Islamic Finance news

REDmoney publication

Vol 7 Issue 42 20th October 2010

The World's Global Islamic Finance News Provider

Optimism pays

Whether one chooses to call it ethical finance or risk management finance, a rose is a rose and by any other name Islamic finance is looking to take root globally. If not already entrenched in a given market, steps are being taken to carve out legal and regulatory intricacies that will enable the healthy growth of the Islamic finance industry.

Take Canada, where government lawyers are looking to amend legislation and identify assets to issue its first sovereign Sukuk. This is despite the discovery that it will take some time and commitment from investors to work with investment bankers to realize Sukuk as a new asset class, states Omar Kalair of UM Financial in one of our reports this week.

Moving south, the US's efforts to welcome and integrate Islamic finance into its current financial system have not been as prominent as those made by some other western nations. However, there have been important moves including the first leveraged private equity buyouts and Sukuk issuances using Rule 144A. These American securities laws continue to allow Islamic finance to innovate and thrive in the US, as discussed in a report by Murtha Cullina. Staying in the US, one of our IFN Reports this week suggests a recently unveiled paper detailing Shariah as a threat to the American way, is way off the mark.

Other IFN reports focus on Australia and Ireland who are both taking firm action in exploring the possibility of Islamic banking and finance. Australia is reviewing its taxation treatment of Islamic finance, banking and insurance products, even though market demand is yet to reach the desired level.

In Ireland, the Muslim community is finding Islamic financing difficult to secure, as Islamic banks have yet to penetrate the market sufficiently, following a general low volume of interest.

The Islamic REIT industry is also up for discussion, where the South Africa based Oasis Holding Group suggests that Islamic REITs, which have much in common with their conventional counterparts, have taken time to establish, due to financing requirements and stipulations that property tenants must be Shariah compliant.

There does however seem to be a healthy appetite for trusts and investment funds with a notable spur in growth of offshore trusts in Islamic finance transactions, confirms Conyers Dill & Pearman. Travers Smith concurs and suggests that the Islamic fund market has big potential to facilitate investment with a focus on equity rather than debt.

For all the talk of growth and potential, David Kinloch, our Meet the Head personality for this week, believes that the challenge to Islamic finance is to ensure that the growth attained so far is sustainable, and that Islamic finance has a permanent role to play in the global financial landscape.

This will not be a problem for Indonesia, as it constantly looks to Islamic finance, particularly Sukuk, for general financing. The country's US$224 million Hajj Fund Sukuk is our featured Termsheet this week.

For those of you attending the Global Islamic Finance Forum in Kuala Lumpur next week, we look forward to seeing you there. For those who are unable to attend, do not worry, as we will be publishing a full newsletter each day to keep everyone abreast of the news and views. This will be live at 5pm GMT each day.

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- Takaful will surpass conventional insurers in 10 years, says CEO of **HSBC Amanah Takaful Malaysia**
- **Doha Bank** agrees to promote and sell **Allianz Takaful**'s products
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- **RAM** reaffirms the respective 'AA3' and 'A2' ratings of **Mukah Power Generation's** Sukuk Mudarabah
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MOVES

- **DLA Piper** appoints **Murad Abida** as head of corporate for the Middle East
- **BNY Mellon** appoints **Marina Lewin** head of global sales and **Steve Farlese** as head of global service delivery

AMERICAS

Politics may stall growth

US: A report issued by the Center for Security Policy, a US think tank, titled "Sharia: The Threat to America" could slow the growth of Islamic finance in the US.

This report, presented in Washington, stated that Shariah finance is incompatible with the US constitution and should be prohibited.

Newt Gingrich, former speaker of the House of Representatives has also called for a federal law to ensure that Islamic finance is not recognized by any US court.

(More in IFN Report on page 13)

Unsolicited offer for assets

BAHAMAS: Investment firm BMB Group has made a US$3.4 billion unsolicited offer through BMB Advisors Malaysia to buy Kerzner International Holdings (Kerzner), a global developer and operator of prominent casino resorts and luxury hotels.

Kerzner has assets in hospitality, real estate and casinos. However, BMB Group said that its interest in Kerzner is only for the hospitality and real estate sectors.

Jennifer Glaisek, a spokeswoman of Kerzner confirmed BMB's offer and said the company is not for sale.

Potential Sukuk in the pipeline

CANADA: HSBC Bank Canada may offer a US$500 million Sukuk, according to Omar Kalair, CEO of UM Financial, an Islamic financial institution in Canada.

Omar said UM Financial is also discussing with three government-related borrowers on issuing Sukuk, one of which may issue a US$1.5 billion Sukuk.

Mutual collaboration

US: Bank Negara Malaysia has signed an MoU with Bank of Mauritius to boost mutual cooperation on skill building and human resource development in the financial services industry including Islamic finance.

ASIA

First Shariah REIT

SINGAPORE: Sabana Shariah Compliant Industrial Real Estate Investment Trust (Sabana REIT) is planning to raise SG$600 million (US$459 million) via initial public offering on the Singapore Exchange (SGX) by the end of 2010.

Once floated, Sabana REIT is expected to be the first certified Shariah compliant REIT on the SGX.

United Overseas Bank and Daiwa Capital Markets are the advisors on the deal, while HSBC is the financial advisor.

Ratings unaffected

MALAYSIA: The ratings of 'AA3' of Tanjung Offshore's RM150 million (US$48 million) serial bonds and RM200 million (US$64 million) Islamic medium term notes program are not affected by the notice of claim served by oil and gas company Newfield Peninsular Malaysia, said RAM Rating Services (RAM).

However, RAM said the Newfield incident could affect Tanjung Offshore's reputation and hurt its competitive positioning in the marine support services sector.

Newfield has served the US$15.9 million notice on the 6th October on Tanjung

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Offshore's subsidiary — Tanjung Kapal Services, for the cost of repair and cleaning for pipelines allegedly damaged by the group's vessel, Tanjung Puteri 1.

Islamic finance review

AUSTRALIA: The Board of Taxation has released a discussion paper on the taxation review of the Islamic finance industry in Australia to facilitate stakeholder consultation.

The board is planning to conduct consultation meetings in Sydney, Canberra and Melbourne in November 2010, to provide information on the paper and seek feedback from participants on the issues raised in the discussion paper.

The board added that the industry and public submissions on the review must be made by the 17th December.

The taxation review was conducted based on the recommendation of the Australian Financial Centre Forum in April 2010, to ensure the country's tax laws do not prevent the expansion of Islamic finance, banking and Takaful products.

(More in IFN Report on page 12)

Plans to lower NPF ratio

MALAYSIA: Bank Islam Malaysia plans to lower its non performing financing (NPF) ratio from 3.24% registered as of the 30th June 2010 to the industry average of 2.1% by the end of 2011, according to Zukri Samat, its managing director.

Zukri added that the bank will continue to monitor the quality of assets and ensure its underwriting standards are in line with its risk appetite.

Banking market grows 21%

MALAYSIA: The Islamic banking market in the country grew by 21% in the first seven months of 2010 compared to the same period in 2009, while industry assets were registered at RM337.6 billion (US$109 billion) at the end of July 2010, according to the 2010–2011 Economic Report from the ministry of finance.

Shariah compliant household financings increased 26% to RM134.4 billion (US$43.3 billion) and made up 64% of total Islamic financing, while Takaful assets increased 20% to RM13.9 billion (US$4.5 billion) at the end of July 2010 from the same period in 2009.

The report also stated that Malaysia maintained an average growth of 20% in the Sukuk market for the past five years.

Medium term notes cancelled

MALAYSIA: Pharmaniaga has redeemed and cancelled its RM60 million (US$19 million) Islamic medium term notes program and RM40 million (US$13 million) Islamic commercial papers program last week, according to RAM Rating Services.

In view of this, RAM has no more rating obligation on these Islamic notes, which had been rated 'AA2(s)' and 'P1' respectively.

Pharmaniaga is a local healthcare firm.

Profits jump

MALAYSIA: Public Bank has posted a 22% hike in its third quarter net profit to RM782.7 million (US$252 million) for the quarter ended on the 30th September 2010, due to an increase in financing and Islamic banking activities.

In the period, the bank's total financing rose 14% to RM151.7 billion (US$49 billion), driven by domestic demand.

Additionally, net income from Islamic banking increased 15% to RM1.37 billion (US$441 million) in the same period.

First sovereign Sukuk

KAZAKHSTAN: The country is planning to issue its first US$500 million sovereign Sukuk before year end, according to Arken Arystanov, head of the Regional Financial Centre of Almaty City.

Arken added that amendments to Kazakhstan's law on Islamic finance and banking are currently being considered and will be due for adoption within the next two months.

Stimulate Sukuk demand

INDONESIA: The country may negotiate rates with potential investors in the book building process to spur demand for Sukuk and widen the range of assets, according to Dahlan Siamat, director of Islamic financing unit at the ministry of finance.

He added that government linked companies can propose projects to be funded with a Sukuk as this will allow those projects to be used as underlying assets.

Developing Islamic finance

MALAYSIA: Bursa Malaysia will launch Sukuk and conventional bonds to meet retail investor's demand for fixed income instruments, said Najib Razak, prime minister of Malaysia during the 2011 budget announcement last week.

Najib Razak added that Bursa Malaysia will also develop an international board to enable the listing of foreign securities, including Shariah compliant products.

The prime minister also proposed that tax deduction be given for the issuances of Islamic securities based on the principles of Murabahah and Tawarruq to encourage innovation and promote transactions in the Shariah compliant commodity trading platform, Bursa Suq Al-Sila'.

Additionally, he proposed that Takaful contributions for the country's export credit sector be given a double tax deduction.

(More in IFN Report on page 13)

EUROPE

Gatehouse to issue Sukuk

UK: Gatehouse Bank is planning to launch a real estate investment fund valued at GBP150 million (US$239.8 million), a Sukuk worth GBP70 million (US$111.9 million) and financing product worth GBP60 million (US$95.9 million), according to Ibrahim Attia, its chief placement officer and head of business development.

Ibrahim added that the funds will focus on investments in the UK market while the financing product will cover the bank's investments in diverse operations. He also said Gatehouse Bank plans on increasing

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its capital and expand into Bahrain, France, Kuwait, Qatar, Saudi Arabia and the UAE.

Sukuk rating update

UK: Fitch Ratings (Fitch) has updated its corporate finance criteria rating report, on rating Sukuk. This report updates and replaces a report on "Fitch's approach to rating Sukuk" dated the 5th March 2007.

The ratings in Fitch's corporate portfolio are not affected by the update and the new criteria only applies to asset based Sukuk structures.

Shariah screening for users

UK: Amiri Capital's Shariah screening system, Amiri S3, has released an application for Blackberry phone users.

The application will help customers determine if a particular stock is Shariah compliant from a list of over 40,000 global stocks.

GLOBAL

Avoiding property collateral

GLOBAL: Islamic bond issuers are avoiding collateral based on real estate due to investors demand.

Debt linked to returns from oil fields, aluminum and manufacturing plants are more popular with investors than property as it provides investors more comfort, according to Moinuddin Malim, CEO of Mashreq Al Islami.

In August, Kuveyt Turk Katilim Bankasi raised US$100 million from its Sukuk which was 51% linked to textile machinery and equipment. The issue was oversubscribed by 150%, according to Ufuk Uyan, its CEO.

Local currency Sukuk

GLOBAL: The Gulf region needs more Sukuk in local currencies where US dollar denominated Sukuk is the norm, in order to boost and develop the domestic market for Sukuk in the region, according to Islamic bankers.

According to Kuwait Finance House, local currency issuances were fewer in the Gulf, as compared to Malaysia, where 53% of global Sukuk issuances in the first half of 2010 were ringgit-denominated.

This can be seen through Qatar riyal Sukuk issuances, which account for only 8.3% of global issuances.

Significance proven

GLOBAL: The importance of Islamic finance in strengthening financial ties became clear with the emergence of Sukuk as an asset class for investors and a financing form for businesses, said Zeti Akhtar Aziz governor of Bank Negara Malaysia.

She said this significance can be seen through the global Sukuk market, which currently stands at US$130 billion, with an average annual growth rate of 40%.

She added that the Sukuk market has evolved into an international market, generating cross-border flows, as funds are raised outside the domestic financial markets.

Index return forecasts gain

GLOBAL: The HSBC/Nasdaq Dubai US Dollar Sukuk Index, which has returned 12.4% so far in 2010, indicates that the global Sukuk market is set to extend gains for this year.

According to research company EPFR Global, investors poured a net US$1.5 billion into emerging-market bond funds in the second week of October, bringing year-to-date inflows to US$41 billion.

In addition, Gulf Sukuk sales are rising after Dubai World reached an agreement with creditors in September on its US$24.9 billion debt.

Analysts also said that companies in the Gulf plan to issue about US$5.8 billion Sukuk in the fourth quarter of 2010.

The HSBC/Nasdaq Dubai US Dollar Sukuk Index tracks 23 Shariah compliant sovereign and corporate securities.

MIDDLE EAST

Online traffic fine payment

UAE: Dubai Islamic Bank (DIB) has signed an agreement with the Dubai Police to offer traffic fine payment services through the bank's Al Islami online banking network.

The agreement will allow DIB customers to also view existing traffic summonses online by early 2011.

DIB plans to extend this service across all its e-channels, including telephone banking.

Market Islamic economy

IRAN: Seyyed Shamseddin Hosseini, the minister of economy and financial affairs of Iran has urged OIC members to promote Islamic banking and economics.

The minister also highlighted the need to implement a preferential tariff system as well as improved cooperation among OIC member states to combat money laundering and terrorism financing.

Ethical banking model

UAE: Islamic banks which use the foundation of Shariah should lead the way for an ethical banking structure, said Afaq Khan, CEO of Standard Chartered Saadiq.

Islamic banks practicing ethical values can pave the way for a profitable future and be an example to the conventional banking industry, he added.

Net profit slides 8.6%

SAUDI ARABIA: Al Rajhi Bank has posted an 8.6% drop in 2010 third quarter net profit to

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SAR1.64 billion (US$437 million) from SAR1.8 billion (US$480 million) in the same period last year.

The slide in profit was attributed to the bank's policy of supporting credit provisions to maintain its financial position, according to Abdullah Al Rajhi, its CEO and managing director.

Net profit for Al Rajhi Bank for the first nine months of 2010 dropped 3.7% to SAR5.1 billion (US$1.36 billion) from SAR5.3 billion (US$1.41 billion) for the same period in 2009.

Profitable months

KUWAIT: National Bank of Kuwait (NBK) has reported an 11.4% increase in net profits to reach KWD225 million (US$797 million) for the first nine months of 2010.

NBK's total assets recorded a total of KWD12.5 billion (US$44 billion), while its total shareholders' equity reached KWD2 billion (US$7.1 billion).

NBK owns Shariah compliant Boubyan Bank.

Barriers to financing

UAE: Banks' low confidence in the ability of borrowers repaying loans, high profile company restructuring and lack of clear insolvency laws are the biggest constraints to bank financing in the UAE, according to a global survey by Norton Rose.

Forty seven percent of respondents attributed the low rise of financing in the UAE for the first five months of 2010 to a lack of confidence in borrowers. Another 47% of respondents said that the decline in financing is due to restructuring in the region. Some 41% of respondents also attributed strict financing criteria by banks to the low rise in financing.

Over 60% respondents mentioned Islamic finance as a likely source of liquidity over the next 12 months.

Sukuk to fund acquisition

UAE: Etisalat, a UAE telecommunications operator is considering Sukuk to raise financing for its planned 46% acquisition in Zain, a Kuwait based telephone company.

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Etisalat, which is 60% state owned by Abu Dhabi will not receive financing from the government for this transaction. Etisalat has also started discussions with banks for this financing.

Opportunities in Turkey

UAE: Noor Islamic Bank expects to close a good number of Islamic syndicated loans and Sukuk in the first half of 2011 and is actively pitching for more deals out of Turkey, according to Aamer Zaidi, its head of corporate banking.

Aamer did not provide any details of the planned deals.

"I am confident that we will see more issues, syndicated loans and Sukuk, coming out of Turkey in the first half of 2011 and we can expect that the size and number will be higher than what has been done so far," he added.

Noor Islamic Bank closed a US$240 million Murabahah syndicated loan for Turkey's Al Baraka Bank in September 2010 as well as a US$255 million dual-currency Islamic syndicated facility for Turkey's Bank Asya in April this year.

Bank's net profit grows

SAUDI ARABIA: Bank AlBilad has registered a third quarter net profit of SAR2.4 million (US$640,000), a 26% increase from SAR1.9 million (US$506,653) in 2009, due to net income growth.

Net profit for the first nine months of this year soared 72% to SAR87.8 million (US$23.4 million) from SAR51.1 million (US$13.6 million) for the same period in 2009. Total assets increased 13% to SAR19.18 billion (US$5.1 million) at the end of September 2010.

Slide in net profits

BAHRAIN: National Bank of Bahrain's net profits have decreased to BHD34.03 million (US$90.51 million) for the first nine months of 2010 from BHD36.95 million (US$98.27 million) for the corresponding period in 2009.

The bank recorded a lower net profit in the third quarter of 2010 of BHD10.77 million (US$28.64 million) as compared to BHD11.35 million (US$30.19 million) for the same period in 2009.

Hike in profits

KUWAIT: Boubyan Bank recorded a KWD4.5 million (US$15.9 million) in its nine-month profit ended on the 30th September after a loss of KWD17.2 million (US$61 million) for the same period last year.

The bank also set aside KWD11.5 million (US$40.8 million) in provisions.

Additionally, Ibrahim Ali Al-Qadhi, chairman of Boubyan Bank said total assets in the same period rose 34.2% to KWD1.24 billion (US$4.4 billion).

BMI registers loss

BAHRAIN: BMI Bank registered a loss after provisions of BHD10.6 million (US$28.11 million) for the third quarter of 2010 compared to a profit of BHD939,000 (US$2.5 million) for the same period last year.

The bank also posted a net loss of BHD18.5 million (US$49 million) in the first nine months of 2010, as compared to a loss of BHD4.6 million (US$12.2 million) during the same period in 2009.

Net profit soars

OMAN: Bank Muscat registered a third quarter net profit of OMR25.2 million (US$65.4 million), an increase of 26% as compared to OMR20.01 million (US$51.97 million) for the same period in 2009.

The bank also posted a net profit of OMR72.2 million (US$187.5 million) for the first nine months of 2010.

In the second quarter of 2010, the bank's profits leaped 87% to OMR22.57 million (US$58.6 million) backed by reduced credit losses and higher deposits.

Funds to toughen bank

BAHRAIN: Gulf Finance House is planning to reduce its capital and raise US$500 million through an equity linked Murabahah instrument to strengthen its balance sheet.

The bank will hold a shareholder's meeting this month to approve plans to raise this fund and consolidation of shares, and a reduction in paid up capital.

Net profit up 6%

QATAR: Qatar International Islamic Bank (QIIB) has registered a net profit of QAR420 million (US$115.4 million) in the third quarter, up 6% from QAR397million (US$109.1 million) posted for the same period in 2009.

The bank experienced a growth rate of 23% in assets, with total assets registered at QAR18.2 billion (US$5 billion) in the third quarter of 2010 as compared to QAR14.8 billion (US$4.1 billion) for the same period in 2009.

QIIB's total deposit for the third quarter this year was QAR12.2 billion (US$3.4 billion) as

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compared to QAR9.2 billion (US$2.5 billion) in the same period last year.

Total assets leap 26%

QATAR: Qatar Islamic Bank (QIB) recorded a 26% jump in total assets of QAR44.8 billion (US$12.3 billion) in the third quarter of 2010 as compared to QAR35.6 billion (US$9.8 billion) for the same period of 2009.

The bank also listed a net profit of QAR907 million (US$249.3 million) in the third quarter of 2010 and registered an operational income of QAR1.7 billion (US$476 million) in the same period.

Profits fall 16%

UAE: Sharjah Islamic Bank has recorded a 16% drop in its third quarter net profit for 2010 to AED191.6 million (US$52.5 million). In the same period, total assets went up 2.3% to AED16.3 billion (US$4.4 billion).

Sharjah Islamic Bank has also inked an agreement with Sharjah Social Services Department (SSSD) to issue bank cards for SSSD beneficiaries, to allow them to receive monthly payments through the bank's ATM cards.

Official opening

UAE: Shariah compliant law firm Agha & Co will officially launch its Dubai office on the 25th October 2010.

Oliver Ali Agha, founding partner of Agha & Co, said the firm chose to make Dubai a key operational hub, as it is an important center of commerce in the Middle East.

Previously, Agha and Dr Saeed Mohammed Al-Shamsi established Agha & Shamsi, an affiliated firm, in Abu Dhabi.

Bank acquisition

UAE: Abu Dhabi Commercial Bank (ADCB) has completed legal transfer of the retail banking and small and medium business of RBS UAE to its bank.

The agreement doubles ADCB's credit card businesses through market share expansion and adds over 250,000 new retail customers to the bank.

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ADCB Meethaq is the Islamic subsidiary of ADCB.

Bank equity stake sale

UAE: Bank of Sharjah has finalized the sale of its 30% equity stake in Emirates Lebanon Bank (ELBank) to EL Capital.

Following the transaction, the capital structure of ELBank is 51% owned by Bank of Sharjah, 30% — EL Capital and 19% — BNPI France.

EL Bank is owned by Bank of Sharjah and BNPI Paris (a subsidiary of BNP Paribas).

Bright prospects for Nakheel

UAE: Nakheel is planning to issue a Sukuk by January 2011, said Chris O'Donnell, its CEO. O'Donnell added that Nakheel has so far garnered a total of 90% of acceptances among its creditors for the debt restructuring, which he expects to be completed by end of this year.

Plans to launch IPO

QATAR: QInvest is planning to launch an initial public offering on Qatar's exchange late next year, according to Shahzad Shahbaz, its CEO.

QInvest has a paid up capital of US$500 million and its shareholders include Qatar Islamic Bank.

No to merger

UAE: Noor Islamic Bank has no plans to acquire or merge with another financial institution, according to a statement issued by the bank.

It was reported last week that the government of Dubai is planning to merge Emirates Islamic Bank, Dubai Bank and Noor Islamic Bank to bail out Amlak Finance.

iMAL system execution

YEMEN: Shamil Bank of Yemen and Bahrain (SBYB) has implemented the iMAL system, Path Solutions' Islamic banking software. Saeed Bazara, general manager of SBYB said that deployment of efficient technology is a key element in ensuring that the bank delivers efficient banking services to its customers.

First Islamic bourse

BAHRAIN: The Bahrain Financial Exchange has launched Bait Al Bursa, the first exchange operated platform dedicated to Islamic finance products in the Middle East.

Bait Al Bursa's initial product offering is e-Tayseer, an electronic Shariah compliant platform to automate Murabahah transactions.

E-Tayseer also provides financial institutions an option to purchase assets directly from suppliers for their Murabahah liquidity management transactions.

Net profit leaps 31.3%

UAE: Abu Dhabi Islamic Bank's (ADIB) net profit for the third quarter of 2010 increased 31.3% to AED314.5 million (US$85.6 million) as compared to AED239.5 million (US$65.2 million) for the same period in 2009.

The bank's registered AED71.2 billion (US$19.4 billion) in total assets as of the 30th September 2010, 21.3% higher than AED58.7 billion (US$16 billion) recorded in the same period last year.

ADIB's profit for the third quarter stood at AED909.5 million (US$247.6 million) as compared to AED701.3 million (US$190.9 million) during the first nine months of 2009.

Bourses merger delayed

UAE: The merger between Dubai Financial Market and the Abu Dhabi Securities Exchange is unlikely before 2011 as the process takes time, according to Ziad Makhzoumi chief financial officer of Arabtec, the UAE's largest listed builder.

However, Ziad added that the merger will be a positive move for the UAE as it will help enhance trading volumes and result in substantial cost savings to both exchanges.

Profits leap 51.8%

QATAR: Masraf Al Rayan has recorded an increase of 51.8% in net profits to QAR911.5 million (US$250 million) in the first nine months of 2010.

Hussain Ali Al Abdulla, its chairman and managing director, attributed the jump to the bank's expanding customer base.

In the same period, customers' deposits rose 63.6% to QAR24.9 billion (US$6.8 billion), while financing activities climbed 38.8% to QAR17.4 billion (US$4.8 billion).

Net profits down 25%

QATAR: Islamic Holding Group has recorded a third quarter net profit of QAR3.28 million (US$900,777) in 2010, a 25% slide from the same period in 2009.

The group net operating income in the third quarter of 2010 fell by 18% to QAR10.28 million (US$2.8 million). Income from deposits in Islamic banks dropped 2% to QAR1.86 million (US$510,807) while income from Mudarabah contracts plunged 81% to QAR0.29 million (US$79,642).

Total assets for Islamic Holding Group was registered at QAR338.67 million (US$93 million) in the third quarter of 2010.

New banking technology

BAHRAIN: Almoayyed Computers and BML Istisharat have signed a four-year agreement with Capivest to implement the Shariah compliant integrated computerized banking system for the bank.

Under the agreement, Almoayyed Computers and BML Istisharat will be responsible to complete the automation of Capivest's banking operations spanning investments, placements, treasury, general ledger and balance sheet, risk management aspects and statutory and management reporting.

Listing on Dow Jones

UAE: Dubai Gold and Commodities Exchange (DGCX), will list futures contracts on Dow Jones indexes, including the Dow Jones Islamic Market Titans 100 Index.

The first product expected to launch on DGCX is the Dow Jones Islamic Market Titans 100 Index Future. The launch of this product is subjected to regulatory approval.

The Dow Jones Islamic index represents the top 100 blue-chip Shariah compliant stocks globally.

ASIA

More Takaful experts wanted

MALAYSIA: The local Takaful insurance industry needs more skilled human capital and professionals to increase its low penetration rates in the country, according to Takaful operators.

Shahril Azuar Jimin, CEO of Etiqa Takaful pointed out that Malaysia is facing a lack of professionals in technical areas such as product development, actuary and investment.

Shahril Azuar explained that these problems would prevent Takaful operators from coming up with more innovative products to meet the needs of different target audiences.

Takaful industry growth

MALAYSIA: The penetration rate of the Takaful industry in Malaysia will surpass conventional insurers in 10 years with the entry of new players, according to Zainudin Ishak, CEO of HSBC Amanah Takaful Malaysia.

Zainudin added that it is important for the Islamic banking and capital markets to continue expanding as this will provide a sufficient supply of instruments for Takaful operators to invest.

According to industry estimates, the Takaful penetration rate is less than 10% in Malaysia.

MIDDLE EAST

Partnering for Takaful

QATAR: Doha Bank has partnered with Allianz Takaful to promote and sell the insurer's products in Qatar. These products include plans for protection, savings, investment and child education.

Doha Bank will offer these to both Islamic and conventional banking consumers.

Takaful in the UAE

UAE: Abu Dhabi National Islamic Finance plans to launch a Takaful company in the first quarter of 2011 in a joint venture with three Abu Dhabi government backed firms.

An official of the Securities and Commodities Authority, a UAE regulator said that several applications for insurance licences are pending and some will be approved by mid next year.

Currently there are six Takaful providers in the UAE.

RATINGS NEWS

ASIA

Performance maintained

PAKISTAN: JCR-VIS Credit Rating Company (JCR-VIS) has maintained Pak-Qatar General Takaful's financial strength rating at 'BBB+'.

The move is based on the support of Qatari sponsors including Qatar Islamic Insurance Company, Qatar International Islamic Bank and Qatar Islamic Bank.

Simultaneously, JCR-VIS has revised the rating outlook from positive to stable due to the company's mix performance and deteriorating macro-economic outlook.

Generating excellence

MALAYSIA: RAM Rating Services has reaffirmed the respective 'AA3' and 'A2' ratings of Mukah Power Generation's (MPG) senior Sukuk Mudarabah program worth RM665 million (US$188 million) and junior Sukuk Mudarabah program totaling RM285 million (US$80 million).

Both long term ratings have a stable outlook.

The two-notch rating distinction between the senior and junior Sukuk is based on the latter's subordination in terms of cashflow priority and its strong equity based features.

MPG is an independent power producer in Sarawak.

MIDDLE EAST

One notch up

UAE: Moody's Investors Service (Moody's) changed the outlook of Dubai Electricity and Water Authority (DEWA), DEWA Funding and its US$1 billion notes due April 2015 from stable to positive.

The outlook change reflects DEWA's efforts to extend its debt maturity profile which strengthens its liquidity.

Moody's also converted DEWA's issuer rating into a 'Ba2' corporate family rating and assigned a probability of default rating of 'Ba2'.

Sukuk well rated

QATAR: Fitch Ratings (Fitch) has assigned 'A' rating to Qatar Islamic Bank's US$750 million Sukuk issue of senior unsecured trust certificates which was issued on the 7th October and will mature in 2015.

The rating takes into account a purchase undertaking that requires QIB to repurchase the Sukuk assets on the scheduled or dissolution date.

Industry feedback sought for Islamic finance

Last week the Australian Board of Taxation released a discussion paper reviewing the taxation treatment of Islamic finance, banking and insurance products in Australia. The paper is the result of an earlier announcement on the 26th April 2010 that the board will undertake a comprehensive review of tax laws in Australia to ensure that the prevailing laws will not hinder the growth of the Islamic finance industry.

In preparing the discussion paper, the board was asked to identify tax barriers in the territory, state and country levels, and examine tax policies towards Islamic finance in other jurisdictions including France, Indonesia, Ireland, Malaysia, Singapore, South Korea, and the UK.

Chaaban Omran, CEO of Crescent Investments Australasia in a discussion with Islamic Finance *news* suggested that apart from tax laws, the Australian government should also look at the regulations on stamp duty and residential tenancy laws. He believes that these two areas need to be changed accordingly if Islamic finance is to move forward in the country.

It is perhaps this sort of feedback that the government is looking to obtain on the discussion paper. Consultation meetings will take place in Sydney, Canberra, and Melbourne in November to gain insights and evaluations from stakeholders of Islamic finance.

The outcome of these meetings is to provide the board with necessary findings and recommendations for state and territory tax laws that will ensure equal tax treatment for Islamic and conventional finance products.

Professor Ishaq Bhatti, a senior lecturer at the department of economic finance at La Trobe University told Islamic Finance *news* that the discussion paper on the taxation treatment of Islamic finance products creates a "great opportunity" for Australia, which is already engaged in "importation of capital" and is managing it successfully.

Alex Regan, a partner of law firm Mallesons Stephen Jaques (Australia) said to Islamic Finance *news* that although the current tax laws are not favorable for Islamic finance, some Shariah compliant transactions in the real estate sector are initiated by investors from the Middle East and Malaysia. He also believes that the Board of Taxation will come out with its findings before the end of June 2011.

Although the government is keen to develop an Australian Shariah compliant financial industry, the domestic market is not large enough to establish an Islamic bank, according to Babar Jamil, business development manager at the Muslim Community Co-operative Australia (MCCA).

Talking to Islamic Finance *news* Babar said MCCA has been trying for some time to get a foreign Islamic bank into Australia. However, there has not yet been a positive response from any bank due to the low market volume of only 450,000 Muslims.

Still, Babar agrees that there is potential for Islamic finance. MCCA was established in 1989 with a seed capital of AU$22,300 (US$21,947) as a trading cooperative in Victoria, which was the first state to revise its laws allowing for some Shariah compliant financial products and services. The MCCA currently offers a range of Shariah compliant products including shared equity rentals, Murabahah, Musharakah, Mudarabah, and sale to lease finance.

Not enough Islamic retail banking demand

According to a survey conducted among the Muslim community in Ireland, 76% of respondents believe that Muslim business owners find it difficult to secure finance in the republic. Out of the Muslim businessmen who responded to the survey, 90% highlighted the necessity to launch Shariah compliant banking and finance products in the retail market as a measure to overcome this financing problem.

The survey was conducted by Dr Thomas M Cooney, director of the Institute for Minority Entrepreneurship at Dublin Institute of Technology (DIT). If indeed these banking products were launched, they will cater mostly to the needs of an estimated 45,000 Muslim population in Ireland. Based on the market volume, which is less than 1% of the total population of 4.46 million, it is no wonder that international Islamic banking institutions are yet to open branches in Ireland despite the keenness from Muslim entrepreneurs for an Islamic retail banking presence.

When contacted by Islamic Finance *news*, the Islamic Bank of Britain stated that based on market potential, it has no immediate plans for expansion programs for Islamic banking in Ireland. However, IBB assured that due consideration will be given with launching of Islamic finance products in the Euro zone.

In contrast, KPMG Ireland finds the prevailing regulations attractive for retail Islamic financial institutions to start operations in Ireland. Kashif Aziz Jahangiri, director tax of KPMG Ireland in response to Islamic Finance *news* said that the stage is set for Islamic banks to draw benefits from the Irish economic offerings. By establishing Islamic banking operations in Ireland, an Islamic financial institution will have the opportunity to cater to other communities in the EU without the requirement to obtain additional regulatory approvals, said Kashif. He believes that Irish economic policies are "business friendly" and the government is committed to support the Islamic banking and finance.

Although Ireland is yet to develop Islamic banking products for the retail sector, the Shariah compliant capital markets have gained momentum during the last four years. The republic entered the Islamic fund market in 2006 with the issuance of first Irish Sukuk for a Kuwaiti corporate, which was executed through a special purpose vehicle, NICBM Sukuk. The issuance was US$100 million Sukuk Musharakah trust certificates, which was consequently listed on the Irish Stock Exchange (ISE). Since then several other issuances have taken place and were also listed at the ISE including the Crescent Global Equity Fund, SEI Islamic Emerging Market Equity, SEI Islamic US Equity Fund, SEI Islamic European Equity Fund, SEI Emerging Markets Equity Fund, and SEI Islamic Pacific Basin Equity Fund.

According to Omer Khan, Islamic finance—Shariah funds lead manager of PricewaterhouseCoopers (Ireland), the republic is a premier location for establishing and servicing investment funds based on Islamic principles. Currently 24 Islamic funds are domiciled in Ireland with assets under management reaching an estimated US$230 million.

Mixed responses on budget proposals 2011

On the 15th October, Najib Razak, prime minister and minister of finance tabled the 2011 national budget in Parliament. In his budget speech, Najib announced a few additions to the Islamic banking and

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finance sector for 2011, in a bid to strengthen Malaysia's position as a premier Islamic capital market.

The additions include the development of an international board to enable foreign securities to be listed including Shariah compliant products; and a tax deduction on expenses for the issuance of Islamic securities, which adopt the principles of Murabahah and Bai Bithaman Ajil, based on Tawarruq.

In response to the 2011 budget, Yusli Mohamed Yusoff, CEO of Bursa Malaysia, stated that the moves will elevate Malaysia to a high income and high value nation. He said that the measures and initiatives announced on capital markets are predominantly targeted towards enhancing liquidity, velocity, and vibrancy. Yusli, however, did not comment on the proposed international board.

The tax deductions announced are expected to further strengthen Malaysia's position as the leading Sukuk market and promote transactions on Bursa Suq al-Sila. PricewaterhouseCoopers (Malaysia) confirmed that the tax deductions mentioned in the budget proposal will be given for the expenses incurred in issuing Murabahah and Bai Bithaman Ajil based on Tawarruq covering the legal expenses, arranger fees, and Shariah advisory fees starting from 2011 until 2015.

However, Megat Hizaini Hassan, partner of the Islamic banking and finance practice at law firm Zaid Ibrahim & Co disagrees with the tax deduction offered. Megat Hizaini told Islamic Finance *news* that it is better if the government reconsiders the technicalities involved and controversy behind Bai Bithaman Ajil based on Tawarruq, before giving out tax deductions.

Badlisyah Abdul Ghani, CEO of CIMB Islamic appreciates the government plans for 2011, and sees the budget as "industry friendly". Speaking to Islamic Finance *news*, Badlisyah said that an assessment is required to evaluate the utilization of systems and facilities introduced from the previous budgets. He believes it is not advisable to introduce new proposals unless such an assessment is conducted.

Zairulnizad Shahrim, associate director of Islamic markets at AmInvestment Bank in response to Islamic Finance *news* said he expected more relief for the Islamic banking and finance sector. He rates the 2010 budget much better compared to 2011.

Aside from changes in the Islamic capital markets, the government also proposes double tax deductions for Takaful contributions for export credit.

Additionally, another Shariah compliant financial scheme was mentioned in budget 2011 — the establishment of Bumiputera Property Trust Scheme. The proposed fund will be established through Bumiputera Property Trust Foundation using RM1 billion (US$321 million) to enable the sustainable participation of Bumiputera to own prime commercial properties in the Klang Valley.

Islamic finance continues in the US

The Center for Security Policy (CSP), a US based think tank published a report last month titled, 'Shariah: the threat to America.' In the report, the CSP identifies Shariah as a totalitarian character, incompatible with the US constitution and rates it as a threat to freedom of the entire world. Although the 177 paged report talks negatively about Shariah, Islamic finance in the US is unlikely to be affected in the manner intended by the think tank.

Glen W Roberts II, partner and chairman of Islamic finance and investment group SNR Denton, a US based law firm told Islamic Finance *news* that the report addresses a specific readership, which is not focused on the type of cross-cultural business relationships arising in the Islamic finance sector. He believes that the same freedom of personal expression that allows the 'Shariah: the threat to America' to circulate in America without impediment, will also continue to foster opportunities for Islamic finance in and from the US.

Jawad Ali, managing partner for Middle East offices and global deputy head of Islamic finance practice group at law firm King & Spalding said to Islamic Finance *news*, that investors like to go to jurisdictions where they are welcomed and, "unwelcome comments from a few politicians" in the US will not shy them away. According to Jawad, the US is a free market for investment and the legal framework holds the entire industry together where all investments gets equal consideration. This is in turn supported by the favorable tax structure that encourages the setting up of Shariah compliant funds. He asserts that the contents in the CSP report is not the official position of the US government, and that the Barack Obama administration has proven it by good gestures with the Middle East and investors.

The CSP also recommends policy and pragmatic changes for surviving "Shariah's onslaught", by requesting that US policy makers, financiers, businessmen, judges, journalists, community leaders and the public at large lobby against Shariah being established as an alternate, parallel system to the constitution, including any potential laws enacted pursuant to it.

The Islamic finance sector in the US is concentrated in the mutual fund industry. The first Shariah compliant mutual fund, Amana Income Fund, started in 1987, followed by the Amana Growth Fund, Azzad Fund, and Iman Fund. Exploiting the opportunities in the US market, Kuwait Finance House (KFH) signed a direct residential real estate investment deal for US$242 million with Prism Company in the US in December 2009 to construct a 40 floor building in Chicago. This real estate development project is expected to complete by 2011.

In addition to Islamic mutual funds, two Sukuk issuances have taken place in the US. East Cameron Partners issued US$165.67 million worth of Sukuk in July 2006 to fund the exploration and production of its two oil fields in the Gulf of Mexico. However, the company declared bankruptcy in October 2008. The asset-backed GE Capital Sukuk issuance took place in November 2009 for US$500 million to finance aircraft leasing.

Dr Salman Haider Khan, head of Shariah office (Dubai) at Abu Dhabi Islamic Bank in response to Islamic Finance *news* offers a different opinion. He believes that the type of opinion published in the CSP report is not new and will fail to have any impact on the Islamic finance business in the US, which is negligible compared with other parts of the world. However, Dr Salman predicts that Islamic banking and finance will face a different type of issue in the next four years where customers will realize the similarity between the Shariah compliant and conventional banking products and services.

"Shariah compliant products are cosmetic," said Dr Salman. He added that there is not much of a difference compared with conventional banking, and this is where Islamic banking and finance will lose customers.

Islamic Finance in the US — Innovation, Compatibility and Challenges

By Umar F Moghul

As the Shariah addresses human activity generally, so does Islamic finance — in principle particularly — go beyond mere technicalities and legalities, urging a concern for all of creation as service to the divine Islamic tenets, for example, promote honesty, transparency and fairness, express concern for the well being of employees, partners and counterparties, and place certain limits on monopoly and wealth concentration. These more general principles along with the detailed legalities fit together within the purpose of Islamic law: securing benefit and preventing harm.

The US is not normally considered among the most significant markets for Islamic finance. And to date, governmental and regulatory efforts to welcome and integrate Islamic finance into the prevailing system have not been as conspicuous as those made by certain other western nations, such as the UK.

But there are in fact important regulatory efforts and successes that continue to allow Islamic finance to innovate and succeed in the US. Many of these achievements have had an impact on Islamic finance globally.

This article explores the compatibility and challenges of implementing Islamic financial — legal principles within the US regulatory framework as well as the innovation that has taken place in overcoming some of these challenges.

> "In transacting, Islamic parties do of course carefully and diligently seek to comply with applicable US laws"

Compatibilities and tensions

As an industry in the US, Islamic finance has a straightforward, practical objective — to conduct business transactions profitably and responsibly. Those concepts are defined by Islamic norms; the concern does not affect policy shifts. In transacting, Islamic parties do of course carefully and diligently seek to comply with applicable US laws. Such an objective renders compatibility with US laws, at the outset, an achievable task.

The US Islamic finance market may be subdivided into two segments: One segment we might term the wholesale or foreign institutional market. Here we mostly see foreign Islamic institutions and investors targeting the US with real estate acquisition and construction, as well as corporate acquisition in the form of leveraged buyouts. Less frequently, we see growth equity type investments and through private investment funds and similar structures. This segment also consists of domestic institutions offering Islamic products.

The second market segment consists of a retail market where American needs are identified and addressed (often self addressed) to enable the acquisition of homes, retirement savings, and general consumer banking in accordance with the tenets of Islam. Overlap between these two segments is rare, and has taken place, for example, in the form of multinational financial institutions offering Islamic products to US persons, as in the recent Sukuk issuance by General Electric, and various US asset managers providing products and opportunities to Islamic investors.

Two legal systems

It may surprise some to learn that Islamic financial laws and US regulations are not (in our experience and knowledge) wholly inconsistent. In fact, in the financial realm we find a number of similarities and parallels between the two. There is even research evidencing the origin of many aspects of Anglo-American contract law and trust law in Islamic law.

The introduction of this article spoke of broad purposes of Islamic law and the various subjects upon which it advises. When viewed in this light, we further find a number of parallels between Islamic law and US law, at a theoretical or "policy" level.

Both legal systems, for instance, share concerns against exploitation and unjust enrichment, seek to preserve and protect property rights, and enact laws to fulfill such purposes.

At a more particular level, we find the detailed requirements of each legal system having parallels in the higher purposes of the other. The importance of honesty, transparency, and fair dealing within Islamic law, for example, may be analogized to the rationale and purposes of US securities laws and consumer protection regulations.

Much of the challenge in the US vis-à-vis Islamic finance does not come from conflicts of law, but from varying business practices and expectations, as shown below.

The Shariah has a broad freedom to contract, and some interpretations have it broader than others. Consent and the rights of the parties are critically important, and the subject of the transaction must not be prohibited by Islamic law.

Similarly, US contract law affords a broad freedom to contract so long as the subject matter is not prohibited by US laws. While one can certainly argue that what are prohibited under US laws are fewer than that under Islamic law and these differences represent a significant "philosophical" difference, practically speaking there is generally little difference when transacting.

Moreover, what is prohibited under Islamic law is not generally, if ever, required by US contract law. Consequently, we find this breadth and close agreement between the two legal systems allowing parties to engage in Islamic transactions and to come to such terms as the parties may agree.

As many Islamic transactions contractually stipulate US laws (such as Delaware of New York) as governing, it is hoped that parties may take

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Islamic Finance in the US — Innovation, Compatibility and Challenges (continued)

comfort that the US courts have generally been enforcing the agreements and documents as written.

The most conspicuous features of Islamic finance are its prohibitions of gharar and, moreso, riba. It is usually because of these two prohibitions that many view Islamic financial laws and US financial laws as incompatible and diametrically opposed.

But, as has been shown by various others, these prohibitions are indeed not unique to Islam, and, at the very least, many of the purposes for which such prohibitions are believed to have been legislated are important to the US legal system albeit in differing forms.

Very often gharar can be alleviated by proper specification of material terms and conditions (such as subject matter, price and time of delivery) at the time of contracting. Such specificity is a common best practice in the US. But the prohibition of gharar has other, sometimes unexpected, implications, resulting, for example, in some derivatives and certain contract provisions, such as post-closing purchase price adjustments, being deemed impermissible. The Islamic investor understands that such limits are, per the Shariah, ultimately beneficial and represent potential opportunities for substantive innovation.

Certainly, Islam's prohibition of riba creates some interesting tensions and challenges in the US (and elsewhere). It would be rather difficult to assert that any Islamic party was obligated by US law to engage in a ribawi transaction (except in very limited, narrow instances).

But one could assert that certain laws, namely tax laws and those regulations governing banks as well as prevalent business practice or custom, have created challenges if not outright contradictions at times.

US tax laws give preferential treatment to debt-based instruments and to interest earned on debt which treatment is not afforded to equity. Islam's preference, particularly in the consumption context, to not incur debt and to take on a market or asset risk instead seems to stand in tension with these tax laws.

As such, Islamic parties must decide whether to utilize debt instruments, which might be interpreted and re-characterized by US tax authorities as interest-bearing, to utilize equity structures, or when possible (and agreeable to a conventional counterparty) to not seek the recharacterization as interest-bearing loans (and thus forego the aforementioned preferential treatment).

Perhaps more significantly, US laws governing banks and banking stand in direct conflict with the notion under Islamic law that to legitimately profit, a financier must bear a market or asset risk, and not merely a credit risk. For example, US banks are not permitted to own real estate unless held for their own use or as collateral in connection with an enforcement action. Moreover, as a matter of custom, banks strongly prefer to utilize (their own) standard (and conventional) loan documentation. This customary preference, coupled with the aforementioned regulations, prohibits banks from directly participating in an Islamic financing, and some might argue from bearing the risks required of Islamic law.

This challenge was addressed by the Office of the Comptroller of the Currency (OCC) several years ago in the form of two letters of guidance enabling US banks to participate in Islamic transactions on certain specified terms. These letters stand among some of the most important regulatory successes of Islamic finance, assisting and enabling Islamic finance and creating some of the first Islamic leveraged acquisitions.

Other successes include the New York State Banking Department approving Islamic home financing structures, the board of governors of the Federal Reserve allowing US financial institutions to engage in Islamic transactions in countries where required to do so or where it may be a competitive necessity, and New York tax authorities issuing rulings eliminating the additional taxes which might otherwise result from a Murabahah-based home financing structure. Some of these regulatory approvals might be said to utilize a substance over form approach — which is the subject of an important ongoing debate as the Islamic finance industry matures — and thus setting the stage for the next challenge to be overcome.

A number of other important innovations with global implications have been achieved within the US, often as a result of, or enabled by, the above-mentioned regulatory milestones. These include some of the first leveraged private equity buyouts, residential and commercial mortgage financing structures, Sukuk issuances using Rule 144A of US securities laws, and the recent Islamic derivatives contract launched by the International Swaps and Derivatives Association (ISDA) with Bahrain based International Islamic Financial Market (focusing on profit ratio and currency swaps). Certain Islamic transactions have also come before various US courts, including home financings in the recent credit crisis and the East Cameron Gas Sukuk project which is in bankruptcy. It is hoped that these proceedings will provide further information with which Islamic finance in the US can continue to flourish.

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Next Forum Question

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 before Monday, 25th October 2010.

Islamic Money Market — A Canadian Perspective

By Omar Kalair

Islamic finance in North America can be traced back to Toronto, Ontario, Canada where in 1979, the first home financing program was established. This program was based on a Diminishing Musharakah, which utilized funds from Canadian Muslim investors.

In recent times we have seen a greater interest in investments into Canada from international markets. Many Islamic treasuries are looking at Canadian assets with Canadian dollars. With recent currency issues creating long term concern about European currencies and the US dollar, other currencies such as the Canadian dollar and Australian dollar are viewed as strong long term currencies with sound economies for the next 20 to 30 years. Another reason is due to regional diversifications, — treasuries are looking for diversification in North America and South America. Canada then seems an ideal place to start.

Due to political reasons, a significant number of Islamic treasuries have reduced investments in the US and are not receptive to increasing portfolios in the US. The fact that Canada did not join the war in Iraq, unlike the US, the UK and Australia, is still fresh in the minds of many. The story of the development of the Canadian Sukuk market is not a straightforward one, but can be understood in the context of how Islamic finance has grown in Canada.

Capital markets

As Canadian capital markets for Islamic finance have evolved, the opportunity for Sukuk issuance in Canada has spiked over the last few years. Historically, Canada has only had Shariah compliant mutual funds since 2000 which were largely equity based funds. These mutual funds were largely designed and distributed to satisfy local retail demand for Shariah compliant investments. For example, in 2006, frontier Alt Oasis Funds Management ("frontierAlt"), a Toronto based investment fund manager launched two mutual funds linked to the Dow Jones Islamic Market Index. In 2007, frontierAlt launched its frontierAlt Oasis Global Income Fund, the first income fund in Canada based on Shariah compliant investment principles whose investment mandate included, among other things, investments in Sukuk.

In January 2006, Conundrum Capital Corporation (Conundrum launched the RBC Conundrum Canadian Real Estate LP (LP) to enable investors the opportunity to invest in Canadian real estate in a Shariah compliant manner. The LP was based on a Sukuk structure. The LP is co-sponsored by a major Canadian bank and Conundrum. The objective of the LP is to aggregate and manage a portfolio of light industrial properties in two of Canada's largest urban markets. The LP's strategy is to complete acquisitions based on each property's ability to generate reliable cash flows and its potential for value appreciation through capital improvements and strengthened asset management. The LP is fully deployed, having acquired 73 properties totaling 2.6 million square feet of light industrial and commercial real estate. The portfolio is located in the Greater Toronto Area and Ottawa, Ontario, Canada. The total equity commitment in the LP is US$79 million including Conundrum's US$5 million equity position.

In 2007, iTrust Partners launched the Canadian Enhanced Income Fund I, in May of 2007 which was followed by its Canadian Enhanced Income Fund II, in November 2007. Both funds were targeted to be US$400 million Shariah compliant Canadian open-ended income funds that invest in some of Canada's most profitable companies in the oil and gas, energy, utilities and business sectors. Each fund's investment strategy involved focusing mainly on companies that distribute monthly cash flows through Income and royalty trust structures and dividend paying equities. The target yield of the fund was 8% annually with monthly distributions. Although these investment funds were not based on a Sukuk structure they were designed to generate income for investors in a Shariah compliant manner the same way as a Sukuk.

Residential real estate and home ownership in Canada's Muslim community has also been promoted by UM Financial who acquired funding for residential Islamic mortgages. Recently, UM Financial presented Central 1 Credit Union with a milestone award for funding approximately US$100 million of Shariah compliant mortgages in Canada which has yielded Central 1 Credit Union a US$10 million profit over the last four years.

In May 2009, Standard & Poor's launched the S&P/TSX 60 Shariah Index (the Index), which consists of 25 constituent member companies after the non-Shariah compliant companies have been eliminated from the Index. For example, interest charging companies, such as certain large Canadian banks are not part of the Index while companies like Research in Motion, Canadian Oil Sands Trust and Barrick Gold are three of its constituent members. The Toronto Stock Exchange (TSX) is the third largest stock exchange in North America and seventh largest in the world, based on market capitalization, and the world leader in mining sector listings.

In May 2009, UM Financial and Jovian Capital Corporation (a TSX-listed company that manages over US$12 billion in client assets) also announced an agreement to explore the launch of a co-branded Shariah compliant investment product. Specifically, the intention between the two firms is to list Canada's first Shariah compliant exchange-traded fund or ETF based on the Index.

Canada's Sukuk history

There have been some private corporate Sukuk in Canada but they often do not receive media attention. They have largely been real estate based Sukuk transactions made by investors from the MENA region who desire to invest in the Canadian real estate market. But this all changed in 2009.

In the summer of 2009, a US$380 million Sukuk Mudarabah was proposed by Bear Mountain with Siraj Capital (Dubai), a merchant investment company regulated by the Dubai Financial Services Authority, as the lead arranger. Bear Mountain is a world class golf course and residential community with associated commercial and recreational properties and amenities, all situated within a 1,300 acre development property located on the outskirts of Victoria, British Columbia, Canada. A proposed 343 acres will be transferred to a Sukuk asset for development. The deal is expected to close towards the end of 2009. The Bear Mountain Sukuk, once completed, will be Canada's first ever rated Sukuk and/or one that will have attracted international investment interest.

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Islamic Money Market — A Canadian Perspective (continued)

Sovereign Sukuk discussions

With Canada being a destination for investments from many countries, there have been governmental discussions to look at the feasibility of offering a sovereign Sukuk in the near future. UM Advisory, a division of UM Financial, has made presentations to government agencies who have been exploring this opportunity. UM Advisory has been working with Brian Koscak, a partner at Cassels Brock & Blackwell (a large full service law firm based in Toronto, Ontario, Canada) and international law firms to advise these agencies on how to structure these transactions.

At the moment, government lawyers are looking at amending a number of provisions in certain legislation and identifying unencumbered assets for the purpose of issuing a sovereign Sukuk. Asset identification is important since in certain types of Sukuk structures, such as an Ijarah Sukuk, the sovereign has to transfer the assets (such as a government building) to the Sukuk. Most, if not all sovereign Sukuk to date, involve the transfer of real estate by the sovereign to the Sukuk (or rather the special purpose vehicle or SPV that constitutes the Sukuk structure) for a certain period of time after which it is sold back to the sovereign.

Such transfers are not always simple and involve, among other things, taxation issues, such as withholding taxes and goods and services tax/harmonized sales tax issues, which need to be worked out. These are standard issues for any sovereign Sukuk, but the good news is that a team is already working on them. Having a sovereign Sukuk in Canada would open the doors for many more structured Sukuk, such as corporate Sukuk, which could further enhance Toronto's role as a hub for Islamic finance in North America.

Sukuk structures are not new to Canada's investment banking community either. Certain large Canadian investment banks have studied the structures and find them interesting and innovative but it will likely take investor participation and/or commitment from the MENA region to co-invest and/or work with Canadian investment bankers and other professionals if Sukuk are to become a new asset class in Canada. It is not the structures or Islamic finance that is the problem, rather as in any investment structure, whether it be a Sukuk or the once popular Canadian income trust model, investment dealers and their issuer clients will largely do any type of transaction, notwithstanding the structure, if the costs of funds are competitive and in the case of Sukuk, there is also international support for the structure in terms of investment dollars.

In sum, the story in Canada is that Sukuk is getting some traction at both the sovereign and corporate levels but it is only just beginning and the expectation is that it will grow rapidly in the upcoming years.

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Omar Kalair has over 10 years of experience in Islamic finance and is the founder of UM Financial Group. He is an established speaker on Islamic finance and has been invited to speak at conferences on the matter at Toronto, Montreal, New York, London, Istanbul, Dubai, Bahrain and Malaysia.

Islamic Finance *news* Speaks to Datin Maznah Mahbob, CEO of Fund Management — AmInvestment Bank Group, about the Sustainability of Islamic Funds

How does AmIslamic Funds Management sustain its funds in light of the report that suggests that Islamic funds are insufficient in size to reach critical mass?

Most of our smaller funds are from older clients, the rest are relatively new or prototypes. These are unique funds seeded by clients who want a customized product.

Funds are launched for three reasons: one of which is sales, in response to demand; the second is profiling for a flagship fund to profile performance, and the third is customizing prototypes for certain clients, with their initial seeding in response to a size commitment from our distribution partners.

When we launch a fund for profiling, especially when it is a new structure to Islamic fund management, we need to show three and five-year performance for consistency. Before delivery, any new fund goes through a gestation period whereby a fund will remain small until it has proven itself in terms of performance and competitive positioning.

What can be done to help improve and sustain Islamic funds?

Fund to fund, the cost of profiling and prototypes are subsidized through sales. It is the sales strategy that subsidizes the innovation. Innovation is essential for Islamic fund management and requires active funding. You can't just innovate and expect acceptance, you require a proven track record of at least three years, preferably five. Therefore you need a business strategy that supports the subsidy, similar to how you would manage an investment portfolio, comprising shorter term cash-yielding investments together with some longer term growth assets.

If you cannot sustain the business in the shorter term whilst investing for the future, then you cannot innovate. Innovation takes commitment and understanding. We do a lot of R&D to discover the landscape, market segmentation and allow us to establish a unique value proposition, giving confidence to the areas in which we choose to focus and plan for funding. From the beginning we have planned for the sustainability of the whole project.

When you innovate you have nothing to compare it with so it takes time to build understanding and acceptability. We only require a certain minimum to establish a fund, usually guaranteed from a distribution partner. The key in developing sustainable funds is to establish a credible performance track record and general acceptability, which will eventually lead to sales.

Most Islamic fund management companies are financial subsidiary offshoots of bigger fund management businesses with conventional roots and already have existing common platforms that they can leverage against that will not compromise the funds' Shariah compliance. As a result, this helps generate a cross-subsidy in the early stages.

Islamic funds are small because the majority of our funds are new in the market; they are prototypes of our innovation strategy. It will remain at this stage until it has acquired the relevant levels of recognition and acceptance in terms of fund size and concept required to attain critical mass.

> "The key in developing sustainable funds is to establish a credible performance track record and general acceptability, which will eventually lead to sales"

What are your thoughts on the establishment of a centralized global trading platform?

A global trading platform would encourage greater visibility; however, many funds are already Undertakings for Collective Investment in Transferable Securities (UCITS) compliant and are listed on a global platform in different jurisdictions such as Luxembourg and Dublin, segregated by those that are Islamic and non-Islamic. Global platforms do exist and most of the larger distributors have pre-approval for funds on the established platforms because they are comfortable with their governance and compliance frameworks.

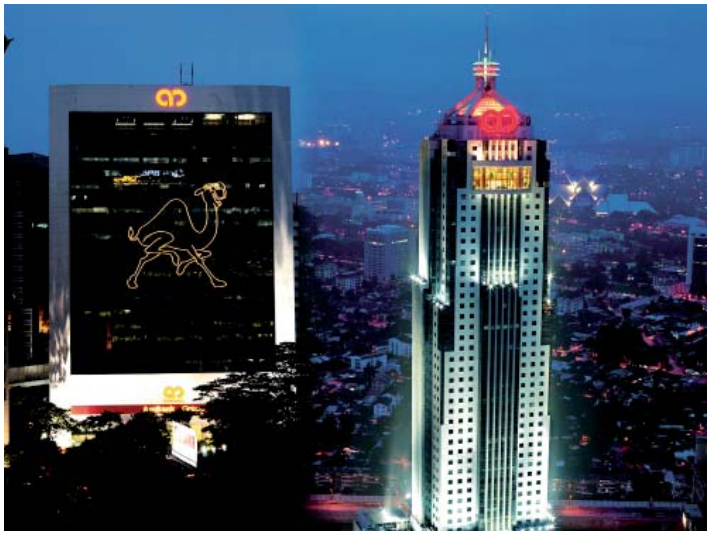
However, this could lead to greater costs for smaller fledgling funds as the established platform's high prices could prove to be prohibitive. A twinning arrangement could be adopted to allow fledgling Islamic funds to gain footing at a lower cost by integrating the established platform (as the operational base) to a jurisdiction in an Islamic hub such as Malaysia (at the legal jurisdiction). It could also allow stronger Islamic funds to move into established jurisdictions over time with reduced subsidies. Cost is the greatest hindrance; a reduction could cause a mini explosion in growth with greater participation and critical mass.

We have domestic and regional associations across the world. However, because of the fledgling nature of the business, Islamic fund management should have a global association. The market is so fragmented that it would help to have a greater lobby, pool resources and target a greater level of awareness in individual countries through dialogue and exchange. This would allow the industry to flower; moving

continued...

Islamic Finance news Speaks to Datin Maznah Mahbob, CEO of Fund Management — AmInvestment Bank Group, about the Sustainability of Islamic Funds (continued)

Fund	Our Innovation – A series of firsts ...
AmIttikal	Malaysia's first Islamic fund based on the total Islamic concept of Mudarabah fee structure
Al-Syamil Facility	Malaysia's first Islamic facility comprising a complete group of asset classes, enabling total portfolio management with the ability to adjust strategic and tactical asset allocation
Islamic Treasury Solution	Malaysia's first Islamic facility for corporate treasury requirements focusing on risk/return features in terms of duration, liquidity and credit quality
AmOasis Global Islamic Equity	Malaysia's first global Islamic equity fund
AmPrecious Metals	Malaysia's first equity fund that invests largely in gold and other precious metals
AmNamaa' Asia-Pacific Equity Growth	Malaysia's first Asia Pacific Islamic equity master fund with its investment managed out of Malaysia. It was also the first US dollar fund launched in Malaysia
Namaa' Asia-Pacific Equity Growth	Malaysia's first Asia Pacific Islamic equity feeder fund with its investment managed out of Malaysia.



beyond discussions that should fit all shariah standards and allow for increased customization in accordance with the different investors' risk/return and shariah requirements.

How has AmIslamic Funds Management grown?

AmIslamic Funds Management is part of Funds Management Division of AmInvestment Bank Group. Our award winning Funds Management Division of AmInvestment Bank Group was founded in 1981 and we now have nearly thirty years of experience and track record. FMD was recently bestowed the Asset Management Company of the Year at The Asset Triple A Investment Awards 2010 by The Asset, one of Asia's leading financial publications. The award recognises the best asset management company in Malaysia that has built a comprehensive platform for investing in different asset classes and servicing the investing needs of institutional, corporate and retail clients. It consistently achieves above-benchmark performance and sets the tone for innovation and industry practice.

We started managing Islamic funds since 1986, and are one of the pioneer Islamic fund managers and premier Islamic fund management houses in Malaysia. We manage domestic and offshore Islamic funds for local and overseas institutions as well as retail investors. As a testament to our success, AmIslamic Funds Management was recently awarded Islamic Asset Management House of the Year in Asia Pacific for Triple A Islamic Finance 2010 by The Asset.

At AmIslamic Funds Management, innovation is the key engine of growth. A pioneering spirit spanning over three decades has allowed a series of notable 'firsts' in the market.

> "Innovation is the key engine of growth"

Since AmIslamic Funds Management has been managing Islamic funds since 1986, what are the factors attributed to your success?

We have a vision; we patiently develop building blocks to create a solid platform on which we can leverage for sustainable growth. Our stand is to place investors' interest at the forefront of our decisions.

Having consistency in our approach and focusing on our investors given their multiple needs, AmIslamic Funds Management has succeeded in differentiating ourselves against our competitors as the premier investment solutions provider with a wide array of Islamic investment solutions across various asset classes.

In response to increasing investor demand for lower volatility with regular income, we have develop a specialization for such investment strategies. We see volatility as opportunities to capitalize on for this purpose.

AmIslamic Funds Management

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Global REITS — Attractive Asset Class for the Long Term Investor

By Adam Ebrahim

Over the last half century, the Real Estate Investment Trust (REIT) industry has developed into a significant segment of the global economy and international financial markets. Corporations, which essentially own and manage real estate and mortgages, were mandated in the US as pass-through entities in 1960 for the purpose of allowing average investors the opportunity of large scale investments in income generating property assets.

As such, the industry serves the need of opening the commercial property market to investors who would otherwise not have been able to afford to enter it directly. Furthermore, it also offers investors a number of unique advantages when compared to such direct property investment.

Most notably, provided that they distribute at least 90% of income as shareholder dividends, REITs are generally tax exempted at a trust level and therefore eliminate the "double taxation" of profits cemented in the corporate tax regime. Further tax benefits accrue as REITS are exempted from capital gains tax and treat rental proceeds as business income, which means that related expenses may be written off. Moreover, while payments to unit holders are taxed as ordinary income, a certain portion of the dividend may be deemed a non-taxable return on capital.

The distribution of the majority of REITs income also provides investors with a regular revenue stream in addition to potential capital appreciation. Because a large portion of this income is generated from commercial properties — often with extended lease contracts — these payouts tend to be relatively stable and dividend yields are comparatively high. As rental rates tend to adjust themselves in line with inflation, REITs are fairly resistant to inflationary pressures as well.

These tax and income benefits are further accrued within highly regulated structures as REITs are subject to the organizational requirements of having trustees (who, in the absence of a nominee corporation, hold the legal title to the REITs' properties) as well as management companies and independent contractors to manage the property portfolio. The chart below illustrates the sizes of the major listed REIT markets and their contributions as a percentage of the total equity market in their respective countries.

The recent global financial crisis did however highlight certain risks faced by conventional REITs, in particular the high levels of gearing and poor debt maturity profiles that many REITs had exposed themselves to. During boom economic periods, many REITs took advantage of the availability of considerably cheaper financing and, in doing so, became very much debt dependent.

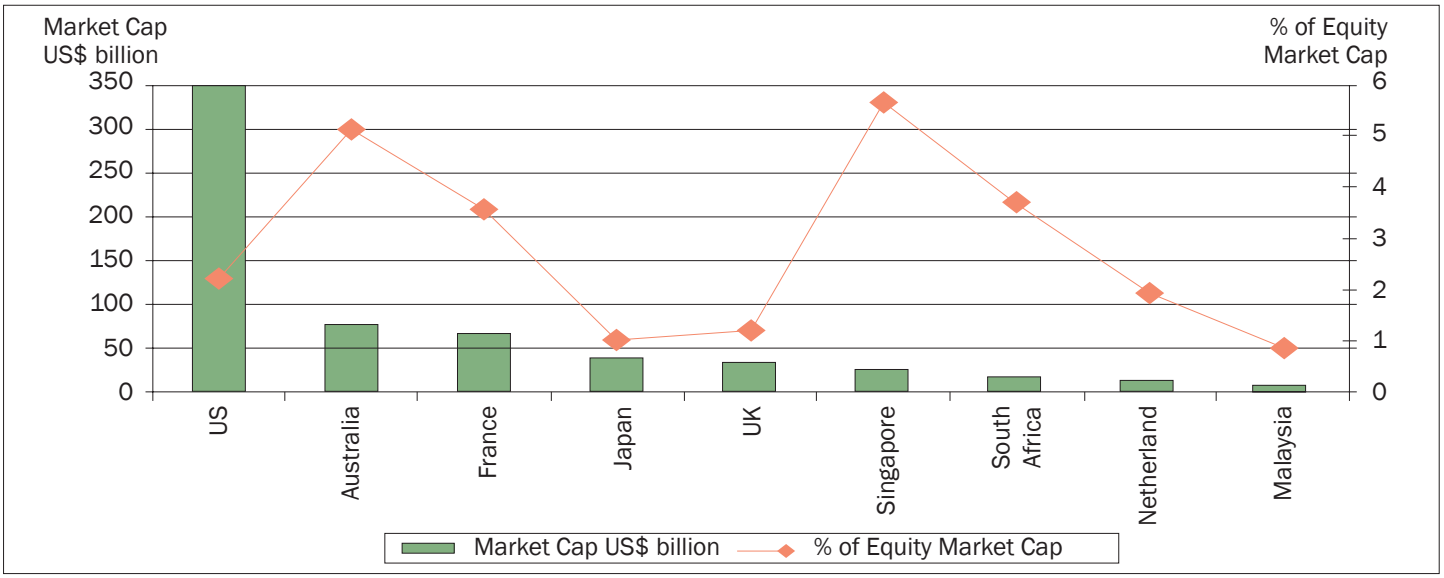
"The distribution of the majority of REITs income also provides investors with a regular revenue stream in addition to potential capital appreciation"

When the financial crisis hit in 2008, the ability to repay these loan obligations became severely strained. Islamic REITs, which have a lot in common with their conventional counterparts, fared much better during the financial crisis due to low levels of gearing and their reliance on equity and Shariah compliant financing. The Islamic REIT industry has taken a longer time to establish itself not only due to these financing requirements but also due to the stipulations that property tenant bases must be compliant to Shariah principles.

Launched as a Shariah compliant property unit trust — the South African equivalent to the international REIT — in November 2004, the

continued...

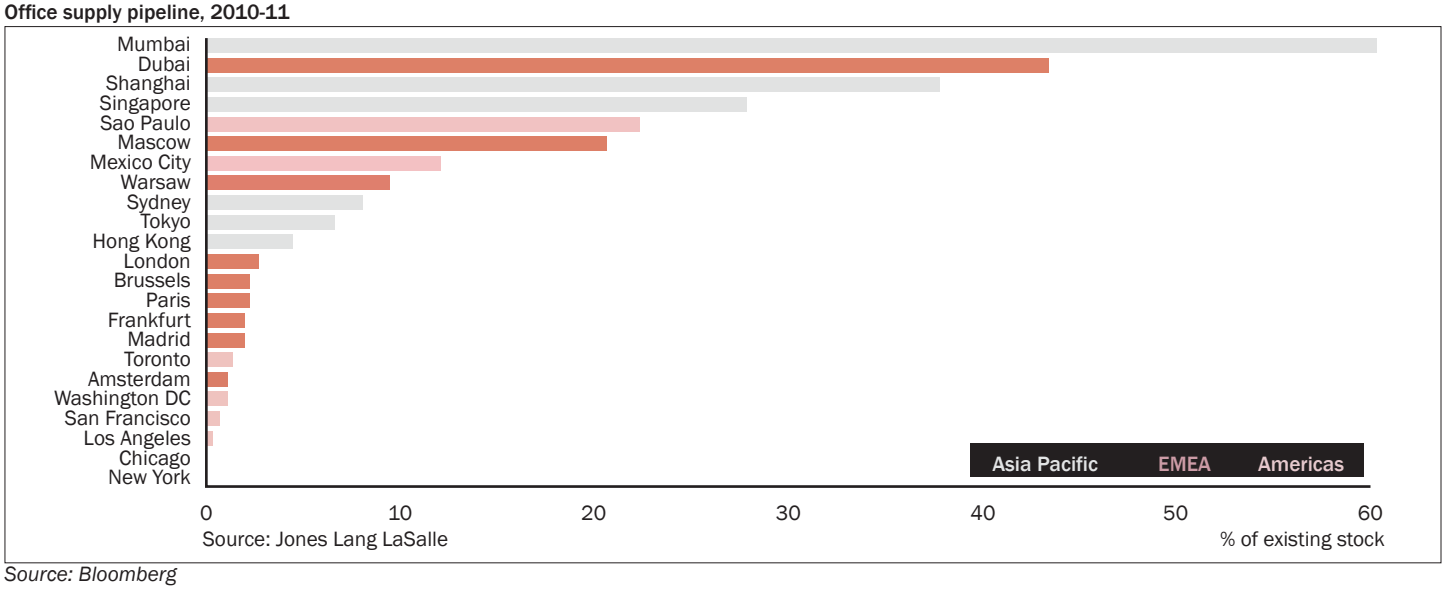
Global REITs market



Source: Bloomberg

Global REITS — Attractive Asset Class for the Long Term Investor (continued)

Office supply pipeline, 2010-11



Source: Bloomberg

Weighted portfolio characteristics

	Market Cap (US$ millions)	LTV	P:NAV	FFO Yield %	DY %	10 Year Bond Yield %	Global Inflation*
Oasis Crescent Global Property Model Portfolio (Equity)	1502	44	1.0	7.6	6.5	3.1	2.1

Source: Bloomberg

Oasis Crescent Property Fund was the first of its kind globally when it listed on the AltX, the Johannesburg Stock Exchange's alternative exchange.

The fund, established purely through equity financing, was the first regulated Islamic vehicle to give exposure to high quality direct property investments in South Africa and continues to provide competitive annual distributions. Soon after its listing, came the launch of the Al' Aqar KPJ REIT, focused on the healthcare sector, and listed in Malaysia.

Since then, the global industry has grown extensively. The continued development and broadening of the Islamic REIT market globally holds additional benefits such as assisting in the expansion of the Islamic debt markets, affording these markets with depth, diversification and liquidity. The corporate Sukuk market, traditionally lagging its government counterpart, should also become increasingly sophisticated as the Islamic REIT market develops.

After having been "bombed out" during the financial crisis, the global REIT industry has recovered somewhat on the back of equity issuances and debt refinancing. However, despite the sector recovering somewhat over the past year, it still remains well below its peak and continues to offer long term, patient investors excellent value.

With property supply in major developed markets drying up as indicated in the chart below, and property values currently priced conservatively, the global REIT sector is offering investors an opportunity to create real wealth over the long term.

REITs are an efficient means of diversifying Islamic investment portfolios traditionally focused on direct property investment and private equity. The development of the REIT sector will also lead to growth in the different type of balanced funds (asset allocation funds) which address the various risk profiles and life stages of investors.

Over the last few years we have seen Shariah compliant property mutual funds being launched whereby the underlying investments are listed property companies and REITs that comply with Shariah principles.

The first Shariah compliant fund of its kind globally was the Oasis Crescent Global Property Equity Fund, which was launched in 2006. Since its inception the Fund, with a diverse sectoral split and a geographical focus on Asia, Europe and North America has grown to almost US$62 million and is 'A-'rated by Standard & Poor's.

The fund continues to provide investors with exposure to high quality property companies globally at attractive valuations with a focus on providing competitive income yields and capital appreciation of the long term. The average dividend yield of the underlying investments in the fund is currently 6.5% which is more than double the average bond yield of 3.1%. With the average cash flow yield of 7.6%, this gap with the dividend yield allows for further dividend growth in future.

Adam Ebrahim
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Adam is the founder of Oasis Group Holdings, a Shariah compliant investment leader that won the Failaka Award in 2010 for Best Global Equity Fund over five years.

Appetite For Trusts Continues To Be Healthy

By Edward Stone

An International Monetary Fund (IMF) survey from March 2010 reported that the Gulf Cooperation Council (GCC) countries managed successfully to contain the fallout from the global financial crisis but noted that the crisis did reveal financial sector vulnerabilities that will need to be addressed through more effective supervision and regulation. The survey also noted that GCC countries were able to provide their financial sectors with much support, drawing mainly upon the foreign exchange reserves accumulated during the boom years. In Saudi Arabia the stimulus package was the largest (as a share of GDP) of any G20 country.

As a result, while wealthy families in most G20 countries face increasing tax liabilities imposed by their governments trying to raise as much tax revenue as possible in order to prevent their economies following Greece into a sovereign debt crisis, wealthy families in the GCC countries continue to be sheltered.

Furthermore, as western governments seek to blur the distinction between tax avoidance and tax evasion and as perceived loopholes are chased and closed, the focus of wealth structuring is more on long term wealth preservation.

For wealthy Middle Eastern families it has long been the case that their wealth structuring goals are driven by desires for long term political stability and family protection rather than short term tax planning advantages.

For long term wealth planning, trusts, due to their inherent flexibility which allows them to adapt as family circumstances change, have long been one of the favorite planning tools available.

The additional malleability of trusts in the offshore jurisdictions, with their longer or even unlimited perpetuity periods, settler reserved powers and special trust regimes, as well as the relative political stability of the jurisdictions themselves, can often provide the best solutions for clients from all over the world.

While trusts have long been popular in the Middle East and elsewhere for family wealth planning, recently there has been significant growth in the use of offshore trusts in Islamic finance transactions; non-charitable purpose trusts are now regularly used by financiers in the region for a wide variety of finance and structured finance transactions.

Personal trusts

When drafting trusts for the Middle Eastern families, incorporating compliance with Islamic principles can be as complicated as taking into account fiscal considerations — given the different interpretations of what constitute Islamic principles within the different schools and branches of Islam and the often different levels of adherence within each family.

Many Muslim clients are keen to ensure that Islamic principles are adhered to in the investment of their offshore assets; powers to invest trust funds in interest bearing investments, on deposit, or in any investments which generate pre-determined fixed returns may be considered inappropriate. The investment policy of the trust may need to be restricted; an explicit list of non-permitted investments can be specified in the trust instrument and/or the trustee restricted to purchasing equities listed on one of the various established Islamic indices, such as the Dow Jones Islamic Market Indexes or FTSE Global Islamic Index Series.

The client may also wish to reserve certain powers to himself during his lifetime under the trust, such as the power to direct investment himself or to appoint and remove the investment advisor, power of veto over certain trustee decisions or to give binding directions to the trustee. He may also want the power to choose and appoint a protector to exercise such powers in succession to himself.

The client may be concerned that Islamic forced heirship rules should continue to apply so that male descendants shall take twice as much as females or that any non-Muslim spouse shall be excluded from benefiting.

Alternatively, given that a Muslim has freedom to make lifetime gifts of his property, the assets within the trust may be intended wholly for a particular child.

Private trust companies

A Middle Eastern client, like any client without personal experience of trusts, may not be wholly convinced that careful drafting of the trust or the reservation of certain powers will be sufficient to ensure his intentions are respected where the trust is administered in a distant offshore jurisdiction by persons who, although trust professionals, are not fully conversant with Islamic culture. The bespoke nature of the private trust company (PTC) is therefore often an attractive solution.

A PTC is essentially a trust company that only acts as trustee of a restricted number of trusts for the benefit of the members of one family. As a PTC does not offer its services to the public it usually is exempted from any trustee licensing requirement.

The directors of the PTC make the decisions relating to the underlying trusts and so there identity becomes critical. Where tax considerations are not relevant, the client and other members of his family can be directors and thus ensure that they retain control over, for example, how the underlying trusts are invested, who is appointed as investment advisor and when and how distributions are made to the exclusion of unknown third parties over whom the client has no control.

In practice the directors of most PTCs represent a family council comprised of a combination of senior family members, trusted longstanding advisors with one or more independent professional co-directors. Having an independent professional director with trust experience can be useful to act as a facilitator and ensure that directors' meetings are held with due respect to corporate requirements, to guide the other directors as to the exercise of their fiduciary powers under the trust and help guard against any arguments that the whole structure is a sham.

The constitution of the PTC can be drafted to fit the family's circumstances and thus allow for, say, each branch of the family to have the right to nominate one or more directors to represent it.

continued...

Appetite For Trusts Continues To Be Healthy (continued)

The voting rights of directors can also be configured so that family representatives on the board shall have more votes than non-family members. This can be important where only one branch of the family is involved in the family business with the others receiving only financial support; giving each branch equal voting rights could lead to disputes within the family and the family wealth becoming fractured.

The shares of a PTC are often held in a purpose trust whose sole purpose is to own the shares of and manage the PTC. Using a purpose trust also ensures that there are no succession issues which would otherwise arise when an individual shareholder dies.

In the appropriate circumstances, the client and other members of his family can be the shareholders of the PTC and, if they are also the directors, retain control over the PTC.

> "The use of trusts in Islamic finance has grown alongside the considerable growth in recent years of Islamic finance through Sukuk structures"

The PTC, by enabling trust decisions to be retained within the family or a small circle of trusted advisers, thus satisfactorily addresses the issues of a nervous client even if, as is advisable, the administration of the PTC is carried on by a professional service company.

Trusts and Islamic finance

The use of trusts in Islamic finance has grown alongside the considerable growth in recent years of Islamic finance through Sukuk structures. Under the popular Sukuk Ijarah, the originator (or borrower) seeking financing "sells" the assets (such as aircraft) to a special purpose vehicle (SPV) which is frequently incorporated in an offshore jurisdiction.

The SPV then issues Sukuk, or trust certificates, and invests the proceeds in assets. The issuer of the Sukuk will then hold the assets on trust for the benefit of the holders of the Sukuk, using the income from the assets to make periodic payments to the Sukuk holders. The SPV is typically owned by a purpose trust established in the same offshore jurisdiction.

Where an SPV is used in an Ijarah Sukuk (or in its variants such as an Ijarah sale and leaseback or a Musharakah structure) the use of an offshore company wholly-owned by an offshore trust provides a means by which bankruptcy remoteness can be achieved, while enabling the transaction to be effected "off balance sheet" or as an "orphan" structure in relation to its originator. Neutrality can also be achieved by appointing an independent locally licensed trust company as trustee of the offshore trust.

Bermuda is a popular jurisdiction for such Islamic finance structures as it was the first jurisdiction, in 1989, to introduce legislation expressly permitting the creation of non-charitable purpose trusts ("purpose trusts").

That original legislation has now been the subject of amendment so that there is no longer any requirement for a Bermuda purpose trust to have an enforcer (although one is usually appointed) nor a local or licensed trustee.

Most other offshore jurisdictions have since followed suit so that purpose trusts can now be created in many jurisdictions provided generally that their particular purposes are sufficiently certain, capable of fulfillment, lawful and not immoral or contrary to public policy.
Purpose trusts, because there is no beneficial owner of the trust assets, are particularly attractive for effecting off-balance-sheet transactions and financing commercial transactions, both conventional and Shariah compliant.

In a typical Ijarah financing transaction, the purposes are normally to
(a) subscribe for the shares of the SPV,
(b) hold those shares,
(c) support the SPV in pursuing the particular transaction in question,
(d) enter into the relevant transaction agreements and (e) unwind the structure at the completion of the transaction.

In many typical Islamic finance structures, the SPV will declare itself as trustee of the assets it owns in favor of the investors. When this happens care must be taken to ensure that the SPV does not require licensing for carrying on trust business as this will inevitably lead to increased regulation, administration and costs.

One way to avoid any licensing requirements is to ensure that the SPV can benefit from an exemption from the trustee licensing rules, usually by qualifying as a PTC on the basis that it acts as trustee of a limited number of connected trusts or some other specific exemption.

Bermuda PTC legislation is particularly attractive to Islamic finance practitioners because of the simplicity of its provisions with regards to the trustee licensing exemption. Provided that the SPV's capacity as trustee is limited to the trusteeship of a trust or group of trusts specified in its memorandum of association, it will be exempted 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.

This article is not intended to be a substitute for legal advice or a legal opinion. It deals in broad terms only and is intended to merely provide a brief overview and give general information.

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Edward Stone specializes in establishing complex family and private trust company structures for high net worth families and individuals under Bermuda, BVI and Cayman law. Stone regularly advises clients and trust companies on restructuring existing trusts, trust administration and other fiduciary issues.

Investment Funds and the Shariah — A Happy Union?

By Umar Aziz

An investment fund is a collection of investors' assets pooled together for the purpose of sharing risk and reward, under the direction of an investment manager. An investment fund does not have to take a particular defined form. Equally, structures that are typically deployed in an investment fund context can be utilized in joint venture and mergers and acquisition deals as well.

How do they sit with the Shariah?

Generally, quite well. Investment funds are in essence about the pooling of risks and the sharing of profits. Islam encourages this and principles of enterprise, investment in business and the redistribution of wealth all fit nicely within the Islamic metric.

Within the Shariah, there are various forms through which such a construct can be expressed but the most well known and the most useful in the private unregulated funds world is that of the Mudarabah.

The Mudarabah involves an owner of wealth, known as a 'Rab al maal', and a party who deals with that wealth on their behalf, the Mudarib. The Rab al maal has the characteristic of a silent investor, although they are entitled to establish certain ground rules as to the investment criteria applicable and the percentage of profits which the Mudarib can retain for themselves on investment returns. In addition, some Madhabs permit the Mudarib to deduct their costs of managing the fund's assets from those assets (although they are not allowed to take a salary per se).

Once the investment process commences, the Mudarib makes all the investment decisions. The recompense which he receives is thus in recognition of the deployment of his skills and the 'value add' which he brings to the Rab al maal thereby. This investment freedom means that there will be no come back upon the Mudarib for losses he incurs during the course of his investment business unless those losses are caused by his own negligence, fraud or the like. Bad business will therefore be at the risk of the investors (although the Mudarib will suffer too as it will impact upon his remuneration). Where a number of individuals rely upon the skills of a particular Mudarib in this way, it rapidly begins to look like a modern investment fund.

Private funds

Islamic structures do not necessarily need to occur through their exact conventional structuring namesakes. It is possible to shape and mould incorporated and unincorporated entities from various jurisdictions to fit in with a particular Shariah model. This applies not just to investment funds but to various types of Islamic transaction ranging from financing arrangements to endowments.

The private unregulated investment fund is a particularly malleable structure in that sense because it has no singular form and is adapted by lawyers to create the appropriate vessel to meet the needs of investors and investment managers in any given scenario. As a result, various entities can be engineered so as to bring them into line with Islamic law. It is possible to create Shariah compliant investment funds for retail customers too — they are simply subject to a greater degree of regulation.

Limited partnerships and corporate structures

The principle features of any investment fund are determined by a multitude of factors. A typical investment fund structure is set out below:

As Figure 1 illustrates, the typical unregulated investment fund involves an offshore entity (usually a limited partnership or a corporation or a combination of both) as the fund, an investment manager to manage the fund's investments, and of course the investors themselves who pool their funds through the fund vehicle.

A limited partnership works in the following way: the limited partners (who are the investors) pool their money in the limited partnership. Their liability is limited to the amount of their capital contribution thereto and they receive their returns from the partnership (which is tax transparent). In exchange for their limited liability, the limited partners are unable to take part in the management of the vehicle (other than in certain specific circumstances) with the management of the partnership being reserved for the general partner (who may delegate his authority to an investment manager).

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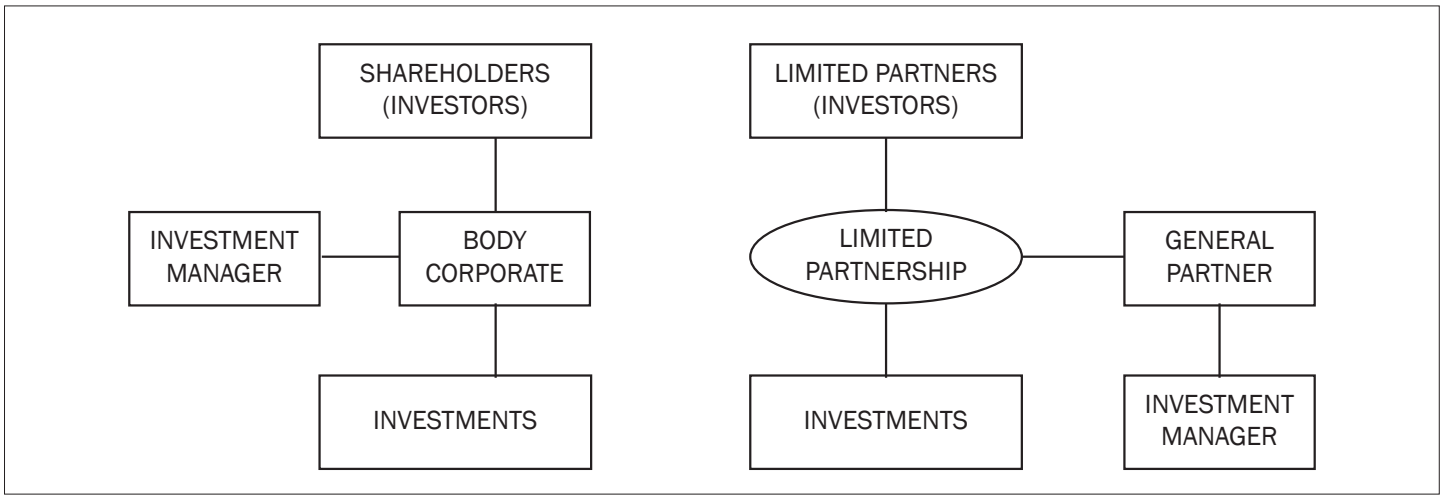
Figure 1



Investment Funds and the Shariah — A Happy Union? (continued)

A corporate investment fund works slightly differently — the investors purchase shares of the vehicle in question. The money raised by this sale of shares is then invested by the fund and as the value of the fund increases, the value of the shares held by the investors increases too. These vehicles are tax opaque (such as their profits are treated as their own first) and this is beneficial for some investors. The management of these vehicles is usually undertaken by a third party manager appointed with authority to operate the fund under the supervision of the directors.

As is probably clear from the brief descriptions above, both the limited partnership and the body corporate can be used to create a Mudarabah. In fact, complex investment funds tend to utilize more than one vehicle within their structure to accommodate the tax positions of different types of investor and different types of assets.

Particular differences

The investment class and style, the location of the assets and the identity of the investors are all important considerations when deciding exactly how and where the fund should be set up. For sponsors looking to establish a Shariah compliant investment fund, the Shariah is an overarching theme which will impact upon each of these concerns, but in general terms the fund's operation will not be entirely dissimilar to any other fund.

One feature which is unique to a Shariah compliant fund however is the addition of a Shariah supervisory board. It is not unusual to have advisory boards in relation to investment funds, particularly private equity style funds, however these are usually comprised of investors and as their name suggests serve a purely advisory function.

The Shariah supervisory board's function is different in that its purposes is to ensure that the fund conducts its business in the appropriate way — as if it were a private regulator for the fund. The board will generally be comprised of at least three scholars of repute and the selection of suitably qualified persons to hold these positions is helpful in giving investors comfort that the fund does in fact comply with its stated aims.

As one would expect, the basic principles of Halal and haram apply to every Shariah compliant fund, in particular the prohibitions on riba, gharar, maysir and other haram activities (pork, alcohol) are taken as a given. No fund can operate within an Islamic context without taking these investment restrictions into account and this will also impact upon the availability of hedging contracts for such a fund (as a general rule, options, futures and the like are not permitted). Other issues will also need to be taken into account depending upon the particular asset class being invested in.

For example, if the fund is investing in equities then an appropriate screening process will need to be implemented. Similarly, if the prime investment class is real estate, then due diligence on the use of each asset (particularly where they are leased for commercial purposes) will be important to ensure they are not leased for haram purposes.

Private equity presents similar issues — consideration will need to be given as to what constitutes the mainstay of each investee company's business and (as with any investment class) purification and divestment strategies will need to be put in place where restrictions are breached.

Marketing the fund's terms to investors

One must also consider what investment format will best suit the assets and be most marketable to the target investors. It sounds obvious that there is no point marketing an investment fund that no-one wants to buy, but not every fund will reach their target close (the term given when a fund raises the amount of funds it sets out to raise). Though this can sometimes be due to unforeseen circumstances (such as the recent financial crisis), it is never helpful when the way the fund terms themselves are put together is out of favour with the target audience. Assuming the background research has been done, this should inform the fund's sponsor as to the kind of product they should be producing.

After the initial pre-marketing presentations, the key sales document will be the fund's 'private placement memorandum' or 'offering memorandum' and for more sophisticated investors, the underlying constitutional documents governing the fund (particularly in relation to limited partnerships where the limited partnership agreement is paramount).

The sponsor must also be careful to ensure that they comply with local laws when marketing private placements and that they do not fall foul of any applicable financial promotions regime (breach of which may lead to criminal sanctions). Offering memoranda should be clear, fair, and not misleading, and should disclose all the risks of investing in the product in question.

The importance of fairness in transactions is something greatly emphasized in the Sunnah and the disclosure of faults pertaining to a product required by the various national regulatory authorities is not something new for Muslims. Indeed, the manner in which Muslims trade their products has historically been instrumental in spreading Islam (witness Indonesia) and the Quran itself presents the example of Shuaib and the people of Midian when speaking about the importance of fair dealing.

There are obviously a large number of terms which these documents must address but some of the most important ones from an investor's point of view include those relating to liquidity and fee structures. The question of liquidity has many facets, beginning with the broad question as to whether the fund should be open or closed ended.

In basic terms, an open ended fund permits investors to come in and out over the course of its lifetime whilst a closed ended fund keeps the number of investors fixed from the fund's final close until all the assets are disposed of. The former is typical of hedge funds and equity funds where liquidity is important to investors and readily available to the fund whereas the latter is more typical of private equity funds whose assets are highly illiquid and as a result value cannot be easily realised absent some sort of exit strategy (such as a trade sale or IPO).

The fee structure will also vary from fund to fund depending upon things such as the asset class and the track record of the investment manager. In general terms, the fees charged in an investment fund structure typically involve a combination of a management fee (charged on assets under management and/or funds raised) and a performance fee (an incentive fee usually charged above a high water mark). The purpose of these fees is to enable the manager to cover their costs of running the fund as well as to incentivise them to perform well.

continued...

Investment Funds and the Shariah — A Happy Union? (continued)

Points of contention

We have made much of the fact that the structures traditionally deployed for investment funds can slot into a Shariah environment without difficulty, however there are some terms which are potentially more problematic. In one way or another, the difficulty with them is linked to the issue of riba.

Three examples of this problem concern leverage, equalization and default terms. Leverage needs no introduction. It is well known that borrowing at interest is not permissible under the Shariah and clearly any fund which wants to borrow must find a way to do so in a manner that does not break this restriction. Perhaps slightly less well known is the problem of equalization. Equalization is the process whereby investors who join a fund late are permitted to do so on the basis that they pay a fee to take account of the fact that they joined later than other investors.

Invariably, in conventional private equity funds, this fee is calculated as an interest charge upon monies raised at later closings. This is not permissible in Shariah and where it is desirable to impose a similar charge on a closed ended fund, it will have to be based on some measure of total asset value rather than an arbitrary flat line interest charge. Default terms are similarly problematic when it comes to Shariah compliant funds. Private equity funds tend to call for money from their investors in tranches as and when required. When an investor in a private equity fund fails to meet the drawdown requests for funds, they are in default and in a conventional fund a penalty would be imposed.

Although this is not permissible, the danger is that if no mechanism is in place, investors who simply do not wish to participate anymore will cut their losses and run. As an alternative therefore, various scholars have come up with the solution that any such charge levied upon participants for failing to comply with a drawdown notice is made to a charity rather than for the benefit of the fund.

Conclusion

The variety of structures within the investment funds world mean that achieving something that functions in accordance with Islamic law is a viable proposition. But while we may have a plethora of options available to us, what we currently lack is a wide variety of products to utilize them.

What we need are more successful Shariah compliant investment products which attract all types of investors, not just Muslims. The Islamic funds market has huge potential to facilitate investment with a focus on equity rather than debt, to channel funds into particular industries and to ensure that those industries develop in line with the needs of the Ummah.

However a wider product offering will need to be developed which diversifies away from the hard hit equities and real estate markets to enable this market to realise its potential.

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Questioning IDB Efforts in Alleviating Poverty

By Mohammed Khnifer

More than 30 years ago, the Islamic Development Bank (IDB) was established as a multilateral institution with 56 member countries. Today, the IDB's achievements can be read on a regular basis through various media outlets. However, some Islamic industry practitioners have questioned, privately, whether IDB has indeed succeeded in terms of poverty alleviation.

The IDB, based in Jeddah, Saudi Arabia, was established in 1975 by the Organization of Islamic Conference. The three core objectives of the bank are contributing to poverty alleviation in member countries; promoting intra-trade and investment among its member countries; and promoting the Islamic banking industry both in member countries and globally. The functions of the bank are to participate in equity capital and grant loans for productive projects and enterprises on top of providing financial assistance to member countries in other forms of economic and social development. This can be seen through the building of hospitals and schools, financing of agricultural projects or installing electrical plants in multiple member countries.

Over the past 35 years through 2008, the bank's cumulative net financing reached US$56.9 billion for supporting 6,103 operations to member countries in the key sectors of their economies such as public utilities, transport and communication, social services, agriculture, industry and mining and financial services. Reports have suggested that 61% was for trade finance, 29% project finance and the rest mainly in the form of technical assistance.

When it comes to alleviating poverty, the IDB approach revolves around channeling these funds to its poorest member countries. The primary goal of poverty alleviation is to teach people how to be effective members in their society. This can be achieved by granting these poor families microfinance Islamic loans, rather than donating to them, as donations, prolong misery.

To illustrate the bank's approach, the IDB announced in 2008 a US$1.5 billion contribution toward food security programs for its member countries. The package, known as the Jeddah Declaration, was to be disbursed over a five-year period and include short, medium, and long term programs to deal with the food crisis that affects many developing nations. Furthermore, in 2007 a poverty reduction fund known as the Islamic Solidarity Fund, was launched with a targeted capital of US$10 billion. The fund's main purpose is to contribute to poverty alleviation by reducing unemployment, fighting diseases and epidemics, eliminating illiteracy and strengthening the economies of member countries.

Probably one of the most challenging tasks is the fact that IDB has been delegated to engage in financial related activities with unrated and low credit rated countries. This means the bank faces credit risk, as the majority of its financing is directed at speculative, grade borrowers, which, according to Fitch Ratings, accounted for 79.5% of the IDB's portfolio (excluding equity) at end -1427H (December 2006) versus 78.5% at end -1426H (January 2006).

What hinders the IDB from accomplishing its ultimate goal of alleviating poverty, is that the IDB is not a public listed entity. It enjoys its status of not having to submit regular reports to the market and thus has transparency issues. Even though the bank has presented itself as a major player in world humanitarian crises, there is not enough available data to judge whether its large scale poverty programs have been effective over the past 35 years. For instance, there is no available data that shows the percentage of the poor who have benefited from its programs. Being less transparent has made it difficult for industry experts to evaluate the magnitude of the success that the bank has claimed in the media and at conferences.

What follows are simple recommendations for tackling poverty in more effective ways —

1) The IDB needs to be more transparent in terms releasing quantitative data concerning those who have benefited from its grants to the poor;
2) To fight corruption and uphold accountability, the IDB can set up its own working group in each impoverished country to ensure that these funds are channeled to the right people. Indeed, an internal monitoring mechanism needs to be set up for its poverty related projects, so the bank can avoid poor implementation of such initiatives.

In addition to the above recommendations, it appears that the IDB has been overloaded with more tasks than it can handle. Without a clear strategy for the poorest member states, we cannot expect that the IDB will be able to handle the task of alleviating poverty in all 56 member countries (which make up a quarter of the world's population). While the IDB has managed to implement one strategy, that is to invest and co-invest in other financial entities to achieve a multiplier effect, there are still gaps in its approach to tackle poverty.

More than one billion people are estimated to be in absolute poverty worldwide. Of these, 400 million people are living in the Muslim world. Indeed, this statistics show that the IDB needs to create a new business model if it is seriously planning to alleviate poverty in a more efficient way.

Grameen Bank is a good example for the IDB to follow in terms of transparency and alleviating poverty in Bangladesh. Grameen Bank is a microfinance organization that makes small loans (known as microcredit) to the impoverished without requiring collateral. The IDB with its large scale resources can repeat the same success story by setting up its own version of Grameen Bank in each impoverished Muslim country.

In a region where we do not have many success stories, the IDB's impact has been acknowledged in the global media. Indeed, after 35 years of establishment, one can only wonder if the IDB has really been successful in alleviating poverty. The bank's approach toward poverty needs to be modified drastically, and it should consider the possibility of adopting Grameen Bank's business model.

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Mohammed Khnifer is a journalist and researcher specializing in Islamic finance. He is a holder of an MSc in Investment Banking and Islamic Finance from ICMA Financial Studies Center at the University of Reading's Henley Business School in the UK and is a chartered Islamic finance professional from INCEIF.

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

Name: David Kinloch

Position: CEO

Company: Labuan IBFC

Based: Kuala Lumpur

Age: 63

Nationality: British

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

Having spent most of my career in financial services with stints in more than 100 countries, I decided to make Malaysia my home upon retirement. Two years ago, I found myself lured by Labuan International Business and Financial Centre's potential as Asia's insurance and reinsurance centre. I subsequently joined Labuan IBFC as its insurance specialist. My current capacity as CEO has since expanded my focus to all of the products and services Labuan IBFC has to offer.

What does your role involve?

Labuan IBFC is the official Malaysian government agency authorized to promote Labuan as the premier international business and financial centre in Asia Pacific. Our main role is to market the jurisdiction and to also act as an intermediary between the marketplace and its regulator, the Labuan Financial Services Authority. I have a terrific team of 19 dedicated professionals to assist me in the task and we work closely and harmoniously together.

What is your greatest achievement to date?

My greatest achievement to date would be that I have enjoyed every position I have ever held taking into account the length of my career and the variety of places I have lived.

Which of your products / services deliver the best results?

We believe that every aspect of the jurisdiction is equally important towards its success. We have identified five main areas of focus for Labuan IBFC — increasing the number of companies formed; increasing the number of captives based here; increasing the number of funds, be it private or public, domiciled here; increasing the number of wealth management structures set up; increasing the amount of activity in Islamic finance undertaken in Labuan IBFC.

What are the strengths of your business?

Our key strengths are Labuan IBFC's simple tax framework and access to 62 of Malaysia's double taxation agreements. This combination ensures business dealings and corporate deals structured in Labuan IBFC are tax efficient, thus highly competitive. In addition, the recent legislative revamp allowed the introduction of a new range of products and services which will be a key success driver for us. In certain markets, for example trusts and foundations, Labuan IBFC currently offers the most comprehensive range of products in Asia. This has also allowed Malaysians, corporate or individual, to start using Labuan IBFC more extensively, so the domestic market will also be key driver for us.

Our niche in Islamic finance is also a huge advantage. We are known as home of the Sukuk and have certain products in the pipeline, like Islamic captives, which we expect will further entrench our market leadership.

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

The key factor for our success is our people who work tirelessly to promote the Labuan jurisdiction. We also receive very significant support from the Labuan players, our board of directors and our international advisory panel.

What are the obstacles faced in running your business today?

The main obstacle in promoting Labuan IBFC has been a lack of awareness. Not many realize that Labuan IBFC was launched nearly 20 years ago and has withstood many challenges along the way. However our survival and continuous growth is evidence of our strength.

Another challenge is ensuring our new products for example private trust companies, foundations, the international shipping registry, limited liability partnerships and protected cell companies gain market acceptance.

In order to be closer to the market, we have initiated the setting up of representative offices in key financial capitals. In fact, our first representative office in Hong Kong is now operational, with offices in both China and Europe in the pipeline.

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

Islamic finance is having a long day in the sun, thanks to the recent financial crisis which highlighted certain shortfalls in the conventional financial system. Malaysia is generally recognized as the world leader in Islamic finance and continues to lead the way in all areas of the industry. The industry's scope of growth is tremendous and we are excited about its potential. The challenge is ensuring that this growth is sustainable, providing Islamic finance a permanent role to play in the global financial landscape.

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

"Demystifying" the world of Islamic finance is the most important change I would like to see. In Islamic finance, terms that are used may create artificial barriers to understanding and the eventual adoption of Islamic finance by non-Muslims. So for example, how many people will immediately identify a Diminishing Musharakah as a way to describe a product as simple as an Islamic home loan? In markets like Canada, all of their laws and marketing literature refer to "alternative finance" instead of Islamic finance, thereby making the whole concept "friendlier" to novices.

SUMMARY OF TERMS & CONDITIONS

Indonesia's Hajj Fund Sukuk

IDR2 trillion (US$224 million)

7th October 2010

Obligor/Issuer	Government of Indonesia / Perusahaan Penerbit SBSN Indonesia
Tenor	Four years
Return	7.13% per annum
Payment	Monthly coupon payment
Maturity Date	7th October 2014
Trustee	Perusahaan Penerbit SBSN Indonesia
Governing Law	Indonesian law
Purpose of issuance	General financing
Rating	Not rated
Shariah Advisor	Indonesia National Syariah Board
Structure	Ijarah Al Khadamat
Tradability	Non-tradable

The Hajj Fund Sukuk which was issued on the 7th October 2010 is the last issuance with a private placement scheme in 2010. The private placement of the Sukuk was made due to the availability of the Dana Abadi Umat (Religious Community Permanent Fund), a rolling fund by the ministry of religious affairs.

Rahmat Waluyanto, director general of debt management at the ministry of finance, said the Sukuk will gain huge interest from investors and bring great demand for future Indonesian government bond issues.

The Q&A was conducted with the government of Indonesia:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   Ijarah Al Khadamat structure is designed for the typical Hajj Fund using pilgrimage services/usufruct as an underlying asset. This structure has been approved and endorsed by the Indonesia National Syariah Board.

2. **What will this capital be used for?**
   The proceeds will be used for the state's general financing for 2010.

3. **What were the challenges faced and how were they resolved?**
   From a Shariah compliant perspective, the structure has been widely accepted by Indonesian Islamic scholars. The Hajj Fund Sukuk is basically a private placement deal between the Indonesian ministry of finance and the ministry of religious affairs through an MoU in 2009.

4. **Geographically speaking, where did the investors come from?**
   This is a private placement issuance which is designed for the ministry of religious affairs. However, a private placement deal may also be done by any investor either in Indonesian rupiah or foreign currency denomination.

5. **Was this deal rated? If not, explain why.**
   No, because since it is a private placement and the investor of Hajj Fund Sukuk is a government agency, rating is unnecessary.

DLA PIPER

UAE: DLA Piper has appointed Murad Abida as the head of corporate for the Middle East, based in Dubai. Murad was previously the joint head of corporate practice at Hadef & Partners.

BNY MELLON

US: BNY Mellon has appointed Marina Lewin as head of global sales and Steve Farlese as head of global service delivery.

SOCIETE GENERALE

HONG KONG: Societe Generale has appointed Ashley Wilkins as deputy chief CEO for the Asia Pacific region. Wilkins will also remain as the head of global finance Asia Pacific for the bank.

STANDARD CHARTERED BANK

GLOBAL: Heinz Noeding has been appointed by Standard Chartered Bank (StanChart) as global head of structured export finance, in New York replacing Charles Carlson who has been appointed as CEO of StanChart, Libya.

DEUTSCHE BANK

SINGAPORE: Deutsche Bank has appointed Kaushik Shaparia as the managing director and regional head of trade finance and cash management corporates, Asia Pacific, based in Singapore.

NATIONAL BANK OF BAHRAIN

BAHRAIN: National Bank of Bahrain (NBB) has appointed Farouk Yousuf Khalil Almoayyed as its new chairman. Farouk has been the deputy chairman of NBB since 1997.

DUBAI WORLD

UAE: Aidan Birkett stepped down as the chief restructuring officer of Dubai World last week as he has completed his work at Dubai World.

UBS

GLOBAL: UBS has appointed Ali Janoudi to head its wealth management operations for the Saudi Arabia and Near East/North Africa regions.

SCOTTISH WIDOWS INVESTMENT PARTNERSHIP

UK: Scottish Widows Investment Partnership has appointed Ian Clifton as its commercial director in the fixed income team, based in the UK. Clifton was previously a senior investment consultant with Mercer.

BARCLAYS WEALTH

UK: Barclays Wealth has appointed Anne Grim as managing director and head of global client services. Prior to this appointment, Grim was an executive vice president and divisional marketing, eBusiness and strategic partnership leader at Wells Fargo Financial.

JP MORGAN

GLOBAL: JP Morgan has appointed Abdulaziz Al Helaissi as senior country officer for Saudi Arabia, and Karim Tannir as head of investment banking client coverage for the MENA region, based in Dubai.

STEPHENSON HARWOOD

UK: Legal firm Stephenson Harwood has appointed Sara George as a partner in the financial services contentious regulatory practice in the UK.

HSBC

HONG KONG: HSBC has appointed Sarah Legg as chief financial officer for Asia Pacific.

She succeeds Iain Mackay who will be transferred to London to become group financial director in December.

THE ROYAL BANK OF SCOTLAND GROUP

US: The Royal Bank of Scotland Group has appointed Simon Walker as co-head of syndicated loans focusing on investment-grade borrowings, based in Stamford, Connecticut.

Walker was previously the head of investment-grade loan markets at UBS.

THE SAUDI BRITISH BANK

SAUDI ARABIA: The Saudi British Bank has appointed Loai Hassan Abduljawad as head of business banking.

ICAP

UK: Interdealer broker Icap has appointed Iain Torrens the group's financial controller, as its group finance director in the UK.

BNY MELLON TRUST

US: Timothy Vara has been appointed as president of the Bank of New York Mellon Trust commencing the 1st January 2011.

FIDELITY CAPITAL MARKETS

US: Fidelity Capital Markets has appointed Kevin Byrne to head its transition management team.

Deal tracker

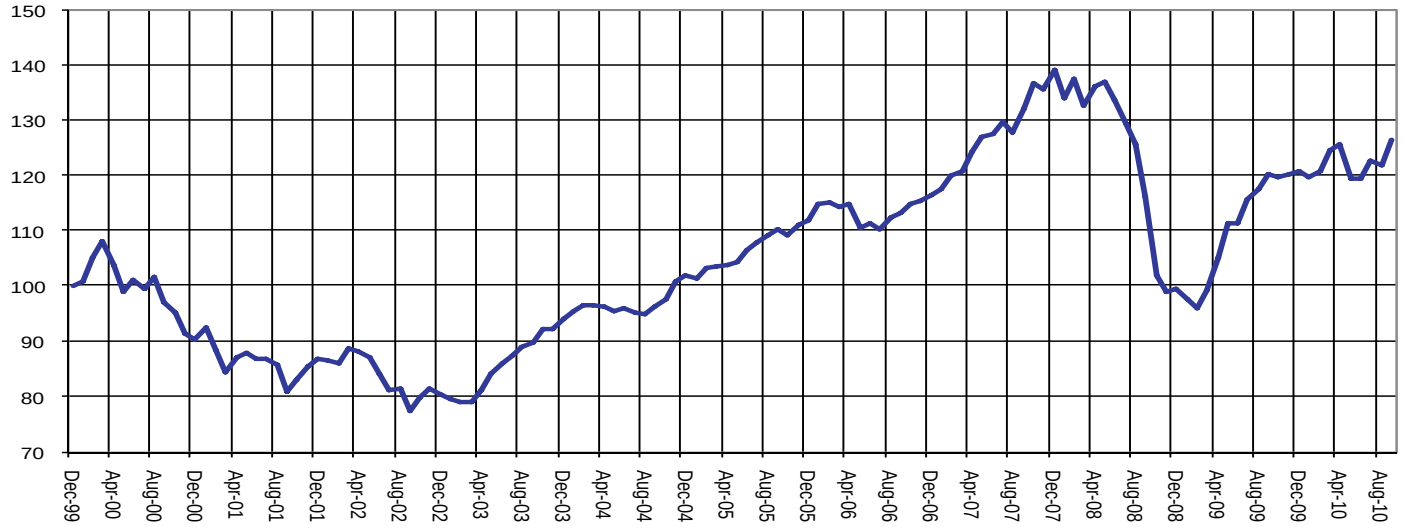
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Nakheel	TBA	Sukuk
Gatehouse Bank	GBP70 million	Sukuk
Alta Mesa, US	US$300 million	Sukuk
Kazakhstan	US$500 million	Sukuk
Gatehouse Bank	GBP70 million	Sukuk
Etisalat	TBA	Sukuk
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
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
Abu Dhabi Islamic Bank	US$5 billion	Sukuk
Cagamas	US$5 billion	Sukuk
AmIslamic Bank	RM3 billion	Senior Sukuk Musharakah
Sumitomo Corporation	TBA	Sukuk

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

Eurekahedge Islamic Fund Index



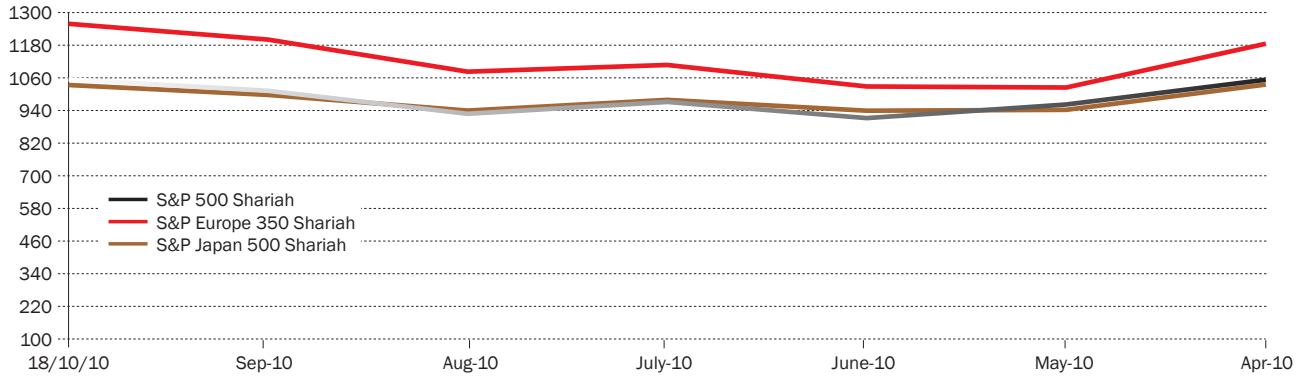
YTD returns for ALL fund (as of the 18th October 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Palladium	ETFS Metal Securities	42.01	Jersey
2	ETFS Physical Silver	ETFS Metal Securities	29.42	Jersey
3	BNP Paribas Pesona Amanah	BNP Paribas Investment Partners	29.39	Indonesia
4	Mega Dana Syariah	Mega Capital Indonesia	26.67	Indonesia
5	Public Islamic Sector Select	Public Mutual	26.27	Malaysia
6	Taurus Ethical B	Taurus Asset Management	25.10	India
7	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	23.17	Ireland
8	ETFS Physical PM Basket	ETFS Metal Securities	22.05	Jersey
9	AAA Amanah Syariah	Andalan Artha Advisindo Sekuritas	20.50	Indonesia
10	InterPac Dana Safi	Inter-Pacific Asset Management	19.64	Malaysia
	Eurekahedge Asia Pacific Islamic Fund Index*		**4.69**	

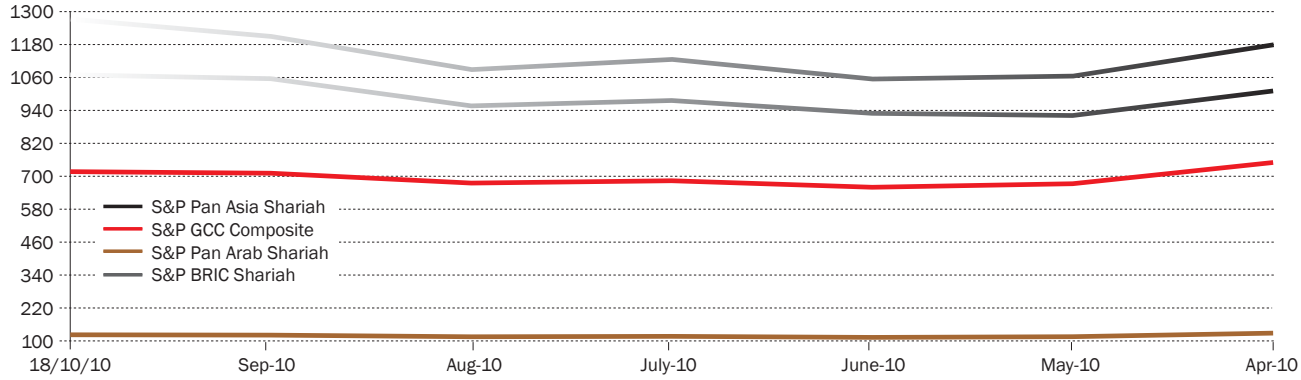
Sharpe ratio for ALL funds (as of the 18th October 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Insight I-Hajj Syariah	Insight Investments Management	8.06	Indonesia
2	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	6.41	Pakistan
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	5.50	Pakistan
4	SR International Trade Finance - (Al Sunbula)	Samba	3.79	Saudi Arabia
5	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	3.61	Saudi Arabia
6	Commodity Trading - SAR	Riyad Bank	3.57	Saudi Arabia
7	USD International Trade Finance Fund - (Al Sunbula)	Samba	3.28	Saudi Arabia
8	AlAhli Saudi Riyal Trade	The National Commercial Bank	2.80	Saudi Arabia
9	AlAhli International Trade	The National Commercial Bank	2.74	Saudi Arabia
10	Public Islamic Money Market	Public Mutual	2.70	Malaysia
	Eurekahedge Middle East/Africa Islamic Fund Index*		**0.02**	

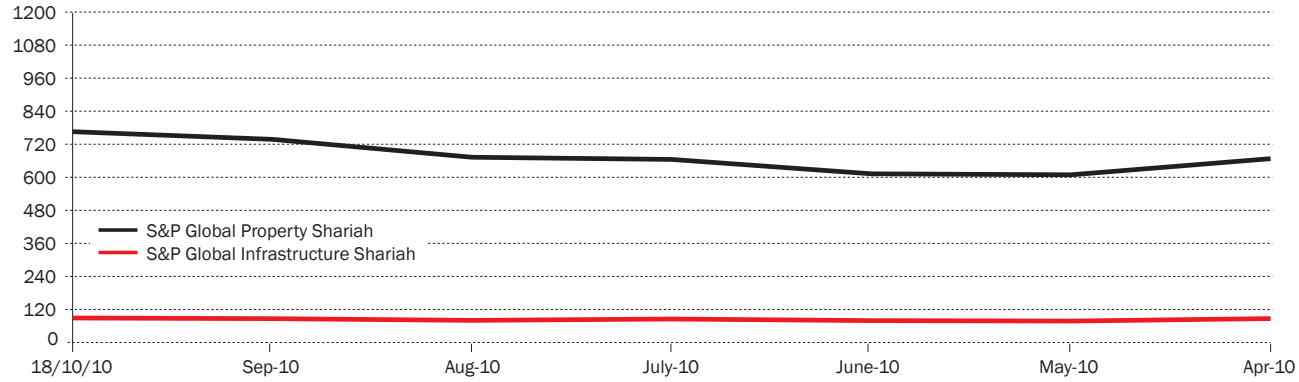
S&P Shariah Indices Price Index Levels



Index Code	Index Name	18/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHX	S&P 500 Shariah	1054.272	1012.387	927.814	971.473	912.024	962.089	1053.050
SPSHEU	S&P Europe 350 Shariah	1258.704	1200.681	1082.714	1107.409	1028.288	1042.504	1185.474
SPSHJU	S&P Japan 500 Shariah	1033.663	997.313	939.684	979.104	939.209	942.416	1035.333



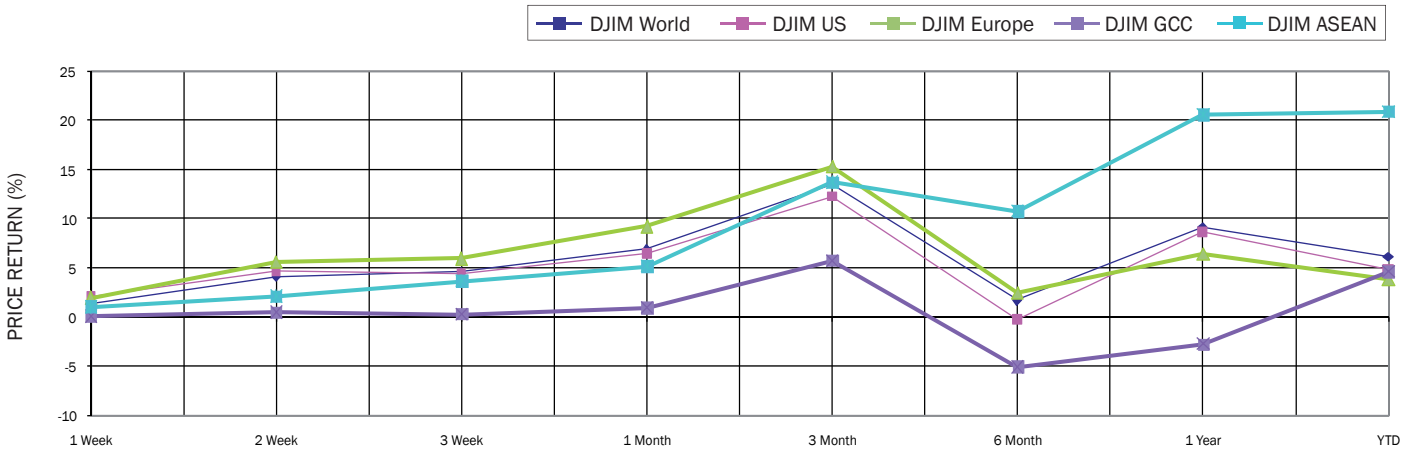
Index Code	Index Name	18/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHAS	S&P Pan Asia Shariah	1069.744	1055.516	956.455	976.003	929.342	921.335	1010.900
SPSHG	S&P GCC Composite Shariah	716.797	711.722	675.181	683.611	659.910	672.795	750.159
SPSHPA	S&P Pan Arab Shariah	122.310	121.100	115.090	116.617	112.797	115.358	128.364
SPSHBR	S&P BRIC Shariah	1277.003	1213.917	1093.125	1130.118	1058.653	1069.475	1183.561



Index Code	Index Name	18/10/10	Sep-10	Aug-10	July-10	June-10	May-10	Apr-10
SPSHGU	S&P Global Property Shariah	765.510	737.706	672.740	664.799	612.598	608.951	667.560
SPSHIF	S&P Global Infrastructure Shariah	88.993	86.530	80.314	85.243	79.474	77.860	86.827

Data as of the 18th October 2010

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.40	4.08	4.52	6.83	13.52	1.71	9.12	6.13
DJIM US	2.02	4.63	4.43	6.44	12.26	-0.22	8.63	4.79
DJIM Europe	1.95	5.58	5.91	9.16	15.30	2.40	6.40	3.76
DJIM GCC	0.01	0.41	0.25	0.91	5.73	-5.08	-2.82	4.59
DJIM ASEAN	1.03	2.05	3.63	5.10	13.65	10.73	20.57	20.88

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

DESCRIPTIVE STATISTICS	Market Capitalization (US$ billion)							Component Weight (%)	
INDEX	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2370	16383.29	12733.18	5.37	1.12	338.52	0.01	2.66	0.00
DJIM US	585	6813.50	6402.24	10.94	2.78	338.52	0.17	5.29	0.00
DJIM Europe	258	3133.06	2475.68	9.60	2.45	146.49	0.25	5.92	0.01
DJIM GCC	112	206.82	87.42	0.78	0.30	9.98	0.03	11.42	0.03
DJIM MENA	157	370.24	108.48	0.69	0.20	13.72	0.02	12.64	0.02
DJIM ASEAN	221	445.51	178.87	0.81	0.16	16.49	0.00	9.22	0.00
DJIM Titans 100	100	6996.40	6188.22	61.88	40.95	338.52	13.09	5.47	0.21
DJIM Asia/Pacific Titans 25	25	1117.06	730.22	29.21	23.28	77.38	13.09	10.60	1.79

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

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TOP 30 ISSUERS OF ISLAMIC BONDS *12 Months*

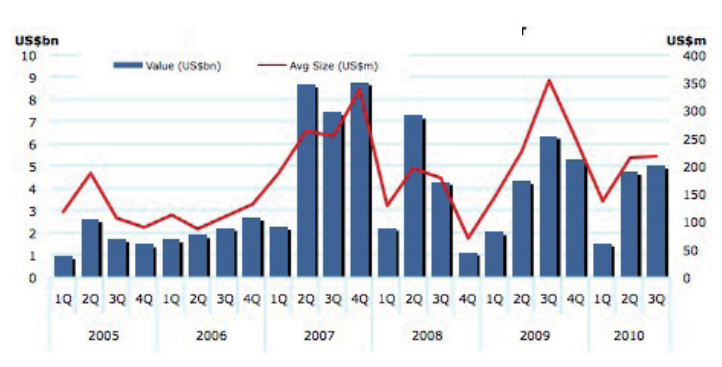
	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Government of Dubai	UAE	Sukuk.	Euro market public issue	1,931,000,000	1	12.8	Standard Chartered, UBS, National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank, Mitsubishi UFJ Financial Group, Emirates NBD, Al Hilal Bank
2	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	12.4	HSBC, Samba Capital
3	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue; Foreign market private placement	1,700,000,000	2	11.3	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB, DBS
4	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	8.8	CIMB, Maybank Investment Bank
5	Cagamas	Malaysia	Sukuk Murabahah	Domestic market private placement; Domestic market public issue	1,269,000,000	10	8.4	CIMB, Maybank Investment Bank, HSBC, Cagamas, AmInvestment, 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	8.3	HSBC, Barclays Capital, CIMB
7	Qatar Islamic Bank SAQ - QIB	Qatar	Sukuk	Euro market public issue	750,000,000	1	5.0	HSBC, Credit Suisse QInvest
8	GE Capital Sukuk	US	Sukuk	Euro market public issue	498,000,000	1	3.3	Goldman Sachs, KFH, National Bank of Abu Dhabi, Citigroup
9	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	446,000,000	1	3.0	Goldman Sachs, Deutsche Bank, Unicorn Investment Bank
10	Pengurusan Aset Air - PAAB	Malaysia	Sukuk Ijarah	Domestic market private placement	341,000,000	1	2.3	CIMB
11	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	316,000,000	1	2.1	CIMB, Citigroup
12	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	2.0	CIMB
13	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	228,000,000	1	1.5	Standard Chartered, CIMB
14	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah	Domestic market public issue	193,000,000	1	1.3	Saudi Hollandi Bank, Riyad Bank
15	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.2	AmInvestment
16	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	1.1	CIMB
17	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk Musharakah	Domestic market public issue	167,000,000	1	1.1	RHB Capital, Maybank Investment Bank
18	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	1.1	CIMB, AmInvestment, Maybank Investment Bank
19	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	1	1.1	Lembaga Tabung Haji, RHB Capital, CIMB
20	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	1.0	HSBC, CIMB
21	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	1	1.0	HSBC, Maybank Investment Bank
22	Penerbangan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	148,000,000	2	1.0	Bank Muamalat Malaysia, CIMB, HSBC, AmInvestment
23	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	0.7	KFH
24	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk	Euro market public issue	100,000,000	1	0.7	KFH, Citigroup
24	International Finance	US	Sukuk	Euro market public issue	100,000,000	1	0.7	HSBC, KFH, Dubai Islamic Bank, Liquidity Management Centre
27	Gamuda	Malaysia	Sukuk Musharakah	Domestic market private placement	97,000,000	1	0.6	CIMB, AmInvestment
28	Perusahaan Listrik Negara	Indonesia	Sukuk Ijarah	Domestic market public issue	87,000,000	2	0.6	(Persero) Danareksa, Bahana Securities Bank Mandiri, Trimegah Securities
29	Citydev Nahdah	Singapore	Sukuk Ijarah	Domestic market private placement	72,000,000	2	0.5	CIMB
30	Haluan Gigih	Malaysia	Sukuk Musharakah	Domestic market private placement	64,000,000	3	0.4	Maybank Investment Bank
	Total				15,050,000,000	76	100.0	

20 MOST RECENT GLOBAL ISLAMIC BONDS

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

GLOBAL ISLAMIC BOND VOLUME BY MONTH

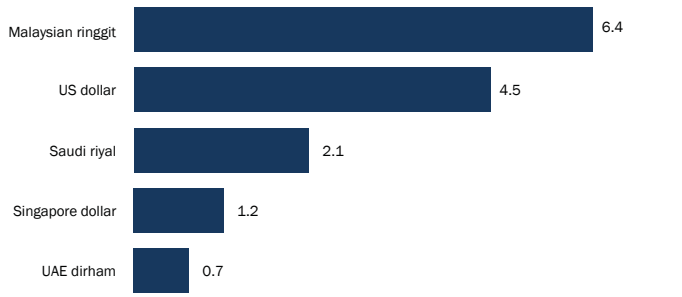
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



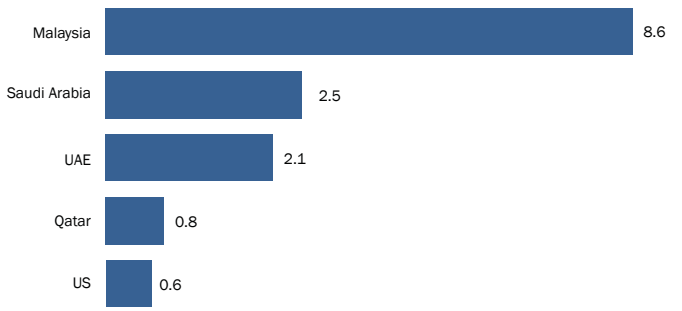
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB	3,284,000,000	31	21.8
2	HSBC	1,973,000,000	11	13.1
3	Maybank Investment Bank	1,214,000,000	16	8.1
4	Samba Capital	933,000,000	1	6.2
5	AmInvestment	838,000,000	10	5.6
6	Standard Chartered	649,000,000	9	4.3
7	OCBC	500,000,000	3	3.3
8	Barclays Capital	417,000,000	1	2.8
9	RHB Capital	401,000,000	5	2.7
10	KFH	374,000,000	4	2.5
11	DBS	370,000,000	2	2.5
12	Dubai Islamic Bank	331,000,000	2	2.2
13	Mitsubishi UFJ Financial Group	324,000,000	2	2.2
14	Citigroup	308,000,000	3	2.1
15	UBS	306,000,000	1	2.0
15	Emirates NBD	306,000,000	1	2.0
17	QInvest	250,000,000	1	1.7
17	Credit Suisse	250,000,000	1	1.7
19	Goldman Sachs	248,000,000	2	1.7
20	Bahrain Islamic Bank	208,000,000	1	1.4
21	National Bank of Abu Dhabi	197,000,000	2	1.3
22	Unicorn Investment Bank	149,000,000	1	1.0
22	Deutsche Bank	149,000,000	1	1.0
24	Bank Muamalat Malaysia	148,000,000	3	1.0
25	RBS	106,000,000	1	0.7
25	Al-Rajhi Banking & Investment	106,000,000	1	0.7
27	Cagamas	101,000,000	1	0.7
28	Al Hilal Bank	97,000,000	1	0.7
29	Saudi Hollandi Bank	97,000,000	1	0.6
29	Riyad Bank	97,000,000	1	0.6
	Total	15,050,000,000	76	100

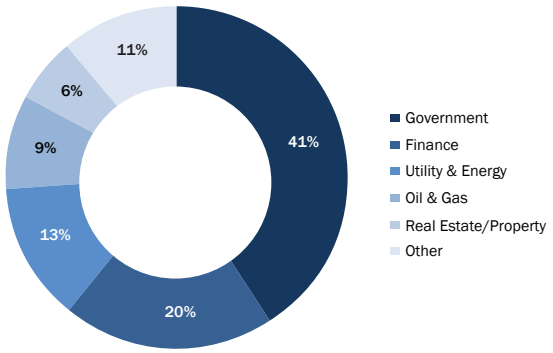
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



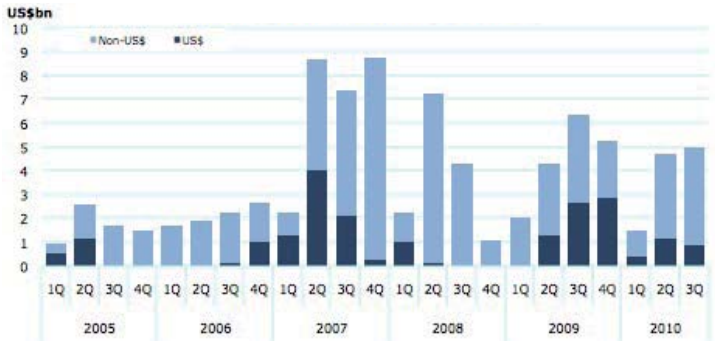
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



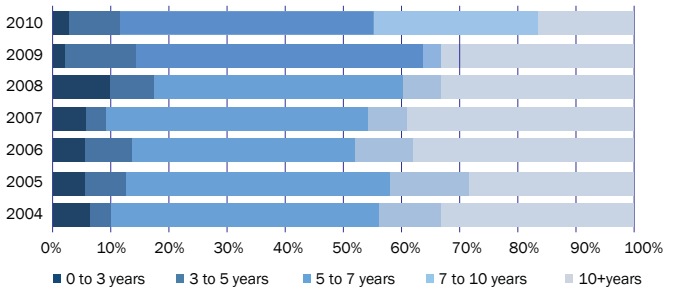
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



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



ALL DATA AS OF THE 18th OCTOBER 2010

SUKUK MANAGERS (12 months) OCT 2009 – OCT 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	22,002,808,200	99	56.5
2	CIMB	5,069,592,919	87	13.0
3	Malayan Banking	1,720,528,130	96	4.4
4	AMMB Holdings	984,700,770	61	2.5
5	HSBC Banking Group	981,534,697	39	2.5
6	RHB Banking Group	967,139,960	36	2.5
7	Malaysian Industrial Development Finance	893,934,180	198	2.3
8	Standard Chartered	727,957,419	13	1.9
9	Dubai Islamic Bank	602,646,875	3	1.5
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	216,587,770	20	0.6
16	Bukhary Capital	176,990,490	4	0.5
17	OSK Holdings	171,388,669	22	0.4
18	OCBC	170,084,147	19	0.4
19	EON Capital	166,452,779	68	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)	6,399,576,200	27	60.5
2	CIMB	1,926,218,792	22	18.2
3	RHB Banking Group	465,536,615	10	4.4
4	Malayan Banking	465,522,909	30	4.4
5	AMMB Holdings	366,450,305	19	3.5
6	Malaysian Industrial Development Finance	261,840,989	52	2.5
7	Cagamas	181,199,696	8	1.7
8	Bukhary Capital	128,928,400	1	1.2
9	HSBC Banking Group	74,861,092	9	0.7
10	Affin Holdings	61,984,995	5	0.6
11=	Citigroup	50,000,000	1	0.5
11=	Kuwait Finance House	50,000,000	1	0.5
13	EON Capital	48,542,713	13	0.5
14	OSK Holdings	41,040,104	5	0.4
15	United Overseas Bank	17,748,805	2	0.2
16	Standard Chartered	16,124,630	2	0.2
17	Hong Leong Financial Group	11,317,705	1	0.1
18	Public Bank	11,163,835	3	0.1

SUKUK ISSUERS (12 months) OCT 2009 – OCT 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	15,366,221,100	74	35.5
2	Malaysia (Government)	6,399,875,800	25	14.8
3	Bank Indonesia	2,689,692,896	35	6.2
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 LTD	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	Esso Malaysia	620,849,210	12	1.4
13	Sime Darby	594,088,000	3	1.4
14	Dar Al-Arkan International Sukuk	450,000,000	1	1.0
15	Khazanah Nasional	367,252,800	1	0.8
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	260,508,175	39	0.6
20	Hubline	213,889,970	18	0.5

SUKUK ISSUERS (3 months) JULY 2010 - OCT 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	6,303,156,800	24	52.0
2	Celcom Transmission (M)	1,342,937,400	4	11.1
3	Qatar Islamic Bank SAQ	750,000,000	1	6.2
4	Perusahaan Penerbit SBSN Indonesia	543,744,745	2	4.5
5	Cagamas	405,308,830	8	3.3
6	Malaysia Airports Capital	319,747,000	1	2.6
7	Pengurusan Air SPV	222,575,500	1	1.8
8	Bank Indonesia	216,565,432	4	1.8
9	Amislamic Bank	177,190,750	1	1.5
10	Pelabuhan Tanjung Pelepas	169,218,525	1	1.4
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	1.3
14	Padiberas Nasional	128,928,400	1	1.1
15	Esso Malaysia	120,675,260	4	1.0
16	KT Turkey Sukuk	100,000,000	1	0.8
17	Malaysia (Government)	96,419,400	3	0.8
18	Hytex Integrated	67,183,329	12	0.6
19	Hubline	61,984,995	5	0.5
20	Perbadanan Kemajuan Negeri Selangor	50,831,530	3	0.4

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

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ALL DATA AS OF THE 18th 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 18th OCTOBER 2010

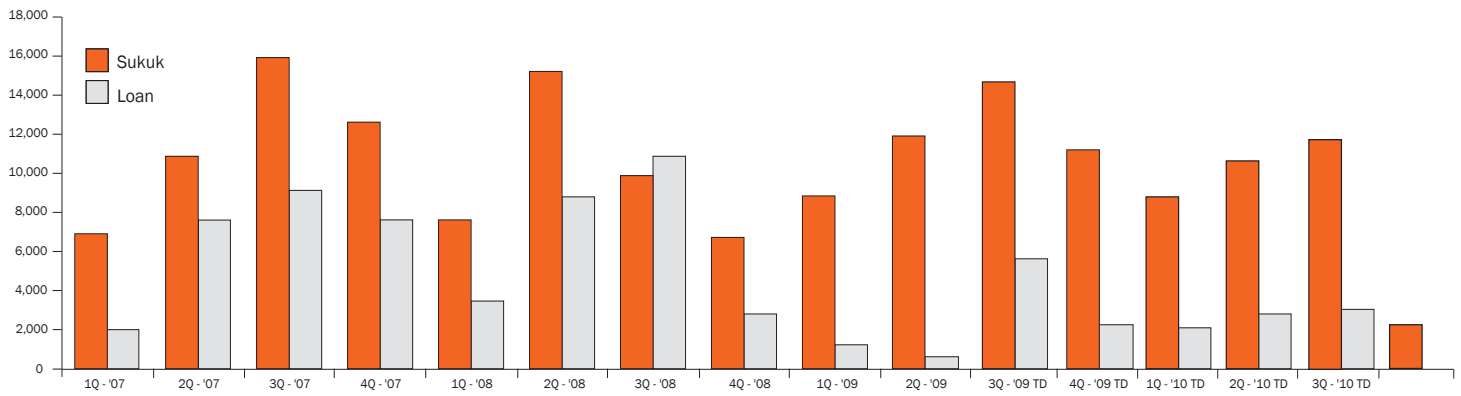
SUKUK BY COUNTRY	(12 Months)	OCT 2009 – OCT 2010
Country	Volume Issued	Volume Outstanding
Malaysia	33,258,640,603	21,594,099,271
Indonesia	5,360,285,918	2,887,158,454
Eurobond	3,780,587,500	3,780,587,500
US	575,000,000	575,000,000
Saudi Arabia	193,328,500	193,328,500
Singapore	92,728,884	92,728,884
Bahrain	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	23,957,395,368	14,109,339,613
Sovereign	9,089,568,696	6,616,441,232
Agency	2,951,771,173	2,893,105,313
Manufacturing	2,299,708,313	1,542,729,429
Telephone	1,364,135,000	1,364,135,000
Banks	1,275,533,750	1,275,533,750
Energy company	682,702,145	111,076,705
Transportation	632,630,320	466,651,865
Service company	419,796,953	316,468,895
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
October			
18th – 22nd	25th East Asian Insurance Congress	Bali, Indonesia	EAIC Organizing Committee
25th – 28th	Global Islamic Finance Forum 2010 (GIFF 2010)	Kuala Lumpur	REDmoney *events*
26th – 28th	IFN *Issuers & Investors* Asia Forum 2010	Kuala Lumpur	REDmoney *events*
27th – 28th	Malta Islamic Finance Conference: A New Beginning 2010	Malta	Malta Institute of Management
November			
1st – 2nd	1st World Conference on Riba	Kuala Lumpur	Thinkers Trends Resources
3rd	Islamic Financial Intelligence Summit	London	FT Business
4th – 5th	Beirut Islamic Financial Institutions Forum	Beirut	Al-Iktissad Wal-Aamal Group
10th	IFN Roadshow Canada	Toronto	REDmoney *events*
10th – 11th	Middle East Life & Family Takaful Summit	Dubai	Asia Insurance Review
12th	IFN Roadshow UK	London	REDmoney *events*
15th	IFN Roadshow France	Paris	REDmoney *events*
15th – 19th	13th Euro Finance Week	Frankfurt	Maleki Group
22nd – 24th	The World Islamic Banking Conference	Bahrain	MEGA Events
28th – 1st	Financial Services to Women Middle East	Dubai	IQPC Middle East
December			
1st – 2nd	Annual Conference on Islamic Banking & Finance	Manama	AAOIFI
6th	IFN Roadshow Korea	Seoul	REDmoney *events*
8th	IFN Roadshow Japan	Tokyo	REDmoney *events*
8th – 9th	The Saudi Investor Window 2010	Riyadh	UCI International
13th	IFN Roadshow Brunei	Brunei	REDmoney *events*
13th – 14th	The 6th Annual Syndicated Lending in the GCC 2010	Dubai	IIR & IBC Financial Events
13th – 15th	2nd Insaniah-Irti International Confenrence LIFE	Malaysia	Insaniah University College and IRTI-IDB

2011 EVENTS DIARY

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

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