Shariah compliant trading options for the investors.

The Islamic finance industry has reached a certain level and the need for mass level products is the need of the hour for the industry to move to the next level. Shariah compliant indices listed on various stock exchanges are helping in furthering the availability of mass level Shariah compliant products to the investors.

Some stock brokers also offer their own Shariah compliant list of the stocks. Brokers offering only Shariah compliant investment platform are also increasing.

In addition, Shariah compliant stock broking and trading is helping in bringing the young Muslim population on board and providing a long term investment option to this class of investors.

Equity investments is all about return based on performance, productivity and quality of the company thus it is truly a Shariah compliant manner of investing.

Shariah laws do not approve of any kind of speculation, so the best way to invest in stocks is for long term and not speculate. Investments through the stock market have undergone a fundamental change since the global economic crisis and investors are looking for safe and long term investment options.

The answer is with the Shariah compliant investment options in stocks and this is also appealing to the people across the globe looking for ethical investment options.

Shariah compliant stock broking and trading can provide the much needed critical mass to the Islamic finance industry, which is flooded with institutional investment options. The need to have mass level investment options adhering to the provisions of the Shariah laws will be able to provide the much needed critical mass to the industry.

**“The Islamic finance industry has reached a certain level. The need for mass level products is the need of the hour for the industry to move to the next level”**

In India trading in Shariah compliant stocks was initially carried out on an individual investor level but with the listing of Shariah compliant index on National Stock Exchange (NSE) gave the institutionalized approach towards the same. In 2007 S&P CNX Nifty Shariah and S&P 500 Shariah provides a broad investment opportunity for the investors.

With this the rush to cater to the ever growing demand of investors for Shariah compliant stock trading, a lot of sub-broking has come into existence offering the services to the investors.

Some are standalones offering trading only in Shariah compliant stocks whereas some sub brokers are offering both trading in conventional and Shariah compliant. One of the oldest in this activity is Idafa  
*continued...*

## Shariah Compliant Stockbroking and Trading in India (continued)

Investments based out of Mumbai; they have a Shariah compliant list of the both Bombay Stock Exchange (BSE) and the NSE.

The Shariah compliant stock broking services in India can provide the much needed leverage to the growth of Islamic finance industry in India. The Shariah compliant stocks listed on NSE and BSE have given rise to investment products based on these stocks; asset management companies have launched Shariah compliant investment schemes for the investors. The diversification provided by these Shariah compliant indices is at par with the conventional investment products.

The table below gives an outline of the industrial segments from which the Shariah compliant stocks have been taken.

Table No 1

S No	Industry allocation	Percentage
1	Software	22.93
2	Petroleum products	17.63
3	Construction project	10.86
4	Oil	6.74
5	Industrial capital goods	6.35
6	Telecom services	5.17
7	Power	4.43
8	Ferrous metal	4.22
9	Pharmaceuticals	4.10
10	Auto	3.82
11	Diversified	3.13
12	Non-ferrous metals	2.72
13	Construction	2.43
14	Gas	2.35
15	Cement	2.16

(Source: Fact Sheet, August, 2010. Benchmark Mutual Funds)

The spread in the industrial segments is wide thus provides a bigger scope for the investors looking for Shariah compliant stocks.

Some of the companies which are part of the S&P CNX Nifty Shariah are Reliance Industries, Larson & Toubro (L&T), ACC, Steel Authority of India (SAIL), and Infosys Technologies to name a few.

The growth in the Indian economy provides an opportunity not only for domestic investors but also the foreign institutional investors. The stock trading and broking services are very well regulated in India with the Security Exchange Board of India (SEBI), and the two exchanges NSE & BSE both have investor protection mechanisms.

### Conclusion

The Indian economy is poised to grow at approximately 8.5% per annum and the Islamic finance industry has an annual growth rate of 15% to 20%. If the two are combined, the results will be very satisfactory for the investors as well as the service providers.

Shariah compliant stock trading is going to be one of the main sources for the accumulation of much needed critical mass for the Islamic finance industry not only in India but globally. Shariah compliant stock trading will increase the number of investors on board in Islamic finance industry in India.

The institutionalized efforts for Shariah compliant stock broking and trading are just three years old in India, and have shown considerable growth. This will help in laying the foundation for other Shariah compliant products by providing the much needed secondary market for Islamic finance products in India and for global investors also. ☺

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# Opportunities for Islamic Finance in the London Stock Exchange's Secondary Market

By Gillian Walmsley

The London Stock Exchange offers access to a variety of Islamic financial products, providing issuers, financial intermediaries and investors with a range of markets tailored to meet their needs. In the secondary markets, a number of key developments in our trading segments for conventional products offer exciting opportunities for Islamic finance.

## A new platform for retail securities

In February 2010, the London Stock Exchange introduced a new electronic secondary market aimed at offering private investors easier and more transparent access to bonds. The new order book for retail bonds (ORB) offers electronic trading in an initial range of conventional bonds, but as retail demand for Shariah compliant securities grows it may offer exciting opportunities for issuers of Sukuk.

There are growing numbers of retail investors in the UK who are seeking to move away from a traditionally equity-denominated investment profile into a more diversified portfolio model including a wider range of alternative asset classes. As this pool of retail demand grows, it offers issuers the potential to widen their investor base and the new ORB market provides key advantages in terms of the benefits of having a liquid, transparent secondary market in these retail securities.

Because the new ORB market is supported by dedicated market makers committed to quoting two-way prices in a range of bonds throughout the trading day, this new market model means that for the first time, private investors will be able to see prices on-screen and trade in bonds in a similar way as they currently do for shares.

The number of bonds available on the ORB platform continues to grow and has recently expanded to a total of 142 securities, comprising 89 corporate bonds, 50 UK government bonds (gilts) and three supranational bonds.

One of the key objectives of the new market, and one which has been driven by our private investor and retail broker customer base, is to further encourage increased bond issuance in retail-size bonds in small and manageable trading denominations.

Under the Prospectus Directive – the EU regulation governing the issue of securities and the content of the relevant offer documents – the regulatory regime distinguishes between 'wholesale' bonds, which are tradable in units of GBP50,000 (US\$79,753) or greater, and 'retail' bonds tradable in smaller size, often in denominations of GBP1,000 (US\$1,600) for example.

The vast majority of bonds issued in the UK are 'wholesale' bonds and are therefore not accessible to most private investors because of the large size of the denominations in which they must be traded. There is strong appetite from UK private investors for a wider universe of bonds tradable in retail-size denominations to be made available.

As a liquid, transparent secondary market for retail bonds develops it is expected that it will bring into focus the benefits of retail issuance programs as an additional source of funding for companies wishing to

raise capital from a wider pool of investors and there are indications that this could stimulate increased retail size issuance of corporate bonds.

## Exchange traded funds on Islamic indices

One of the fastest growing products on our markets is our segment for exchange traded funds (ETFs). Even throughout the difficult market conditions of the past couple of years, our ETF market has continued to expand with ever growing liquidity and a host of new issuers and new products coming to market.

ETFs are open-ended index tracking funds listed and traded on exchanges like shares. They allow investors to gain exposure to a diverse range of assets and offer simple and efficient access to developed and emerging markets, broad and sector indices. By trading a single share, users can effectively gain access to an entire index without the burden of investing in each of the constituent stocks making ETFs a highly efficient and cost effective investment tool.

ETFs are supported by dedicated market makers who quote tradable prices throughout the trading day and because they are backed by the central counterparty, ETFs offer the security of an exchange-traded product at a time when default risk is of key concern to investors.

There are seven Shariah compliant ETFs listed on the London Stock Exchange, tradable in multi currency lines and offered by two of the global ETF markets' key ETF providers. iShares, now part of Blackrock, has ETFs based on the MSCI World Islamic, MSCI USA Islamic and MSCI Emerging Markets Islamic indices. db x-trackers, the ETF arm of Deutsche Bank, offers Islamic ETFs based on the S&P Japan 500 Shariah, S&P 500 Shariah, S&P Europe 350 Shariah and DJ Islamic Market Titans indices.

The indices underlying these ETFs are constructed by screening constituents for compliance with Shariah compliant investment principles. Screening criteria include restrictions on financial leverage and prohibited business activities.

## Future opportunities

The new electronic order book for retail securities and our growing ETF segment are just two of the secondary markets offering important development opportunities for Islamic financial products. At the London Stock Exchange we continue to work with Islamic banks and with the many conventional banks offering Islamic windows in the UK to enhance the range of products available on our markets and to further develop liquidity, accessibility and flexibility across our product range. <sup>(2)</sup>

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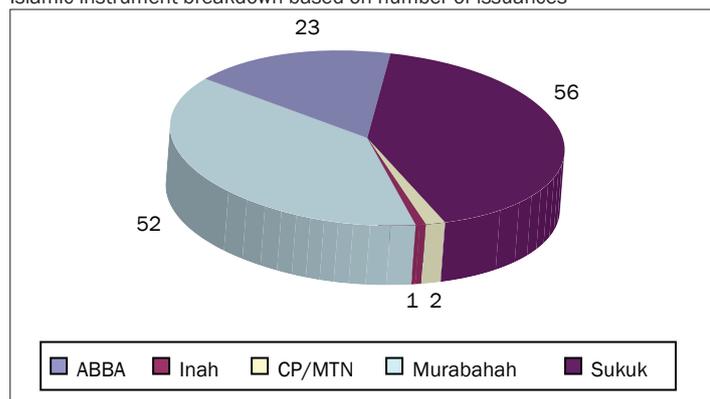
*Gillian has written articles on the development of the London Stock Exchange's markets for Islamic finance.*

# MARC's Rating Approach to Islamic Securities

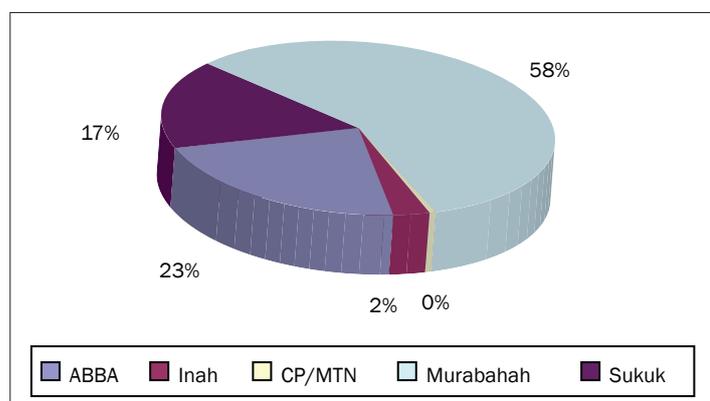
By Hafizan Haron

As at end July 2010, Malaysian Rating Corporation (MARC) has rated a total of 56 issuances of ringgit-denominated Sukuk with an aggregate value of RM16.23 billion (US\$5.2 billion). This represents 17% of the total value of Islamic securities worth RM95.27 billion (US\$30.7 billion) rated by MARC.

Islamic instrument breakdown based on number of issuances



Islamic instrument breakdown based on total value issued



## MARC's rating approach to Islamic debt securities

Based on the Securities Commission of Malaysia's (SC) guideline on the offering of Islamic securities, the term "Islamic securities" refers to any securities issued pursuant to Shariah principles and concepts as approved by the SC's Shariah Advisory Council (SAC). The SAC is responsible for issuing a list of its approved securities. These include some of the following underlying transaction/principles/contracts which fall under MARC's Islamic debt rating methodology and analytical framework:

### Deferred payment sale (Bai Bithaman Ajil)

It is a contract involving sale and purchase transactions for the financing of an asset on a deferred and installment basis with a pre-agreed payment period. The sale price includes a profit margin.

### Sale with immediate repurchase (Bai al Inah)

It is a contract involving sale and buy-back transactions of an asset. A seller sells the asset to a buyer on cash basis. The seller immediately buys back the same asset on a deferred payment basis at a price

higher than the cash price. It is also applied when a seller sells an asset to a buyer on a deferred basis. The seller later buys back the same asset at a price lower than the deferred price on cash basis.

### Purchase order (Istisnah)

It is a purchase contract of an asset whereby a buyer places an order with the seller to purchase the asset to be constructed or delivered in the future according to the specifications given in the contract. Both parties of the contract decide on the sale and purchase price and the settlement can be staggered based on the schedule of the work completed.

### Cost plus sale (Murabahah)

It is a contract involving sale and purchase transactions for the financing of an asset subject to the cost and profit margin that have been disclosed and agreed upon by all parties involved. The settlement for the purchase can either be on a deferred lump sum basis or installment basis, which is specified in the agreement.

### Guarantee (Kafalah)

It is a guarantee contract in which a guarantor underwrites any claims and obligations that should be fulfilled by an owner of the asset. This concept is also applicable to a guarantee provided to facilitate a debt transaction, whereby the guarantor will honor the debt obligation in the event the debtor triggers a payment default.

Predominantly driven by credit assessment, there is no fundamental difference in MARC's rating approach for debt-based Islamic financing instruments when compared to that used in rating conventional bonds. The ratings would fall into specific letter rating categories (AAA through C) which essentially reflect MARC's opinion on the likelihood of full and timely payment of obligation, that is, debt servicing obligation of a bond issuer, similar to the concept of probability of default in conventional debt ratings. The rating definition or symbology basically carries the ID suffix which denotes Islamic private debt securities.

## MARC's rating approach to Sukuk

Within the general framework as applied in any rating methodology, the rating(s) are derived through an in depth analysis and thorough evaluation involving:

- identification of the risk criteria as well as assessment of key risk parameters and mitigants;
- conducting sensitivity analysis on the critical risk factors; and
- performing benchmarking exercise where available.

For Islamic capital market instruments, additional criteria required to arrive at a rating would include evaluation of the underlying structure and assessment of the of key transaction parties; analyzing the asset(s) and its ability to generate income or future cash flow and/or availability of further credit enhancement; adequacy and robustness of structural protection; and impact of key legal issues.

Conceptually, Sukuk are investment instruments which are intended to promote risk and reward sharing in the performance of the underlying asset(s), project or venture. Based on our experience in the domestic capital market, most if not all Sukuk forms have common *continued...*

## MARC's Rating Approach to Islamic Securities (continued)

features or similarities to conventional fixed income instruments, reflecting investors' preference for Shariah compliant bonds which are comparable with conventional bonds. This also reflects investors modest risk appetite given a particular debt-based instrument as opposed to, otherwise, equity investment. Whether asset-based or asset-backed Sukuk, the fundamental difference can be drawn in terms of ownership transfer of the asset and investors' available recourse to the originator.

To summarize, the analytical components in MARC's Sukuk rating (which bear the IS suffix) involve the following:

### Analysis of the basic structure of Sukuk

MARC's evaluation of a Sukuk structure aims to determine whether an issue is structured as an asset-backed transaction (in which case it would reflect the performance of the securitized assets) or to achieve a flow through of the rating of the originator/borrower or third party obligor(s) or guarantor to the Sukuk.

The structure of the Sukuk will have significant impact on the risk profile of the Sukuk and determines the rating methodology to be used (conventional corporate, project finance, asset-backed methodology or a combination of these).

### Assessment of key transaction parties

MARC considers the roles of key participants in the transaction: originator/borrower, lessee or obligor, guarantor, agent (wakeel), contractor, servicer/back-up servicer as well as the credit quality of each participant and ability to perform their roles, and the corresponding implications of such for the risk profile of the Sukuk. A shadow rating may be performed on key participants where MARC believes their credit quality to be an important rating driver.

### Asset and cashflow analysis

This analysis is the most important driver of the ratings assigned to 'asset-backed' and non recourse or limited recourse project finance Sukuk. Some Sukuk are structured with external liquidity support and/

*continued...*

**Table 1: Descriptions and requirements/ mobilized funds of the different types of Sukuk**

Type	Description	Issuer	Subscriber	Requirements/ Mobilized Funds	Certificate Holders
Salam	A contract in which advance payment is made for goods to be delivered at a future date	Seller	Buyer	Purchase price of the goods	Entitled to the Salam goods or the sale price of the goods
Istisnah	A contract to manufacture a specific product at a determined price and deliver on a fixed date	Manufacturer	Buyer	Manufacturing costs	Entitled to the manufactured goods or the sale price of the goods
Ijarah	Usufruct type of contract whereby based upon the Aqd (contract), a lessor (owner) or the originator leases out an asset or equipment to the lessee, that is, sale and leaseback at an agreed rental fee and pre-determined lease period.	SPV or Lessor	Lessee	Periodic rental payments matched to the periodic distributions under the Sukuk	Entitled to undivided beneficial ownership of asset or equipment as per contract
Musharakah	A joint venture in which partners share the profit and loss of the enterprise	Inviter of the partnership	Invited partners	Share contribution of the partners	Entitled to the assets of the partnership and profit, if any, according to the agreed proportion.
Mudarabah	A partnership where one partner provides the capital to the Mudarib to manage a project or investment	Mudarib	Capital providers	Mudarabah capital	Entitled to the assets of the operations and profit share as per agreement. Bearer of any losses.
Convertible or exchangeable	Certificates that can be converted into the issuer's shares or exchangeable into a third party's shares	Inviter to the venture	Invited parties	Share contribution of the parties	Exchangeable feature involves an exchange ratio determined at the time of exercise vis-a-vis the share's prevailing market price and a pre-specified formula, exercisable anytime before maturity similar to conventional convertible or exchangeable issue but must be permissible under Shariah
Hybrid	Two or more forms of Islamic underlying concept are combined in the transaction/structuring of the Sukuk, for example combining Istisnah and Ijarah, Ijarah and Mudarabah, and such. This allows for innovation in introducing new types of Sukuk	refer above	refer above	refer above	refer above

## MARC's Rating Approach to Islamic Securities (continued)

or reserve accounts to mitigate interim deficiencies in returns from the assets.

In most of MARC's existing 'asset based' Sukuk transactions, potential deficiency and/or liquidity support has been addressed by way of direct and irrevocable obligation of the originator. In instances where higher rated third party provides a liquidity support or credit enhancement, the rating may possibly be notched up from the standalone rating. Additionally, the valuation of the asset forms an important part of MARC's review where redemption of Sukuk is to be partially or wholly derived from refinancing or disposal of the asset to third parties.

### Credit enhancement and structural protections

MARC would assess the internal credit enhancements such as reserve accounts, payment waterfalls and collateral value in addition to external credit support which may be provided by the originator/borrower or third party guarantor.

**“The terms under which the Sukuk are issued may specify certain ‘trigger’ events that, if they occur, would cause the transaction to be wound down”**

### Legal analysis

Arising from the asset-based or asset-backed issues involving transfer of ownership and recourse on the originator/borrower, MARC would review and sometimes seek legal opinion on, including:

- whether perfection of legal interest in the underlying assets becomes a requirement;
- the insulation of the assets from insolvency in the context of securitization, that is, bankruptcy remote status; and
- impact of the originator/seller from the perspective of secured financing.

The terms under which the Sukuk are issued may specify certain 'trigger' events that, if they occur, would cause the transaction to be wound down. These could include failure of the lessee to make, say the required lease payments under a Sukuk Ijarah structure, and certain events of insolvency and default connected with the lessee. In Sukuk structures involving an SPV issuer, MARC will also consider the bankruptcy remote status of the SPV and the limitations on the business activities of the SPV.

### MARC's rating approach to equity like Sukuk

Islamic capital market instruments continue to evolve and gradually gain wider acceptance by investors given its tenet of supporting tangible or real economic activity. With increasing acknowledgement that the true spirit of Islamic finance basically promotes more equitable sharing of risk between the Sukuk investors and the borrower/joint venture partner, future development and product innovation being promoted in the Islamic finance sector is expected to be in the form of Mudarabah and Musharakah based Sukuk. Mudarabah or profit-

sharing contract involves two parties to finance a business venture. The parties are Rab al maal (investor) who solely provides the capital and Mudarib (entrepreneur) who solely manages the project. If the venture is profitable, the profit is distributed based on a pre-agreed ratio. If there is a loss, it will be borne solely by the provider of the capital.

Musharakah or profit-loss-sharing contract involves a partnership arrangement between two parties or more to finance a business venture of which all parties contribute capital either in the form of cash or in kind for the purpose of financing the business venture. Any profit derived from the venture is distributed based on a pre-agreed profit sharing ratio, but if the venture suffers a loss, the erosion in capital is in proportion of the equity participation. Given such, future Sukuk issuances are expected to increasingly incorporate venture-based and profit-loss-sharing arrangement. The major differences revolve around security of principal, that is, potential loss of capital, and predictability of financial returns on the investment.

From a rating perspective, the need is to differentiate between variable income from fixed income Islamic financial instruments. As such, the rating opinion which we provide on variable income financial instruments would reflect the investment quality given the predominant equity characteristics of such instruments, in contrast with fixed-income instrument ratings which assess the likelihood of its full and timely payment, that is, default risk.

In other words, the performance of such issuances will depend less on the creditworthiness of the originator/underlying borrower and more on the performance of the assets or project, akin to asset-backed securities or non-recourse project financing. Depending on the cashflow characteristics of the asset, the Sukuk may have to be structured as a variable income instrument with the flexibility to defer returns and absorb losses as dictated by the performance of the asset(s) or project.

Moving forward, in anticipation of the emergence of variable-income risk participating Islamic financial instruments, MARC has developed and readily offer a rating product based on investment quality – available since 2001 but no subscription as yet – through consultation with our Shariah Advisory Panel (SAP). This rating product essentially comes with a distinct rating definition and carries an IQ suffix in its rating symbology. The focus will be on the achievability and/or assurance of returns and maintenance of the terms of the issuance inclusive of fiduciary/governance aspects.

Unlike the conventional “first dollar missed payment” which automatically triggers a “default”, MARC's IQ rating would differ in that default could arise primarily from:

- a) collapse of business or economic loss arising from proven negligence and mismanagement on the part of the issuer/borrower;
- b) failure to adhere to the terms of Mudarabah/Musharakah venture including sharing profit/loss according to the venture contract;
- c) clear cut case involving funds for financing economic activities or the business(s) have deviated and contradict the Shariah.

*continued...*

## MARC's Rating Approach to Islamic Securities (continued)

MARC does not directly approve and/or endorse any particular Islamic capital market instrument(s) which may adopt this new rating product although we are able refer relevant Shariah issues to our own SAP. The domestic regulatory framework for the issuance of Islamic securities in Malaysia requires the appointment of Shariah advisors and adherence to Shariah principles and resolutions of the SAC. The task of ensuring an Islamic instrument or product's Shariah compliance falls upon the appointed Shariah panel of the Islamic investment bank(s) and/or financial advisors.

### Sukuk structures rated by MARC

Depending on the underlying structure, concepts and transactions involved in the Sukuk issuance, there could be characteristics of debt and/or equity as well as elements of securitization/asset-backed securities (ABS). As such, MARC rated Sukuk rating approach may involve methodologies applied in its conventional corporate debt, project finance or structured finance to reflect their relevance and to give due consideration based on the structural features.

The two main contracts commonly used are sale and purchase contract and rental based contract. The following section entails some of the Sukuk which have been rated by MARC to-date:

#### 1. Sukuk Ijarah

Ijarah involves usufruct type contracts whereby based upon the Aqd (contract), a lessor (owner) or the originator leases out an asset or equipment to the lessee at an agreed rental fee and pre-determined lease period. The ownership of the leased equipment remains with the lessor. This concept could be extended to involve a contract which begins with an Ijarah contract and at the end of the lease period, the lessee purchases the asset at an agreed price from the lessor by executing a purchase (bai) contract or known as Ijarah Thumma Bai (lease to purchase).

Sukuk Ijarah structures which MARC has rated so far, in essence, involve sale and leaseback transactions. An issuer special purpose vehicle (SPV), usually a wholly-owned subsidiary of the originator or seller of the assets, funds the purchase of the assets by issuing Sukuk which represents beneficial ownership in the assets. The assets are leased back to the seller or entities owned or linked to the seller in exchange for periodic rental payments which are matched to the periodic distributions under the Sukuk.

In order to retain priority over the assets, the seller usually issues a purchase undertaking to repurchase the SPV's interest in the assets on maturity or any interim date at a pre-determined price. At maturity or upon a dissolution event, the SPV sells the assets back to the seller and redeems the Sukuk. Based on AAOIFI ruling, the undertaking to purchase the assets at a pre-determined fixed price is acceptable for Ijarah based structures but unacceptable for profit sharing based structures such as Musharakah and Mudarabah.

Meanwhile, with regard to potential discrepancy between Shariah compliance and the governing law on beneficial rights, AAOIFI's ruling says that "The manager issuing the Sukuk must certify the transfer of ownership of such assets in its (Sukuk) books, and must not keep them as his own assets." This implies the assets have to be "legally" transferred and must be off the balance sheet of the originator under the purchase agreement, such that the Sukuk holders become owners and thus have binding legal rights on the assets.

#### a) Asset-based Sukuk Ijarah

Typically, an SPV issuer is incorporated to facilitate the sale and leaseback of certain identified assets for the Sukuk Ijarah issuance, in which the seller/originator and the lessee is inter-linked. Under the terms of the Sukuk issuance, the rental or periodic lease payments must be fulfilled by the lessee while potential shortfall in these payments would be met by the originator who could be tied to the lessee.

Although the Sukuk holders hold undivided proportionate beneficial ownership of the assets, the Ijarah structure provides recourse to the originator through an undertaking to repurchase the underlying assets at a price representing the face value of the Sukuk at the maturity of the issuance or upon occurrence of a dissolution event or an event of default.

Given the main consideration which is the lessee's ability to meet the periodic lease payments coupled with the purchase and sale undertaking mechanism which is normally exercisable by both the originator and the SPV in the circumstances mentioned, the rating would usually mirror the credit rating of the lessee.

#### b) Asset-backed Sukuk Ijarah

Where elements of securitization are involved, an SPV is typically structured to be "bankruptcy remote". The SPV would issue Sukuk and the proceeds are used to acquire identified assets from the originator or seller. The SPV then enters into a long term lease agreement which entails the lessee paying specified rentals. Periodic distributions or lease payments would be mainly from the cash flow generated by the acquired assets or sale of those assets to third parties prior to the Sukuk scheduled redemption and/or final legal maturity.

MARC will apply the asset-backed methodology on account of elements of securitization being present in the transaction, including the 'true-sale' of the identified assets, for example office rental properties. The approach MARC would adopt is to firstly estimate the net cash flow (NCF) generated by the securitized assets on a sustainable basis, based on actual income previously generated as well as other dependable data or supporting contracts/documents.

Once the sustainable cash flow is determined, MARC would apply a certain capitalization rate to arrive at the discounted cash flow (DCF) valuation of the assets. The DCF valuation will then be used to size the higher rated or senior Sukuk tranches, based on applicable loan-to-value (LTV) limits. The amortizing structure of the Sukuk, meanwhile, would significantly reduce refinancing risk.

#### 2. Sukuk Musharakah

Generally regarded as the purest form of Islamic financial instrument, Musharakah or venture-based partnership conforms with the principles of risk sharing and benefiting from profits according to pre-agreed profit sharing ratio derived from the venture, but only suffer losses according to the respective capital contribution. AAOIFI's Shariah Board advises Islamic financial institutions to decrease their involvements in debt-related operations and to increase true partnerships based on profit and loss sharing, in order to achieve the objectives of the Shariah.

MARC has rated a number of Sukuk Musharakah transactions, the majority of which have involved SPV issuers. In Malaysia, the

*continued...*

**MARC'S Rating Approach to Islamic Securities (continued)**

application of the Musharakah structure can be found in a wide range of Sukuk transactions including receivables-backed issuances, project financing and contract financing.

The typical transaction configuration of Sukuk Musharakah in our rating universe is as follows: Investors enter into one or a series of Musharakah ventures (partnership agreements) between themselves to finance the Musharakah venture. The Musharakah ventures we have come across have been in the form of undertaking a construction contract, supplying contracted equipment and services in return for deferred payments, and financing the construction of assets in return for a fixed stream of lease payments or deferred payments.

The analytical components would normally involve assessment of the business venture invested in or investments made by the Musharakah partners. The strength of returns/cash flows from the investments essentially drives the rating of the transaction. The assessment hinges on the strength of the counterparty or the obligor making the payments. Where certainty of returns hinges on performance of certain contractual obligations, that is, performance risk exists, MARC would assess the ability of the relevant party in fulfilling its contractual obligation, taking into consideration the level of complexity of the contractual works and certainty of receiving payments.

Based on its rated transactions, MARC observed that the Musharakah appoints the issuer who typically acts as the wakeel to carry out the venture in an agent's capacity. The capital contribution of the Musharakah will be channeled to the wakeel/issuer who issues Sukuk in return for the capital contributions.

Where the issuer is an SPV and the transaction involves the financing the construction of assets, there could be back-to-back arrangement with a corporate related to the SPV which is contracted for the construction activity. The Sukuk issuance proceeds are used to fund the construction and upon completion, the assets will be leased to the corporate. Typically, the lease payments would match the return calculated on the Sukuk and the Sukuk principal redemption. Given the importance of the assets, the corporate would typically issue irrevocable undertaking to purchase the Sukuk upon occurrence of a scheduled dissolution or dissolution event. MARC has also rated a transaction in which the completed asset would be sold to the corporate in exchange for deferred payments.

As Musharakah entails a partnership, assessment of events that could result in the partnership being dissolved is essential. Based on its rated transactions, MARC has observed that these events are identified and appear similar to events of default in other conventional issues, including non-payment of Sukuk, covenant breaches not cured, winding-down of business and such. Additionally, the Musharakah partners will at least have beneficial ownership in the identifiable or trust assets. Hence, MARC will have to perform an independent legal review which entails, among others, to determine the enforceability and/or recovery against the security in the event of default. ☺

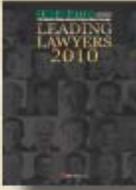
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# Mauritius: An Ideal Location for the Provision of Islamic Financial Services

By Hajrah Sakauloo and Chandra K Gujadhur

**For most of the world's financial markets, the impact of the sub-prime crisis was a negative one, producing a level of skepticism towards traditional banking and financial products.**

This led investors to begin looking for alternative and more regulated financial products with focus on Islamic products that comply with Shariah law. This growing interest in Shariah compliant products has also been affected by:

1. An increase in wealth in Islamic countries (particularly the Middle East)
2. A rise in the Muslim population and growth in demand for extensive capital requirements for large infrastructure projects across the Muslim world
3. An increasingly active participation of investors and sovereign nations in Islamic capital markets.

Though Islamic finance has been enjoying rapid growth for the past few decades, it is now entering a new phase of its development whereby the business is evolving from niche and is becoming more internationalized. The size of the industry has grown quite substantially to reach a trillion dollar threshold growing at a rate of 15% to 20% a year.

## Mauritius: A strategic global business centre

Situated in the Indian ocean region between Asia and Africa, Mauritius is one of the most open and financially sound economies in sub Saharan Africa. The success of its economy is largely a result of its political and socio-economic stability, coupled with good governance and a wide range of incentives to boost investment.

Mauritius is recognized as being an excellent place for doing business. Based on the 2010 index by the World Bank, Mauritius is ranked first on ease of doing business in sub Saharan Africa, and 17<sup>th</sup> globally. It has also been ranked 1<sup>st</sup> in the 2009 Ibrahim Index of African Governance.

The country's adoption of international best business practices and sustainable development policies has been acknowledged by international agencies such as the Organization for Economic Cooperation and Development (OECD), the Financial Action Task Force (FATF) and the World Bank (WB). It is also recognized by OECD as a white listed jurisdiction (countries which are compliant with OECD tax standards).

Mauritius has adopted open air access policies (with daily flights to Dubai) and has an efficient telecommunications system (connected to SAFE fibre optic network). The country has also embarked upon a new reform program underpinned by an open economic philosophy. The objective is to boost its appeal to international investors and make Mauritius the financial hub of the African region and an ideal springboard for investment and doing business in Africa, the Middle East and Asia.

The global business sector was established in 1992 to attract foreign investment to a wide range of banking and non-banking activities. As of June 2010, there were 29,536 global business companies

established in Mauritius. Mauritius is an effective offshore jurisdiction, building on its 35 double taxation avoidance agreements (DTAs), some of which have been in existence since 1980. With its specialist global business legislation, Mauritius enables corporate and commercial clients to access the benefits of its DTAs for investment purposes, and, at the same time, is attracting private clients to manage their finances outside the European Union. It also has sophisticated legislation and regulations crafted with a view to establishing a well regulated and efficient investment funds industry. This is reflected in the burgeoning growth of the investment funds industry which now has over 600 funds registered with the Financial Services Commission in Mauritius.

## Islamic finance and regulations

Being located close to some of the world's fastest growing economies such as India, close to large Islamic populations (the Middle East and Asia) and having an established legal, regulatory and taxation framework and multilingual professionals, the Mauritian government was quick to realize the Shariah opportunity.

The Bank of Mauritius undertook initiatives towards ensuring that a level playing field is maintained between banking products offered by conventional institutions and the relevant Islamic financial products. Amendments were brought to the Finance Act 2008 which obviate the levy of multiple payment of duties which would otherwise have become payable under the Islamic mode of financing land and property.

The Income Tax Act was amended such that the 'effective return' of an Islamic financing arrangement is duly captioned for references made to interest payable, paid, derived, received or incurred in relation to any loan, deposit or mortgage. Provision was also made to allow non-bank deposit taking institutions to engage in business of accepting Islamic deposits as long as these institutions have obtained the appropriate license from the Bank of Mauritius.

Mauritius became a member of the Islamic Financial Services Board (IFSB) in November 2007. In June 2008, the Bank of Mauritius introduced specific guidelines for banks who wish to conduct Islamic banking activities as a window or as a fully fledged Islamic bank. Of course, a Shariah advisory board or a Shariah advisor (who does not necessarily have to be located in Mauritius) is necessary for any Islamic banking institution to oversee the suitability of investments and contracts.

With its modern legislations and investment promotion and protection agreements with countries such as China and India, Mauritius has capitalized on the massive demand these countries have for natural resources from commodity rich Africa. Combined with the capital outflows from the Arab States of the GCC to Asia, Mauritius has developed specialist expertise in structuring cross-border Murabahah, Musharakah, Ijarah and Sukuk.

Already home to a number of global investment and Shariah compliant funds with a net asset value of over US\$75 billion, Mauritius continues

*continued...*

**Mauritius: An Ideal Location for the Provision of Islamic Financial Services (continued)**

to be recognized as an ideal location for the provision of Islamic financial services, particularly for the emerging markets. This is set to increase as the understanding of how to establish and administer Shariah compliant funds improves, including how to obtain necessary approvals from the religious scholars. It is also important to highlight that Islamic banking is not limited to only Muslims.

Non-Muslims can and also very often do invest in Shariah funds. A Shariah compliant fund can only invest in companies whose core activities are not prohibited according to Shariah. Major prohibitions include receipt and payment of interest (known as riba), excessive ambiguity (known as gharar) and any kind of non-productive speculative activities such as gambling. Also prohibited are the economic and business activities related to products or services which are perceived to be harmful to human society, such as tobacco, alcohol, armaments, drugs and such.

**The way forward**

The Islamic finance industry has shown remarkable resilience amid a devastating global financial crisis and one of its impacts has been the increasing interest around the world on the soundness of the Islamic finance model. In Mauritius, a great deal still needs to be done which includes more awareness of the jurisdiction, knowledge enhancement of local specialists including legal and accounting firms as well as management companies.

There is also a need for promoters of funds to be more innovative, a move that has begun with the emergence of more hedge funds,

venture capital funds and equity-based investment funds. The Bank of Mauritius has also embarked on a major project for the development of an Islamic money market and liquidity management framework to ensure the stability and soundness of the financial system in Mauritius. We are closely monitoring the evolution and development of the industry and remain confident that Islamic banking will witness exponential growth in Mauritius over the coming years. ☺

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*Hajrah project managed the implementation of Islamic banking for HSBC (Mauritius) and sat on a number of committees including the central bank’s sub-committee for implementing Islamic banking in Mauritius.*

*Chandra is a fellow member of the Institute of Chartered of Accountants in England and Wales and an associate member of the Society of Trust and Estate Practitioners. He has a long standing experience in auditing of offshore funds, fund structuring and tax planning.*



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## How will the establishment of the first African re-Takaful company contribute to the prospects of Takaful and re-Takaful in Africa and will there be significant demand for such products?



Although the first modern Takaful operation in the world was established in Sudan in 1979, the Gulf and Malaysia soon became the major markets while Takaful in Africa developed only slowly. This reflected the region's economic underperformance, limited local knowledge of Takaful and lack of government support.

During the last five years Takaful has spread remarkably in Africa, albeit from a low base. South Africa and Kenya have Takaful operators, and the overall market is growing at 18% per year. The establishment of African Re Takaful under Egypt's free zone law should help expansion by providing underwriting for larger risks. The future seems promising, as the growing African Muslim middle class are interested in cars, housing and family Takaful and trading businesses using Islamic banks for financing are also becoming Takaful participants.

**PROFESSOR RODNEY WILSON:** *Director of postgraduate studies, Durham University*



Within the insurance industry, the requirement to be able to hedge excessive concentrations of risk is deemed to be prudent. One of the main outlets for this type of risk mitigation is to make use of re-insurance offerings. Re-insurance is typically offered by very few, very large companies that have the capability to diversify their risk due to their sheer size. As a result, Takaful companies have historically been permitted to use conventional

re-insurance. The fact that re-Takaful companies are now being established globally is a sign of the fact that Takaful is reaching critical mass.

**DR NATALIE SCHOON:** *Head of product research, Bank of London and The Middle East*

## Saudi Arabian banks are expected to reduce financing activities and focus on funding allocation. How will this impact Islamic banks which make up 15.9% of the Saudi banking sector?

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](mailto:Christina.Morgan@REDmoneygroup.com) before Monday, 25<sup>th</sup> October 2010.

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



**Name:** Eldred Buck  
**Position:** Managing director  
**Company:** Eiger Trading Advisors  
**Based:** London  
**Age:** 47  
**Nationality:** British

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

After completing my degree at Leeds University, I started my career in capital markets with Merrill Lynch. I then moved to Fimat, where I headed sales and trading in London and eventually ended up in Paris as global head of research and development. I then joined NCB in Jeddah, as a proprietary trader and went on to develop the bank's structured products group, which was the first time that I gained proper insight and exposure into Islamic banking.

Upon returning to London, I joined the European Bank for Reconstruction and Development (EBRD), as a portfolio manager. I then went on to head the integrated credit and market portfolio management group for the EBRD, after which I joined Mizuho where I was a director in the bank's proprietary trading group. I have been with Eiger Trading Advisors since the company first started.

### What does your role involve?

While I manage the overall company, my primary role is in ensuring that we achieve our full potential through maximizing our capabilities and resources and delivering to our clients the very best products and services. The company now has five strategic business units – fund advisory and managed accounts; Islamic products; environmental; social and governance products and services; consultancy and investment advisory services and commodities trading. My role is to help drive these forward.

### What is your greatest achievement to date?

My greatest achievement to date has been in putting together a really fantastic group of very talented people here at Eiger. The dedication, professionalism, enthusiasm and teamwork that I witness everyday is amazing and very humbling.

### Which of your products / services deliver the best results?

We always seek to provide our clients with the best. However, with our electronic trading platform, we have managed to provide our clients with a new and innovative web based solution for transacting commodity Murabahah. We believe this technology allows for further expansion and development into other areas.

### What are the strengths of your business?

Competitive advantages are by their very nature frequently short lived, so the desire and drive to improve, innovate and serve our clients best is one of our major strengths. We have this strength because Eiger is built on the extensive experience of its senior partners and is majority-owned by its employees. This means that there is a constancy of purpose and a true alignment of our interests with our clients. We move very fast from initial concept, through product development and on to delivery. At all times our values of integrity and transparency are completely consistent with the principles and spirit enshrined in Shariah law.

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

We have excellent people, a clear strategy and a flexible, innovative, problem solving approach. Our commitment is to constantly improve the delivery of our products and services through use of the latest technologies along with the highest ethical standards.

### What are the obstacles faced in running your business today?

I could talk of the innate conservatism of Islamic banking, but this conservatism is based on excellent principles, so to talk of it as being an obstacle is completely invalid. Things take a bit longer, but that is no bad thing in the current environment. The only real obstacle we have is in our resources, which being small we have to manage prudently.

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

I think most estimates we have seen clearly forecast the continued growth of Islamic finance and these forecasts are based on a number of well understood determining factors. Demographic and regional economic growth rates alone would suggest that we should expect to see a continued rise in the industry both in absolute and relative terms.

Additionally both the perceived and real failures of many aspects of conventional banking over the last few years have also provided a very powerful impetus to growth in Islamic finance. That said, I would add a word of caution in that I am not quite as bullish as some commentators with regard to untrammelled growth. I see a clear move towards alternative liquidity management tools and products in the future.

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

One thing that I would like to see is the industry's formal definition of Shariah compliant risk management. In the conventional world we have seen that a Sharpe ratio does not nearly sufficiently define risk and reward. I am sure that the future of Islamic risk management lies in quantifying this paradigm so that Islamic finance structures or products are not benchmarked to conventional equivalents. ☺

## SUMMARY OF TERMS &amp; CONDITIONS

Amlslamic Bank Senior Sukuk  
MusharakahUp to RM3 billion (US\$967 million)  
nominal value
**AmIslamic Bank**
20<sup>th</sup> September 2010

<b>Obligor/Issuer</b>	Amlslamic Bank
<b>Tenor</b>	First issuance : seven years
<b>Return</b>	First issuance : 4.3% per annum
<b>Payment</b>	Semi-annual
<b>Maturity Date</b>	20 <sup>th</sup> September 2017
<b>Lead Arranger</b>	AmlInvestment Bank
<b>Trustee</b>	Pacific Trustees
<b>Legal Counsel</b>	Adnan Sundra & Low
<b>Governing Law</b>	Malaysia
<b>Purpose of issuance</b>	For the issuer's general working capital requirements which shall be Shariah compliant and to fund the growth of its Islamic financial services business
<b>Principal activities</b>	Amlslamic Bank provides a range of retail, commercial banking, corporate banking and treasury products and services that are Shariah compliant in nature
<b>Rating</b>	'AA3' – RAM Rating Services
<b>Shariah Advisor</b>	Dr Mohd Daud Bakar

The Amlslamic Bank's US\$967 million Senior Sukuk Musharakah program was launched on the 20<sup>th</sup> September 2010. The bank placed the Sukuk issue to a broad range of investors including fund managers, insurance companies, financial institutions and government agencies.

The Sukuk Musharakah program is to enable the bank to tap the capital markets for long dated funding. Simultaneously, the bank will also improve its asset liability management and in doing so mitigate liquidity and interest rate risks. The Sukuk Musharakah program also allows the bank greater flexibility to issue senior Sukuk of varying tenures to fund the growth of its Islamic financial services.

The Q&A was conducted with AmlInvestment Bank:

**1. Why did you use this particular Islamic structure? What other structures were considered?**

The structure was based on the Shariah principles of Musharakah as the same is preferred due to its wide use and acceptance in Malaysia. Around 99.6% of the new Sukuk approved by the Securities Commission of Malaysia in 2009 were based on the Musharakah structure.

**2. What were the challenges faced and how were they resolved?**

No major challenges were faced in raising the Senior Sukuk Musharakah Program.

**3. Geographically speaking, where did the investors come from?**

Malaysia.

**4. Was this deal rated?**

Yes. The deal was rated 'AA3' by RAM Rating Services. (f)

## BARCLAYS CAPITAL

**HONG KONG:** Barclays Capital has appointed Edward King as managing director and head of mergers and acquisitions for Asia Pacific.

Prior to his appointment, King was the head of mergers and acquisitions for the Asia Pacific region excluding Japan at Morgan Stanley. (f)

## NATIONAL BANK OF ABU DHABI

**GLOBAL:** National Bank of Abu Dhabi has appointed two trade finance managers for its UK and Paris branches.

David Ringer will be based in UK, while Isabelle Krieg in Paris. Ringer and Krieg will be managing and developing the expanding trade finance business in their respective branches. (f)

## UBS

**UK:** Andrew Quessy has been appointed by UBS as head of its macro directional trading team in London. (f)

## THE ROYAL BANK OF SCOTLAND

**UK:** Damien Teisseire joins The Royal Bank of Scotland as group head of reward for global banking markets.

Prior to his appointment, Teisseire was head of reward for Europe, Middle East and Africa, and India at Goldman Sachs. (f)

## ISHARES

**HONG KONG:** iShares has appointed Sandra Lee as the Asia Pacific head of sales in Hong Kong, effective next month. iShares owns the iShares MSCI World Islamic fund.

She was previously a regional deputy at Morgan Stanley Investment Management in Hong Kong. (f)

## BANK OF AMERICA MERRILL LYNCH

**HONG KONG:** Bank of America Merrill Lynch has appointed Zhang Xiuping as co-head of Asia mergers and acquisitions, based in Hong Kong. (f)

## RBS COUTTS

**SINGAPORE:** RBS Coutts hired Bruno Merlino as a team leader for Indonesia effective the 1<sup>st</sup> December 2010.

Prior to this appointment, Merlino was executive director and Indonesia desk head for UBS. (f)

## QATAR ISLAMIC BANK

**QATAR:** Ahmad Meshari has been appointed as the acting CEO of Qatar Islamic Bank.

He replaces Salah Al Jaidah who resigned due to personal reasons. (f)

## STANDARD CHARTERED BANK

**SRI LANKA:** Standard Chartered Bank (StanChart) has appointed Anirvan Ghosh Dastidar as CEO of Sri Lanka. (f)

## MALAYSIAN RATING CORPORATION

**MALAYSIA:** Shabnam Mokhtar has been appointed by the Malaysian Rating Corporation (MARC) as a member of its Shariah advisory panel.

Shabnam is attached to SHAPE-Financial Corporation, a financial consulting firm based in Kuwait. (f)

## ASURANSI TAKAFUL INDONESIA

**INDONESIA:** Asuransi Takaful Indonesia has appointed Ronny Achmad Iskandar as its

new managing director.

He is also the director of Asuransi Takaful Keluarga, the subsidiary of Asuransi Takaful Indonesia. (f)

## ALLEN & OVERY

**FRANCE:** Allen & Overy has hired Jean-Yves Charriau, an Islamic finance expert, as partner to bolster its activity in the real estate sector.

Prior to his appointment, Charriau was a partner at law firm CMS Bureau Francis Lefebvre. (f)

## BAHRAIN ASSOCIATION OF BANKS

**BAHRAIN:** Bahrain Association of Banks has appointed Abdulkarim Bucheery and Mohammed Ebrahim Mohammed as its chairman and vice chairman respectively.

Abdulkarim is the CEO of Bank of Bahrain and Kuwait while Mohammed Ebrahim is the CEO of Bahrain Islamic Bank. (f)

## STANDARD BANK

**JERSEY:** Standard Bank has appointed Alan Blackwell to lead the bank's relationship management team in Africa. He will be based in Jersey.

Prior to his appointment, Blackwell was a private banker with RBS Coutts. (f)

## PRICEWATERHOUSECOOPERS

**BAHRAIN:** PricewaterhouseCoopers (PwC) Bahrain has expanded its operation with the appointment of a country senior partner and two other partners.

The country senior partner Graham Hayward will be responsible to drive the firm's business in Bahrain. The other two partners are Ebrahim Karolia and Zaid Ghoul. (f)



# Deal tracker

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

Another **Islamic Finance news** exclusive

ISSUER	SIZE	INSTRUMENT
Credit Agricole	US\$3 billion	Sukuk
Saudi Aramco, Total	US\$1 billion	Sukuk
Gamuda	RM900 million	Sukuk
Senai-Desaru Expressway	TBA	Sukuk
Al Rajhi Group	TBA	Sukuk
Islamic Development Bank	US\$3.5 billion	Sukuk
Al Rajhi Banking Group	TBA	Sukuk
Malaysia Debt Ventures	RM\$500 million	Sukuk
Cagamas	TBA	Sukuk
Sudan	US\$300 million	Sukuk
Indonesia	IDR2 trillion	Sukuk
Kuveyt Turk Participation Bank	US\$100 million	Sukuk
Finance ministry, Indonesia	US\$650 million	Sukuk
Al Baraka Turkey	US\$250 million	Sukuk
Al Baraka Banking Group	US\$200 million	Sukuk
Asosiasi Baitul Maal wa Tamwil (BMT) se-Indonesia	TBA	Sukuk
Konsortium Lebuhraya Utara-Timur (Kesturi)	RM35 million	Sukuk
South Korea	TBA	Sukuk
Capital Development Authority, Pakistan	PKR20 billion	Sukuk
Bank Muamalat	US\$100 million	Sukuk
Abu Dhabi Ports Company	US\$1 billion	Sukuk
Saudi Electricity Company	TBA	Sukuk
Kazakhstan	US\$300 million	Sukuk
Abu Dhabi Islamic Bank	US\$5 billion	Sukuk
Cagamas	US\$5 billion	Sukuk
Amlslamic 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	THB5 billion	Sukuk

For more details and the full list of deals visit  
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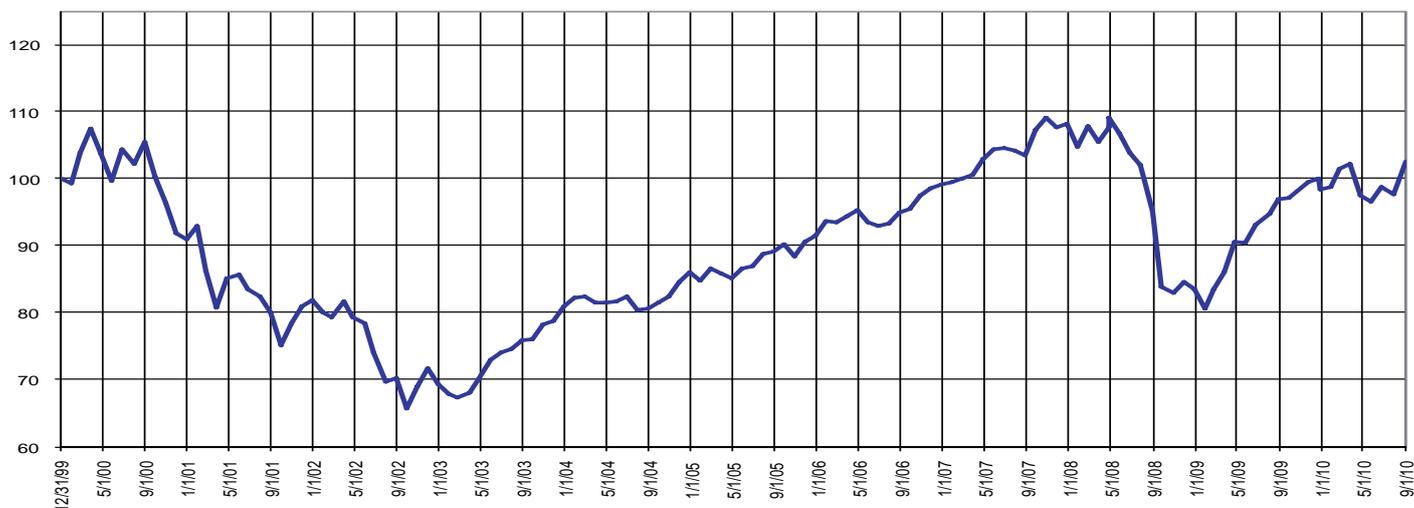
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## EurekaHedge Global Islamic Fund Index



### Monthly returns for Global funds (as of the 12<sup>th</sup> October 2010)

FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE	
1	AlAhli Islamic Global Equitybuilder Certificates	The National Commercial Bank	12.42	Germany
2	AlAhli Small Cap Trading Equity	The National Commercial Bank	12.28	Saudi Arabia
3	JPM Islamic Global Dynamic Equity (USD) A (acc)	J.P. Morgan International Bank	12.22	Luxembourg
4	Global Equity - Musharaka	Riyad Bank	11.62	Saudi Arabia
5	The Iman	Allied Asset Advisors	11.09	United States
6	AlAhli Islamic US Equitybuilder Certificates	The National Commercial Bank	10.81	Germany
7	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	10.78	Ireland
8	Al Rajhi European Equity	HSBC	10.74	Saudi Arabia
9	AlAhli Global Trading Equity	The National Commercial Bank	10.48	Saudi Arabia
10	AlAhli Global Real Estate	The National Commercial Bank	10.25	Saudi Arabia
<b>EurekaHedge Asia Pacific Islamic Fund Index*</b>			<b>3.99</b>	

### Monthly Returns for ALL funds (as of the 12<sup>th</sup> October 2010)

FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE	
1	AlAhli Islamic Global Equitybuilder Certificates	The National Commercial Bank	12.42	Germany
2	AlAhli Small Cap Trading Equity	The National Commercial Bank	12.28	Saudi Arabia
3	JPM Islamic Global Dynamic Equity (USD) A (acc)	J.P. Morgan International Bank	12.22	Luxembourg
4	Global Equity - Musharaka	Riyad Bank	11.62	Saudi Arabia
5	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	10.78	Ireland
6	AlAhli Global Trading Equity	The National Commercial Bank	10.48	Saudi Arabia
7	AlAhli Global Real Estate	The National Commercial Bank	10.25	Saudi Arabia
8	Al Rajhi Global Equity	UBS	9.27	Saudi Arabia
9	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	9.19	Ireland
10	Oasis Crescent Global Equity	Oasis Global Management Company (Ireland)	8.97	Ireland
<b>EurekaHedge Middle East/Africa Islamic Fund Index*</b>			<b>5.00</b>	

### Contact EurekaHedge

To list your fund or update your fund information: [islamicfunds@eurekaHedge.com](mailto:islamicfunds@eurekaHedge.com)

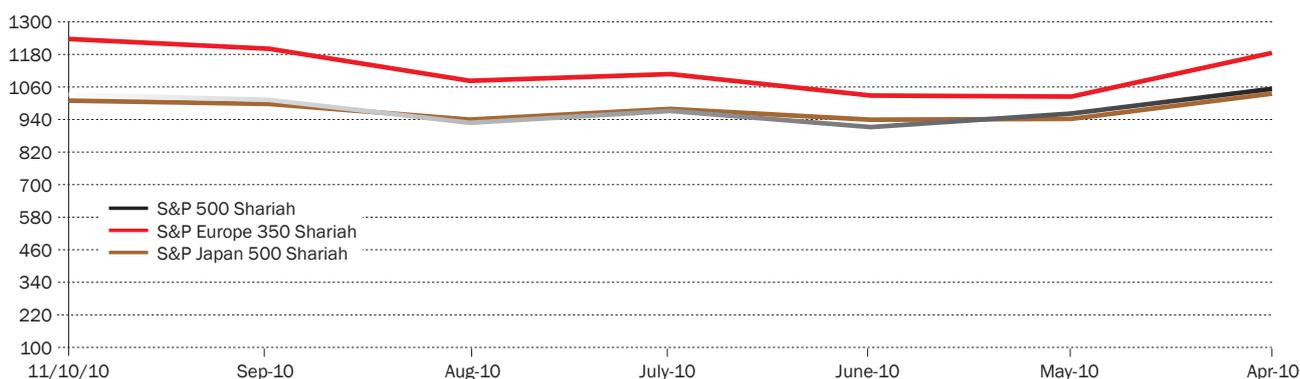
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Tel: +65 6212 0900

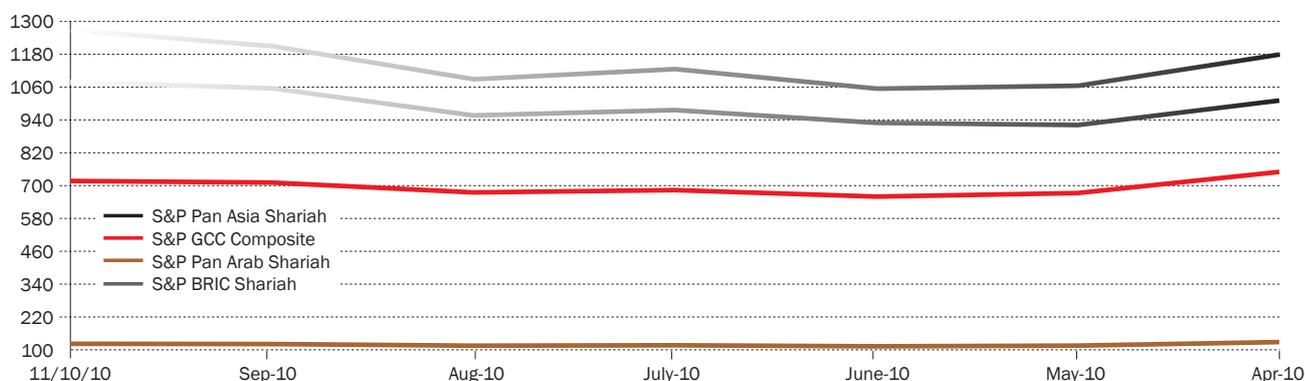
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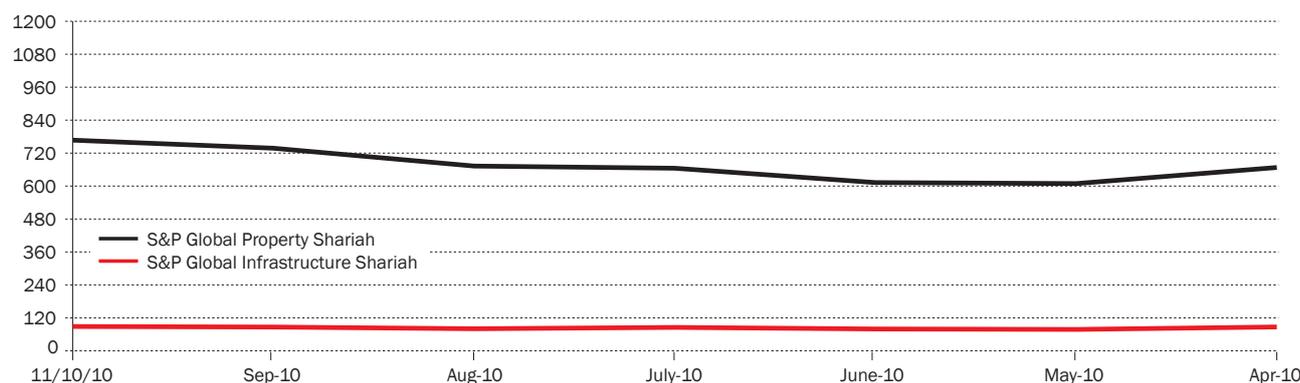
**S&P Shariah Indices Price Index Levels**



Index Code	Index Name	11/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHX	S&P 500 Shariah	1032.004	1012.387	927.814	971.473	912.024	962.089	1053.050
SPSHEU	S&P Europe 350 Shariah	1236.835	1200.681	1082.714	1107.409	1028.288	1042.504	1185.474
SPSHJU	S&P Japan 500 Shariah	1009.540	997.313	939.684	979.104	939.209	942.416	1035.333



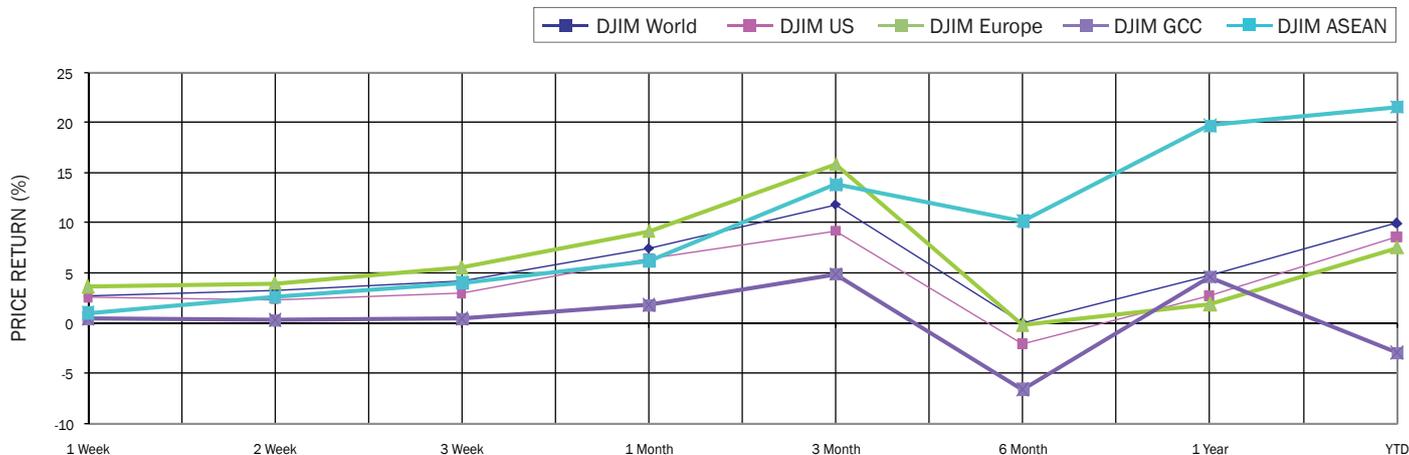
Index Code	Index Name	11/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHAS	S&P Pan Asia Shariah	1078.472	1055.516	956.455	976.003	929.342	921.335	1010.900
SPSHG	S&P GCC Composite Shariah	716.984	711.722	675.181	683.611	659.910	672.795	750.159
SPSHPA	S&P Pan Arab Shariah	122.029	121.100	115.090	116.617	112.797	115.358	128.364
SPSHBR	S&P BRIC Shariah	1272.380	1213.917	1093.125	1130.118	1058.653	1069.475	1183.561



Index Code	Index Name	11/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHGU	S&P Global Property Shariah	767.038	737.706	672.740	664.799	612.598	608.951	667.560
SPSHIF	S&P Global Infrastructure Shariah	88.531	86.530	80.314	85.243	79.474	77.860	86.827

Data as of the 11<sup>th</sup> October 2010

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	2.64	3.08	4.10	7.40	11.81	0.04	4.67	9.92
DJIM US	2.56	2.35	2.93	6.35	9.20	-2.05	2.71	8.55
DJIM Europe	3.56	3.89	5.47	9.16	15.86	-0.15	1.78	7.43
DJIM GCC	0.41	0.25	0.38	1.78	4.88	-6.61	4.59	-3.02
DJIM ASEAN	1.01	2.57	4.03	6.20	13.80	10.16	19.65	21.56

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

DESCRIPTIVE STATISTICS	Market Capitalization (US\$ billion)							Component Weight (%)	
	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2371	16193.17	12559.86	5.30	1.12	329.69	0.01	2.62	0.00
DJIM US	586	6682.69	6275.67	10.71	2.75	329.69	0.15	5.25	0.00
DJIM Europe	258	3075.38	2428.31	9.41	2.49	143.50	0.25	5.91	0.01
DJIM GCC	112	206.35	87.42	0.78	0.32	9.95	0.03	11.39	0.03
DJIM MENA	157	368.13	107.74	0.69	0.20	13.28	0.02	12.32	0.02
DJIM ASEAN	221	441.39	177.14	0.80	0.16	16.57	0.00	9.35	0.00
DJIM Titans 100	100	6867.93	6063.93	60.64	40.90	329.69	13.21	5.44	0.22
DJIM Asia/Pacific Titans 25	25	1120.77	731.81	29.27	22.61	77.37	13.21	10.57	1.81

For more information, please visit [www.djislamicmarkets.com](http://www.djislamicmarkets.com) or contact

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**TOP 30 ISSUERS OF ISLAMIC BONDS**

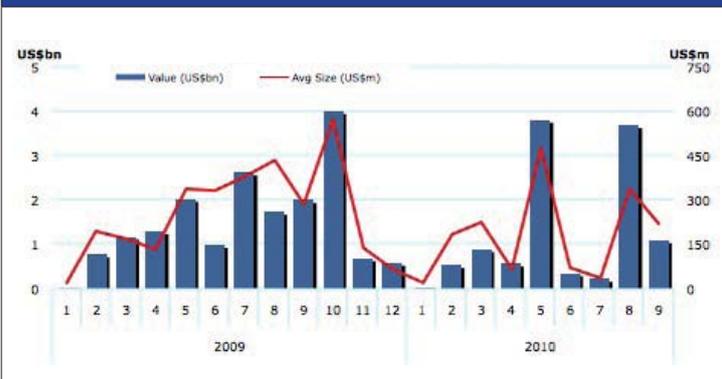
12 Months

	Issuer	Nationality	Instrument	Market	Amt US\$	Iss	%	Managers
1	Government of Dubai	UAE	Sukuk	Euro market public issue	1,931,000,000	1	11.6	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	11.2	HSBC, Samba Capital
3	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue; Foreign market private placement	1,700,000,000	2	10.2	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB, DBS
4	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	8.0	CIMB, Maybank Investment Bank
5	Cagamas	Malaysia	Sukuk Murabahah	Domestic market private placement; Domestic market public issue	1,269,000,000	10	7.6	CIMB, Maybank Investment Bank, HSBC Cagamas, AmInvestment Bank, RBS, RHB Capital, Al-Rajhi Banking & Investment, Standard Chartered
6	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	7.5	HSBC, Barclays Capital, CIMB
7	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	1	6.0	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
8	Qatar Islamic Bank SAQ	Qatar	Sukuk	Euro market public issue	750,000,000	1	4.5	HSBC, Credit Suisse, QInvest
9	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	1	3.5	Public Bank, CIMB, Maybank Investment Bank
10	GE Capital Sukuk	US	Sukuk	Euro market public issue	498,000,000	1	3.0	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	2.7	Goldman Sachs, Deutsche Bank, Unicorn Investment Bank
12	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	341,000,000	1	2.1	CIMB
13	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	316,000,000	1	1.9	CIMB, Citigroup
14	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.8	CIMB
15	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	228,000,000	1	1.4	Standard Chartered, CIMB
16	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah.	Domestic market public issue	193,000,000	1	1.2	Saudi Hollandi Bank, Riyad Bank
17	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.1	AmInvestment
18	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	1.0	CIMB
19	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	1	1.0	RHB Capital, Maybank Investment Bank
20	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	1.0	CIMB, AmInvestment, Maybank Investment Bank
21	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	1	1.0	Lembaga Tabung Haji, RHB Capital, CIMB
22	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	0.9	HSBC, CIMB
23	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	1	0.9	HSBC, Maybank Investment Bank
24	Penerbangan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	148,000,000	2	0.9	Bank Muamalat Malaysia, CIMB, HSBC, AmInvestment
24	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	127,000,000	1	0.8	Standard Chartered, Bank Muamalat Malaysia
24	Nomura Sukuk	Japan	Sukuk Ijarah	Euro market public issue	100,000,000	1	0.6	KFH
27	Kuveyt Turk Katilim Bankasi AS	Kuwait	Sukuk Murabahah	Euro market public issue	100,000,000	1	0.6	KFH, Citigroup
28	International Finance	US	Sukuk	Euro market public issue	100,000,000	1	0.6	HSBC, KFH, Dubai Islamic Bank, Liquidity Management Centre
29	Gamuda	Malaysia	Sukuk Musharakah	Domestic market private placement	97,000,000	1	0.6	CIMB, AmInvestment
30	Perusahaan Listrik Negara	Indonesia	Sukuk Ijarah	Domestic market public issue	87,000,000	2	0.5	(Persero) Danareksa Bahana, Securities Bank Mandiri, Trimegah Securities
	<b>Total</b>				<b>16,640,000,000</b>	<b>78</b>	<b>100</b>	

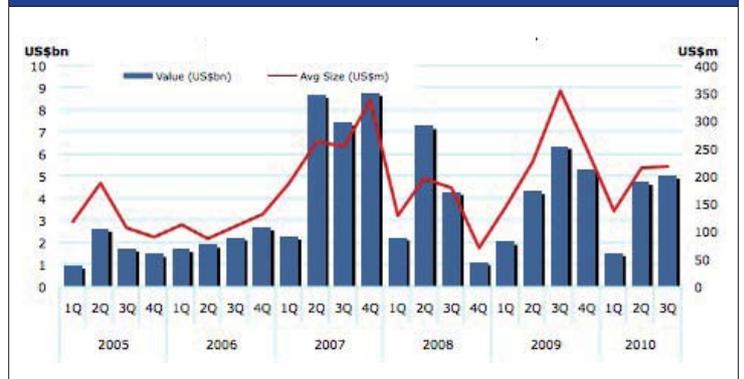
## 20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US\$	Managers
30 <sup>th</sup> Sep 2010	Qatar Islamic Bank SAQ	Qatar	Sukuk	Euro market public issue	750,000,000	HSBC, Credit Suisse, QInvest
21 <sup>st</sup> Sep 2010	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	CIMB, AmInvestment, Maybank Investment Bank
15 <sup>th</sup> Sep 2010	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	AmInvestment
30 <sup>th</sup> Aug 2010	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	RHB Capital, Maybank Investment Bank
20 <sup>th</sup> Aug 2010	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	316,000,000	CIMB, Citigroup
18 <sup>th</sup> Aug 2010	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	CIMB, Maybank Investment Bank
18 <sup>th</sup> Aug 2010	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	127,000,000	Standard Chartered, Bank Muamalat Malaysia
16 <sup>th</sup> Aug 2010	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	Lembaga Tabung Haji, RHB Capital, CIMB
11 <sup>th</sup> Aug 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	317,000,000	RBS, RHB Capital, Al-Rajhi Banking & Investment
3 <sup>rd</sup> Aug 2010	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market private placement	1,089,000,000	OCBC, DBS, CIMB
22 <sup>nd</sup> Jun 2010	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	HSBC, Maybank Investment Bank
14 <sup>th</sup> Jun 2010	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	CIMB
27 <sup>th</sup> May 2010	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	HSBC, Barclays Capital, CIMB
24 <sup>th</sup> May 2010	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	CIMB
10 <sup>th</sup> May 2010	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	HSBC, Samba Capital
7 <sup>th</sup> May 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	314,000,000	AmInvestment
27 <sup>th</sup> Apr 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	156,000,000	AmInvestment
1 <sup>st</sup> Apr 2010	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	HSBC, CIMB
31 <sup>st</sup> Mar 2010	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market private placement	612,000,000	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB
10 <sup>th</sup> Mar 2010	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	359,000,000	Standard Chartered, CIMB

## GLOBAL ISLAMIC BOND VOLUME BY MONTH



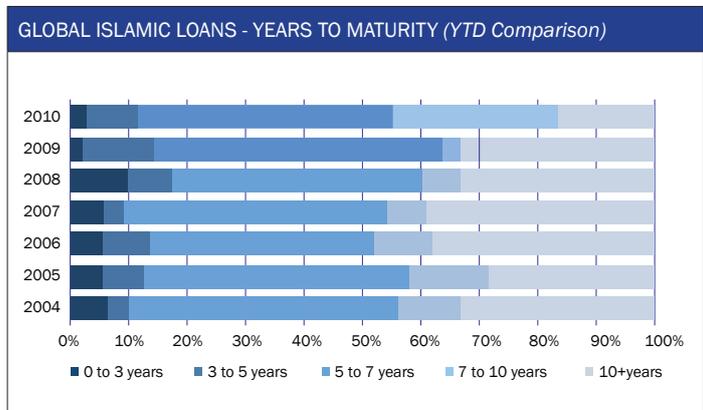
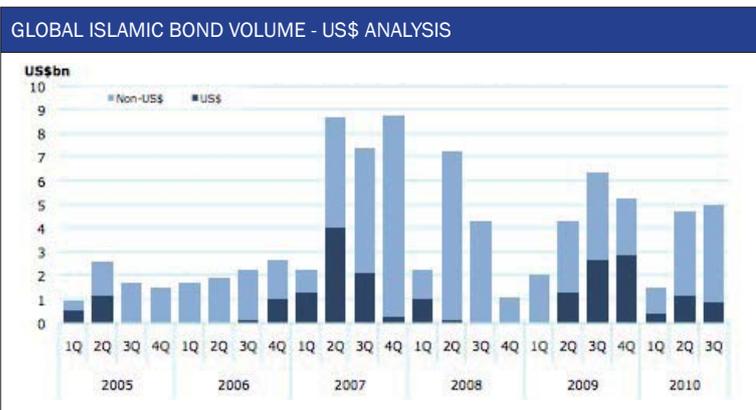
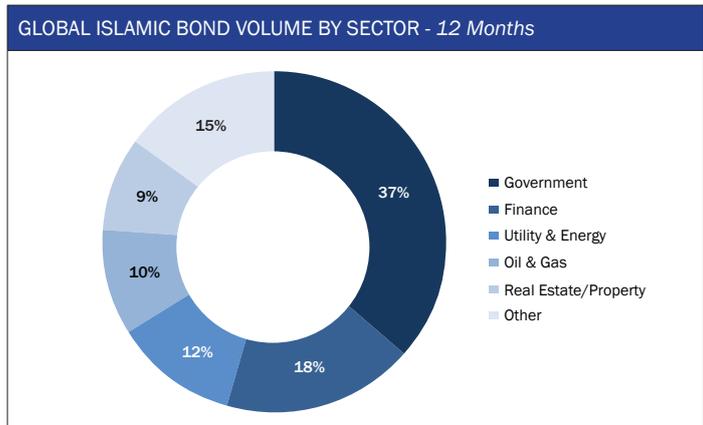
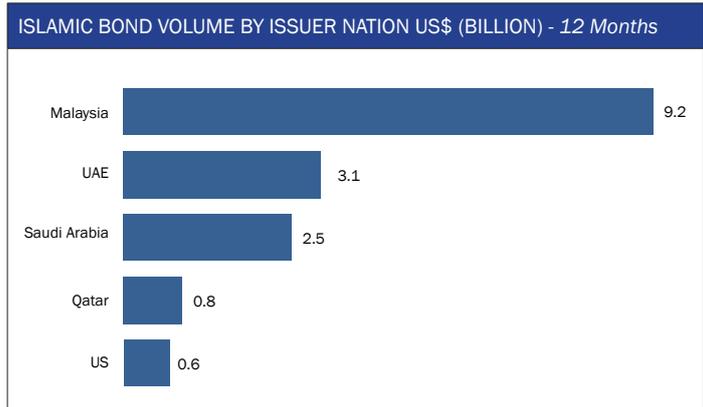
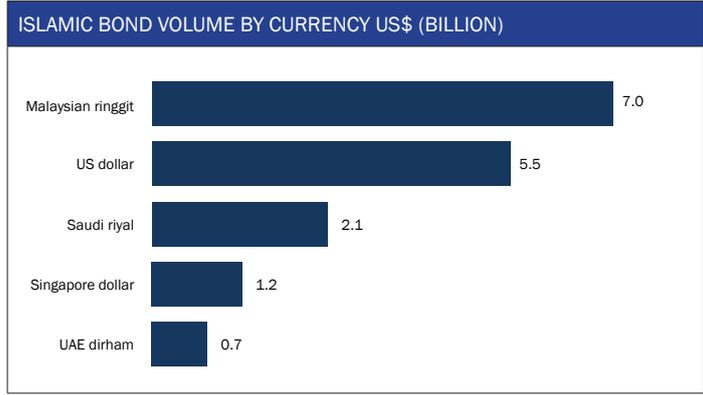
## GLOBAL ISLAMIC BOND VOLUME BY QUARTER



Dealogic is a leading supplier of relationship and transaction management software and information systems for the investment banking industry

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TOP 30 MANAGERS OF ISLAMIC BONDS				12 Months
Manager	Amt US\$	Iss	%	
1	CIMB	3,480,000,000	32	20.9
2	HSBC	2,307,000,000	12	13.9
3	Maybank Investment Bank	1,411,000,000	17	8.5
4	Standard Chartered	982,000,000	10	5.9
5	Samba Capital	933,000,000	1	5.6
6	AmlInvestment	838,000,000	10	5.0
7	OCBC	500,000,000	3	3.0
8	Barclays Capital	417,000,000	1	2.5
9	RHB Capital	401,000,000	5	2.4
10	KFH	374,000,000	4	2.3
11	DBS	370,000,000	2	2.2
12	Abu Dhabi Commercial Bank	333,000,000	1	2.0
13	Dubai Islamic Bank	331,000,000	2	2.0
14	Mitsubishi UFJ Financial Group	324,000,000	2	1.9
15	Citigroup	308,000,000	3	1.9
16	UBS	306,000,000	1	1.8
16	Emirates NBD	306,000,000	1	1.8
18	QInvest	250,000,000	1	1.5
18	Credit Suisse	250,000,000	1	1.5
20	Goldman Sachs	248,000,000	2	1.5
21	Bahrain Islamic Bank	208,000,000	1	1.3
22	National Bank of Abu Dhabi	197,000,000	2	1.2
23	Public Bank	197,000,000	1	1.2
24	Unicorn Investment Bank	149,000,000	1	0.9
24	Deutsche Bank	149,000,000	1	0.9
26	Bank Muamalat Malaysia	148,000,000	3	0.9
27	RBS	106,000,000	1	0.6
27	Al-Rajhi Banking & Investment	106,000,000	1	0.6
29	Cagamas	101,000,000	1	0.6
30	Al Hilal Bank	97,000,000	1	0.6
<b>Total</b>		<b>16,640,000,000</b>	<b>78</b>	<b>100</b>



**ARE YOUR DEALS LISTED HERE?**

If you feel that the information within these tables is inaccurate, you may contact the following directly:

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Telephone: +852 2804 1223

ALL DATA AS OF THE 11<sup>th</sup> OCTOBER 2010

SUKUK MANAGERS		(12 months)	OCT 2009 – OCT 2010	
Manager	Manager Commitment (in US\$)	Issues	Market Share %	
1	Malaysia (Government)	21,813,541,700	98	56.3
2	CIMB	5,069,592,919	87	13.1
3	Malayan Banking	1,728,754,370	97	4.5
4	AMMB Holdings	982,947,205	61	2.5
5	HSBC Banking Group	981,534,697	39	2.5
6	RHB Banking Group	934,850,660	35	2.4
7	Malaysian Industrial Development Finance	904,341,319	199	2.3
8	Standard Chartered	727,331,469	13	1.9
9	Dubai Islamic Bank	602,646,875	3	1.6
10=	Mitsubishi UFJ Financial Group	482,646,875	2	1.2
10=	UBS	482,646,875	2	1.2
12	Cagamas	469,142,626	32	1.2
13	Barclays Bank	412,500,000	1	1.1
14	Indonesia (Government)	242,558,020	14	0.6
15	Affin Holdings	202,057,585	19	0.5
16	Bukhary Capital	176,990,490	4	0.5
17	OSK Holdings	171,388,669	22	0.4
18	EON Capital	170,394,050	70	0.4
19	OCBC Bank	170,084,147	19	0.4
20	Unicorn Investment Bank	148,500,000	1	0.4

SUKUK MANAGERS		(3 months)	JULY 2010 - OCT 2010	
Manager	Manager Commitment (in US\$)	Issues	Market Share %	
1	Malaysia (Government)	7,186,355,600	29	63.6
2	CIMB	1,926,218,792	22	17.0
3	Malayan Banking	458,257,817	29	4.1
4	RHB Banking Group	433,247,315	9	3.8
5	AMMB Holdings	366,321,665	19	3.2
6	Malaysian Industrial Development Finance	253,872,869	49	2.2
7	Cagamas	181,199,696	8	1.6
8	Bukhary Capital	128,928,400	1	1.1
9	HSBC Banking Group	74,861,092	9	0.7
10=	Citigroup	50,000,000	1	0.4
10=	Kuwait Finance House	50,000,000	1	0.4
12	EON Capital	48,452,665	13	0.4
13	Affin Holdings	47,454,810	4	0.4
14	OSK Holdings	44,140,394	6	0.4
15	United Overseas Bank	17,748,805	2	0.2
16	Hong Leong Financial Group	11,317,705	1	0.1
17	Public Bank	11,035,195	3	0.1
18	Standard Chartered	8,859,538	1	0.1
19	Makinta Securities	3,761,046	1	0.0

SUKUK ISSUERS		(12 months)	OCT 2009 – OCT 2010	
Issuer	Issuer Commitment (in US\$)	Issues	Market Share %	
1	BNM Sukuk	15,176,954,600	73	35.3
2	Malaysia (Government)	6,399,875,800	25	14.9
3	Bank Indonesia	2,621,179,584	35	6.1
4	Perusahaan Penerbit SBSN Indonesia	2,456,543,003	11	5.7
5	Dubai Dof Sukuk	1,930,587,500	2	4.5
6	Cagamas	1,649,054,340	33	3.8
7	Celcom Transmission (M)	1,342,937,400	4	3.1
8	Pengurusan Air SPV	1,173,293,540	5	2.7
9	TDIC Sukuk	1,000,000,000	1	2.3
10	Qatar Islamic Bank SAQ	750,000,000	1	1.7
11	Danga Capital	621,408,000	1	1.4
12	Sime Darby	594,088,000	3	1.4
13	Esso Malaysia	588,559,910	11	1.4
14	Dar Al-Arkan International Sukuk	450,000,000	1	1.0
15	Khazanah Nasional	367,252,800	1	0.9
16	Malakoff	331,466,000	2	0.8
17	Malaysia Airports Capital	319,747,000	1	0.7
18	Projek Lebuhraya Utara-Selatan	303,767,000	1	0.7
19	Hytex Integrated	267,301,506	41	0.6
20	Hubline	199,359,785	17	0.5

SUKUK ISSUERS		(3 months)	JULY 2010 - OCT 2010	
Issuer	Issuer Commitment (in US\$)	Issues	Market Share %	
1	BNM Sukuk	6,128,846,300	24	48.1
2	Celcom Transmission (M)	1,342,937,400	4	10.5
3	Malaysia (Government)	1,057,509,300	5	8.3
4	Qatar Islamic Bank SAQ	750,000,000	1	5.9
5	Perusahaan Penerbit SBSN Indonesia	543,744,745	2	4.3
6	Cagamas	405,308,830	8	3.2
7	Malaysia Airports Capital	319,747,000	1	2.5
8	Pengurusan Air SPV	222,575,500	1	1.7
9	Amislamic Bank	177,190,750	1	1.4
10	Pelabuhan Tanjung Pelepas	169,218,525	1	1.3
11	MISC	161,681,500	2	1.3
12	Putrajaya Holdings	161,290,500	3	1.3
13	Malaysia Debt Ventures	159,124,000	2	1.2
14	Esso Malaysia	135,195,110	4	1.1
15	Padiberas Nasional	128,928,400	1	1.0
16	KT Turkey Sukuk	100,000,000	1	0.8
17	Hytex Integrated	67,183,329	12	0.5
18	Perbadanan Kemajuan Negeri Selangor	50,831,530	3	0.4
19	Hubline	47,454,810	4	0.4
20	Bank Indonesia	40,081,800	3	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 11<sup>th</sup> OCTOBER 2010

LOAN MANDATED LEAD ARRANGERS					
OCT 2009 – OCT 2010					
	Lender	Pro Rata (US\$)	Full Credit (US\$)	Deals	Market Share %
1	HSBC	1,449,580,666.74	5,911,989,333.62	5	15.5
2	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	11.7
3	Standard Chartered	1,037,880,504.04	2,480,106,140.19	6	11.1
4	Samba Financial Group	775,994,779.87	4,464,817,559.88	4	8.3
5	Credit Agricole Corporate & Investment Bank	675,997,446.46	4,064,828,226.26	3	7.2
6	National Commercial Bank	631,193,862.18	3,975,221,057.68	3	6.7
7=	Saudi Hollandi Bank	499,583,333.33	3,712,000,000.00	2	5.3
7=	Arab Bank	499,583,333.33	3,712,000,000.00	2	5.3
9	WestLB	318,232,314.04	391,161,570.19	4	3.4
10	Alinma Bank	250,693,862.18	1,692,221,057.68	2	2.7
11	Noor Islamic Bank	242,981,523.33	728,944,570.00	3	2.6
12	Riyad Bank	219,080,666.74	1,828,989,333.62	2	2.3
13	Al Hilal Bank	197,500,999.35	409,001,998.69	2	2.1
14	Abu Dhabi Islamic Bank	183,500,999.35	367,001,998.69	1	2.0
15	Royal Bank of Scotland	175,000,000.00	525,000,000.00	2	1.9
16	Arab Banking	167,981,523.33	503,944,570.00	2	1.8
17	Masraf Al Rayan	126,666,666.67	460,000,000.00	2	1.4
18=	Bank Al-Jazira	119,083,333.33	1,429,000,000.00	1	1.3
18=	Saudi Investment Bank	119,083,333.33	1,429,000,000.00	1	1.3
18=	Islamic Development Bank	119,083,333.33	1,429,000,000.00	1	1.3
18=	Al Rajhi Banking & Investment	119,083,333.33	1,429,000,000.00	1	1.3
22	National Bank	99,997,333.40	399,989,333.62	1	1.1
23	Citigroup	40,000,000.00	40,000,000.00	1	0.4
24=	Bank Islam Malaysia	26,666,666.67	160,000,000.00	1	0.3
24=	Development Bank of Singapore	26,666,666.67	160,000,000.00	1	0.3
24=	Sumitomo Mitsui Financial Group	26,666,666.67	160,000,000.00	1	0.3
24=	Malayan Banking	26,666,666.67	160,000,000.00	1	0.3
28=	Kuwait Finance House	18,232,314.04	91,161,570.19	1	0.2
28=	Standard Bank	18,232,314.04	91,161,570.19	1	0.2
28=	Abu Dhabi Commercial Bank	18,232,314.04	91,161,570.19	1	0.2
31=	BNP Paribas	14,000,000.00	42,000,000.00	1	0.1
31=	National Bank of Abu Dhabi	14,000,000.00	42,000,000.00	1	0.1

LOAN BOOKRUNNERS					
OCT 2009 – OCT 2010					
	Lender	Pro Rata (US\$)	Full Credit (US\$)	Deals	Market Share %
1	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	62.6
2	WestLB	391,161,570.19	391,161,570.19	4	22.3
3=	Standard Chartered	75,000,000.00	225,000,000.00	1	4.3
3=	Royal Bank of Scotland	75,000,000.00	225,000,000.00	1	4.3
3=	Noor Islamic Bank	75,000,000.00	225,000,000.00	1	4.3
6	Citigroup	40,000,000.00	40,000,000.00	1	2.3

ISLAMIC LOANS RAISED (12 Months)			OCT 2009 – OCT 2010
	Borrower	Country	Islamic Loan Amount (US\$)
1	Power & Water Utility Co for Jubail & Yanbu	Saudi Arabia	2,283,000,000
2	Qatari Diar Real Estate Investment	Qatar	1,500,000,000
3	Saudi Aramco Total Refining & Petrochemical	Saudi Arabia	1,429,000,000
4	Qatari Diar Real Estate Investment	Qatar	1,098,538,943
5	Riyadh Independent Power Plant	Saudi Arabia	616,049,284
6	Etihad Etisalat	Saudi Arabia	399,989,334
7	Emirates Steel Industries	UAE	367,001,999
8	Qatari Diar Real Estate Investment	Qatar	300,000,000
9	Asya Katilim Bankasi	Turkey	253,944,570
10	Albaraka Turk Katilim Bankasi	Turkey	250,000,000
11	Dubai International Capital	UAE	225,000,000
12	Qatar Airways	Qatar	160,000,000
13	Gulf Finance House	Bahrain	100,000,000
14	Emirates Trading Agency	UAE	100,000,000
15	Gulf Finance House	Bahrain	100,000,000
16	Global Investment House	Kuwait	91,161,570
17	Al Jaber Aviation	UAE	42,000,000
18	Ozkan Demir Celik Sanayi	Turkey	40,000,000



ALL DATA AS OF THE 11<sup>th</sup> OCTOBER 2010

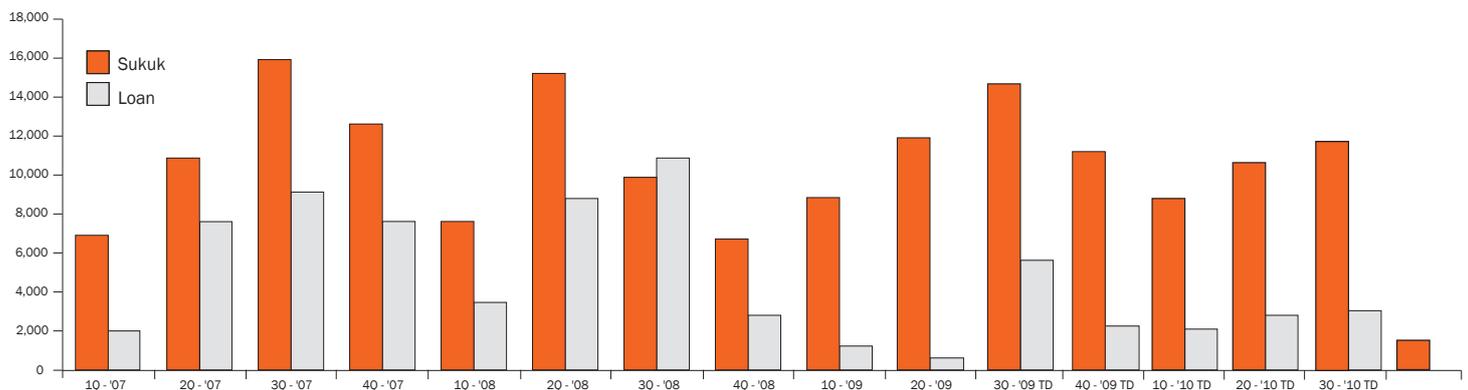
SUKUK BY COUNTRY	(12 Months)	OCT 2009 – OCT 2010
Country	Volume Issued	Volume Outstanding
Malaysia	33,039,520,823	21,460,437,755
Indonesia	5,291,772,606	2,772,068,367
Eurobond	3,780,587,500	3,780,587,500
US	575,000,000	575,000,000
Saudi Arabia	193,328,500	193,328,500
Singapore	92,728,884	92,728,884
Bahrain	68,956,720	53,041,600
Pakistan		
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	OCT 2009 – OCT 2010
Country	Volume (US\$)	Market Share (%)
Saudi Arabia	4,728,038,618	50.5
Qatar	3,058,538,943	32.7
UAE	734,001,999	7.8
Turkey	543,944,570	5.8
Bahrain	200,000,000	2.1
Kuwait	91,161,570	1.0

SUKUK BY INDUSTRY	(12 Months)	OCT 2009 – OCT 2010
Industry	Volume Issued	Volume Outstanding
Other financial	23,765,874,962	13,993,620,684
Sovereign	9,021,055,384	6,501,351,145
Agency	2,951,771,173	2,893,105,313
Manufacturing	2,318,704,959	1,542,668,697
Telephone	1,364,135,000	1,364,135,000
Banks	1,275,533,750	1,275,533,750
Energy company	650,412,845	94,903,455
Transportation	616,848,235	464,943,260
Service company	421,272,318	316,226,720
Electric power	418,970,597	243,146,597
Consumer goods	237,315,810	237,315,810

LOANS BY INDUSTRY	(12 Months)	OCT 2009 – OCT 2010
Industry	Volume (US\$)	Market Share(%)
Real estate	2,898,538,943	31.0
Construction	2,383,000,000	25.5
Oil and gas	1,429,000,000	15.3
Financial services	1,020,106,140	10.9
Utilities	616,049,284	6.6
General manufacturing	407,001,999	4.4
Telecommunications	399,989,334	4.3
Transportation	160,000,000	1.7
Aerospace and defense	42,000,000	0.4

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



## EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
<b>October</b>			
18 <sup>th</sup> – 22 <sup>nd</sup>	25 <sup>th</sup> East Asian Insurance Congress	Bali, Indonesia	EAIC Organizing Committee
25 <sup>th</sup> – 28 <sup>th</sup>	Global Islamic Finance Forum 2010 (GIFF 2010)	Kuala Lumpur	REDmoney events
26 <sup>th</sup> – 28 <sup>th</sup>	IFN Issuers & Investors Asia Forum 2010	Kuala Lumpur	REDmoney events
27 <sup>th</sup> – 28 <sup>th</sup>	Malta Islamic Finance Conference: A New Beginning 2010	Malta	Malta Institute of Management
<b>November</b>			
1 <sup>st</sup> – 2 <sup>nd</sup>	1 <sup>st</sup> World Conference on Riba	Kuala Lumpur	Thinkers Trends Resources
3 <sup>rd</sup>	Islamic Financial Intelligence Summit	London	FT Business
4 <sup>th</sup> – 5 <sup>th</sup>	Beirut Islamic Financial Institutions Forum	Beirut	Al-Iktissad Wal-Aamal Group
10 <sup>th</sup>	IFN Roadshow Canada	Toronto	REDmoney events
10 <sup>th</sup> – 11 <sup>th</sup>	Middle East Life & Family Takaful Summit	Dubai	Asia Insurance Review
12 <sup>th</sup>	IFN Roadshow UK	London	REDmoney events
15 <sup>th</sup>	IFN Roadshow France	Paris	REDmoney events
15 <sup>th</sup> – 19 <sup>th</sup>	13 <sup>th</sup> Euro Finance Week	Frankfurt	Maleki Group
22 <sup>nd</sup> – 24 <sup>th</sup>	The World Islamic Banking Conference	Bahrain	MEGA Events
28 <sup>th</sup> – 1 <sup>st</sup>	Financial Services to Women Middle East	Dubai	IQPC Middle East
<b>December</b>			
1 <sup>st</sup> – 2 <sup>nd</sup>	Annual Conference on Islamic Banking & Finance	Manama	AAOIFI
6 <sup>th</sup>	IFN Roadshow Korea	Seoul	REDmoney events
8 <sup>th</sup>	IFN Roadshow Japan	Tokyo	REDmoney events
8 <sup>th</sup> – 9 <sup>th</sup>	The Saudi Investor Window 2010	Riyadh	UCI International
13 <sup>th</sup>	IFN Roadshow Brunei	Brunei	REDmoney events
13 <sup>th</sup> – 14 <sup>th</sup>	The 6 <sup>th</sup> Annual Syndicated Lending in the GCC 2010	Dubai	IIR & IBC Financial Events
13 <sup>th</sup> – 15 <sup>th</sup>	2 <sup>nd</sup> Insaniah-Irti International Conference LIFE	Malaysia	Insaniah University College and IRTI-IDB

## 2011 EVENTS DIARY

<b>February</b>			
24 <sup>th</sup>	IFN Awards	Kuala Lumpur	REDmoney events
<b>March</b>			
2 <sup>nd</sup>	IFN Awards	Dubai	REDmoney events
8 <sup>th</sup> – 9 <sup>th</sup>	Hedge Funds World Middle East 2011	Dubai	Terrapinn Middle East
22 <sup>nd</sup>	IFN Roadshow Indonesia	Jakarta	REDmoney events
24 <sup>th</sup>	IFN Roadshow Singapore	Singapore	REDmoney events
29 <sup>th</sup> – 31 <sup>st</sup>	The First International Islamic Banks Conference in Qatar	Qatar	Echo Media WLL

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