Islamic Finance news

REDmoney publication

Vol 8 Issue 14 13th April 2011

The World's Global Islamic Finance News Provider

Soldiering on

Despite the UK having mixed reviews on the status of its Islamic finance market, the country is arguably one of Europe's more ardent champions of the industry as its track record will attest. The UK is fairly developed in most aspects of the Islamic finance industry, whether in mortgage or securities, and is often referred to as the Islamic finance gateway to Europe.

Issues and challenges that plague the market are therefore as prevalent in the UK as they are elsewhere in the world. Liquidity management for one is a task harder for Islamic banks than it is for conventional ones, according to Mohammed Amin, former UK head of Islamic finance at PwC. His report outlines measures on how the UK, namely the Treasury and the Bank of England, could support Islamic banks navigate through the risks.

In terms of Islamic REITs and Islamic unit trusts as investment vehicles in the UK, the outlook seems fairly promising, says Bank of London and The Middle East. The bank's report suggests that interest in REITs should increase following recent changes by the government. That, and the fact that tax disadvantages for certain Shariah compliant financing mechanisms have been gradually removed will help in the development of onshore UK REITs for Islamic investors.

More currently, changes to income and corporation tax, which would cover Islamic finance derivatives, have recently been proposed in the Treasury's quest to maintain fairness on Islamic versus conventional financial products, while closing potential tax loopholes stemming from some Islamic finance products. This, along with an overall economic outlook for the UK in 2011 is featured in a report by Advent Software.

Moving to the Middle East, Shariah compliant structures for infrastructure projects are the focus of a report by law firm Latham & Watkins, especially in light of Qatar's and Saudi Arabia's aggressive infrastructure development plans.

In the UAE, challenges in structuring non-recourse financing for projects are explored in a report by law firm King & Spalding. The report highlights that other than in the context of infrastructure projects, non-recourse financings are highly unusual in the GCC, and recommends structures other than Tawarruq be utilized as they are both legally enforceable and Shariah compliant.

We are taken down the Takaful memory lane with a report by Munich Re, which traces the historical parallels between Takaful and mutual and cooperative insurance. The report puts forth the idea of a master plan for the diversification of the Takaful industry, and sees administration and the function of the Wakeel as the largest operational obstacle that lies in the way.

The biggest obstacle among others for Hannover ReTakaful remains to be calculating risk commensurate pricing, a task which may jeopardize a sound assessment of underlying risk. The firm's managing director, Mahomed Akoob, shares his views in Meet the Head.

Our IFN reports bring you a thorough analysis of Amlak Finance's financial status, Bank Islam Malaysia's international expansion plans, and prospects for Middle Eastern banks in the Indonesian banking sector.

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- **International Finance Corporation** signs agreement with **Ahli United Bank** for bank's expansion plans
- **Al Rajhi Bank's** net profit is US$453 million for the first quarter
- **Noor Islamic Bank** receives mandates for two Sukuk issuances

TAKAFUL

- **Royal Exchange** to start Takaful business by third quarter
- **MIDF Amanah Investment Bank** provides US$40 million short -term credit facility to **MNRB Holdings**
- **Gatehouse Bank** and **Paul Napier** set up **Gatehouse Napier**, a Shariah compliant insurance broker
- Global Takaful contributions expected to reach US$12 billion
- **National Takaful Company** to launch IPO for US$22.5 million of share capital

RATINGS

- **RAM** assigns preliminary short- and long-term ratings of 'P1' and 'AAA' to **Telekom Malaysia**'s Islamic notes
- **RAM** to re-evaluate ratings of **New Pantai Expressway**'s Sukuk
- **Fitch** affirms **Ras Al Khaimah**'s long-term foreign and local currency issuer default ratings at 'A'
- **CI** upgrades **Qatar National Bank**'s financial strength rating to 'AA-'
- **CI** downgrades Bahrain's long-term foreign and local currency ratings to 'BBB+' from 'A'
- **Fitch** affirms **First Gulf Bank**'s long-term issuer default rating at 'A+'

MOVES

- Legal firm **Conyers Dill & Pearman** promotes **Fawaz Elmalki** from associate to director at Dubai office
- **Al-Arafah Islami Bank** appoints **M A Malek** as independent director
- **Mervyn Davies** has been appointed as advisor to **Abu Dhabi Commercial Bank**'s board of directors
- **Shuaa Capital** confirms resignation of chief financial officer
- The **Islamic Bank of Britain** appoints Khalifa Jassim Al-Kuwari as chairman

AFRICA

Funding small scale farming

KENYA: The Alliance for a Green Revolution in Africa (AGRA) is in talks with the Islamic Development Bank (IDB) for US$80 million in financing, said Namanga Ngongi, president of AGRA.

The funds will be used to develop AGRA's projects in Africa and add to financing it has raised from three other lenders to be channeled to its US$10 million loan guarantee joint fund for African smallholder farmers. AGRA raises funds for small scale farming.

Ngongi said the financing from the IDB is expected to be secured this year and currently needs approval from AGRA's board of directors.

The organization had earlier secured US$100 million in financing from Standard Bank, US$50 million from Equity Bank and US$10 million from National Microfinance Bank of Tanzania for the joint fund.

New Islamic asset fund

SOUTH AFRICA: Old Mutual Unit Trusts has launched an Islamic asset allocation fund, called Old Mutual Albaraka Balanced Fund.

The fund is targeted at investors seeking long-term growth and steady income from local and international asset classes, including equity, liquid assets and permissible non-equity securities.

Sukuk guidelines delayed

EYGPT: Egypt has postponed the release of corporate Sukuk guidelines to May following the country's political protests, said Ashraf El Sharkawy, chairman of the Egyptian Financial Supervisory Authority.

The guidelines were initially scheduled to be released in the first quarter of 2011.

Flat growth

TUNISIA: Al Baraka Bank Tunisia reported an income of US$11.18 million in 2010 after provisions and tax.

Its income, which is at the same level in 2009, was contributed by a 3% increase in total operating income to US$19.29 million. Total financing rose 7% to US$344.34 million, while investments grew 7% to US$151.86 million.

Total assets increased 12% to US$553.42 million as customer deposits and unrestricted investment accounts climbed 13% to US$453.83 million.

New Islamic banking providers

MAURITIUS: The central bank, Bank of Mauritius has granted licences to two banks to provide Islamic banking services in Mauritius, according to Mohammed Iqbal Belath, its second deputy governor.

ASIA

Raising funds via Sukuk

MALAYSIA: Telecommunications firm Telekom Malaysia is planning to raise up to RM2 billion (US$661 million) through Islamic commercial papers and Islamic medium-term notes programs.

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The programs will have respective tenors of seven and 15-years and were assigned ratings of 'P1' and 'AAA' respectively by RAM Rating Services.

Proceeds from the Sukuk issuances will be used for the firm's capital expenditure requirements.

Words of assurance

SOUTH KOREA: Najib Razak, prime minister of Malaysia has urged South Koreans not to worry about money flowing into Muslim terrorists' hands if a law is passed to give tax concessions for Sukuk issuance by local companies.

Najib, who described these fears as unfounded, said Malaysian financial institutions are well supervised, making it impossible for terrorists to obtain the cash.

New halal rules

MALAYSIA: Malaysia's International Halal Integrity Alliance is currently drafting halal standards that will regulate the halal global industry estimated at US$2 trillion.

The guidelines, expected to be completed by year-end, will cover the use of Shariah compliant pharmaceuticals, finance and food.

The organization, which published seven other standards for various sectors including restaurants, cosmetics, lab testing and animal slaughtering, has members from Europe and Asia comprising India, the Philippines, Cambodia and Australia.

Market to dictate

MALAYSIA: Bank Negara Malaysia, the central bank will allow market forces to determine the number of local banks in the country, said Zeti Akhtar Aziz, its governor.

Zeti said the banks have reached a minimum size and are well capitalized with quality capital, adding that they have been able to take advantage of economies of scale, invest in technology and provide financial products and services required by the economy.

In the country there are 23 commercial banks of which nine are locally owned while 11 of the 17 Islamic banks are domestic.

Price for Mudarabah

INDONESIA: The Indonesia Bond Pricing Agency has issued the fair price valuation for Sukuk Mudarabah.

Tumpal Sihombing, its corporate secretary said the new price valuation is applicable to upcoming Mudarabah bonds by private companies listed on the Indonesia Stock Exchange.

The valuation will act as a reference for investors involved in such Islamic bonds in the secondary security market.

Largest stake

MALAYSIA: Bank Islam Malaysia has emerged as the largest shareholder in Sri Lanka based Amana Bank, after completing its share subscription exercise last week. Bank Islam's stake in Amana Bank currently stands at 20%.

On the 8th April, Bank Islam announced the completion of the acquisition of Amana Bank shares for RM22.6 million (US$7.5 million).

Bank Islam acquired the stake through the purchase of new shares worth RM21.26 million (US$7.03 million) from Amana Bank and swapping existing shares in Amana Investments. Bank Islam will also have two members on Amana Bank's board of directors.

(See IFN Report on page 12)

Wireless ATMs

INDONESIA: Bank Syariah Mandiri has hired Melbourne based Symstream Technology Group to install and manage wireless ATMs to better serve its customers in rural areas.

The bank operates more than 220 ATMs through 507 branch offices in 33 provinces.

Islamic brokerage house

KYRGYZSTAN: Kyrgyzstan has opened its first Islamic brokerage house, according to the religious department of Muslims of Kyrgyzstan.

The brokerage house is aimed at facilitating projects based on Shariah principles by bringing investors and entrepreneurs together. It also seeks to provide financing to small and medium sized enterprises.

Proper way to raise funds

MALAYSIA: Financing the construction of the country's mass railway network estimated at RM48 billion (US$16 billion) via a Sukuk issuance is the proper channel to raise funds.

According to Badlisyah Abdul Ghani, executive director and CEO of CIMB Islamic, all huge infrastructure projects in Malaysia were funded by Sukuk as it attracted a wider investor base besides increasing the opportunity to raise a larger pool of funding.

Badlisyah is confident that there was sufficient appetite to absorb the global supply of Sukuk issuances as the Islamic capital market reached a level of maturity.

Sukuk spreads tightened

INDONESIA: The gap between Indonesia and Malaysia's Sukuk spreads has narrowed to the lowest level since January, ahead of the planned global Islamic bonds issuance in the second half of this year.

The extra yield investors demanded to purchase the country's 8.8% US dollar-denominated Sukuk, compared with Malaysia's 3.92% note, fell to 21 basis points this week from 71 basis points last month.

Policy amended

PAKISTAN: The central bank, State Bank of Pakistan (SBP), has revised its branch licensing policy for commercial banks to boost their outreach of Islamic banking services.

In view of this amendment, SBP has decided to amend the scope of rural/underserved areas (RUAs), which applies to villages and small towns. This means that any district which has less than 10 Islamic banking branches will be defined as underserved.

The central bank also explained that the first 10 Islamic banking branches will fall under the definition of RUAs while subsequent branches will be considered as normal.

However, SBP added that in each year, only one Islamic banking branch of a particular bank will be eligible to be accorded the RUA.

Luring Gulf issuers

MALAYSIA: More Gulf Sukuk issuers are expected to tap the Malaysian market in the coming months, although global issuance is projected to be lower this year due to the Middle East turmoil.

According to Rafe Haneef, CEO of HSBC Amanah Malaysia, the expected increase is because the Malaysian market has excess liquidity and Gulf investors may not be required to pay a huge premium.

Overseas Islamic funding

INDIA: The Kerala state government is planning to use Shariah compliant funds from Islamic countries to finance its INR400 billion (US$9 billion) road development project.

Al Baraka Financial Services will also contribute a total of INR10 billion (US$225 million) for the road project.

Gaining Gulf attention

INDONESIA: Al Baraka Banking Group and Qatar Islamic Bank are planning to acquire Islamic banks in Indonesia.

Al Baraka plans to spend US$100 million on its purchase.

Asian Finance Bank, Qatar Islamic Bank's unit in Malaysia, seeks to acquire a Shariah compliant unit of a conventional bank or a fully fledged Islamic bank in the country by the end of this year, said Mohamed Azahari Kamil, CEO of Asian Finance Bank.

(See IFN Report on page 13)

Diversifying growth sources

MALAYSIA: The local Islamic finance industry must shift its focus from serving domestic needs towards tapping opportunities in international investments and corporate transactions, said Najib Razak, the country's prime minister.

Launching the country's second Capital Markets Masterplan, Najib said the plan outlined strategies to enhance distinctive value propositions offered by Malaysia for a range of Islamic intermediation activities. These include increasing the Islamic finance industry's capacity to structure cross border transactions to make further inroads into the global Sukuk market.

The Securities Commission of Malaysia (SC) will also collaborate with industry players to increase Shariah compliant stock broking products and services and build greater critical mass to develop onshore portfolio management.

Islamic investment strategies will also be diversified in an effort to nurture high value add Islamic fund management services such as Shariah compliant venture capital and private equity industries that invest based on Shariah principles.

The SC will also encourage the shift for investing to take on a Shariah based rather than a Shariah compliant approach to promote innovation and international marketability.

Quarterly bonus

PAKISTAN: Atlas Asset Management's board of directors have approved a payout of PKR12 (14.18 US cents) per unit for the Atlas Islamic Income Fund in the third quarter ended the 31st March.

The payment is a bonus of 2.4% on the face value of PKR500 (US$5.90) per unit. The fund's total payout for the three quarters ended the 31st March is 6.85%.

More Islamic bond sales

INDONESIA: The finance ministry has sold IDR140 billion (US$16 million) of a 25-year Sukuk at an average yield of 9.25%, via an auction.

The ministry also sold a six-year IDR360 bilion (US$42 million) Sukuk with a 7.39% yield.

However, it did not have any winning bids for its 14-year and 19-year Sukuk.

Still eyeing Indonesia

MALAYSIA: Bank Islam Malaysia has decided against buying a stake in Bank Muamalat Indonesia as it is too expensive.

However, the bank is still keen on entering Indonesia, said Zukri Samat, managing director of Bank Islam.

Bank Muamalat Indonesia's three major shareholders, the Islamic Development Bank (28.01%), Boubyan Bank Kuwait (21.28%) and Jeddah's Sedco Group (21.28%) have hired Morgan Stanley to advise on the sale of their interest in the bank.

Request to waive stamp duty

PAKISTAN: The central bank, State Bank of Pakistan (SBP) has requested the Punjab state government to grant exemption to the proposed Mortgage Refinance Company (MRC) from having to pay stamp duty for transactions involving bonds, Sukuk or securities backed by MRC.

The exemption will allow MRC to issue these papers which will provide liquidity to primary mortgage providers from the housing industry.

MRC is controlled by the SBP and will be established later this year.

EUROPE

Investing in Bosnia

BOSNIA AND HERZEGOVINA: The Islamic Development Bank (IDB), Al Baraka Banking Group and Saudi Arabian investors have formed a joint investment company in Bosnia and Herzegovina.

Sheikh Saleh Abdullah Kamel, chairman of Al Baraka Banking Group said the new company will invest US$50 million to boost growth and investments in the country.

Distribution partnership

UK: The Islamic Bank of Britain (IBB) has partnered with financial services firm Sesame Network's intermediaries to distribute IBB's Shariah compliant home mortgage product, Home Purchase Plan.

Under the deal, intermediaries will be able to submit referrals for the mortgage products to the IBB.

US$223 million financing

ALBANIA: The Islamic Development Bank (IDB) has provided EUR156 million (US$223 million) for the construction of a new US$400 million road link between Tirana and Elbasan.

The IDB will also help obtain the remaining US$177 million for the construction from

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Saudi Fund for Development, Abu Dhabi Fund for Development and OPEC funds.

Islamic fund manager

UK: NEST Corporation has appointed HSBC Global Asset Management to manage its Shariah compliant fund.

This fund will invest solely in the HSBC Life Amanah Pension Fund.

GLOBAL

Participative banking

GLOBAL: Islamic finance needs input from Turkey's Islamic banking sector to set up global industry standards, said Khalid Howladar, vice president and senior credit officer at Moody's Investors Service.

With a lack of global standardization in Islamic banking, Khalid suggested that the Central Bank of Turkey could cooperate with Qatar's and Malaysia's central banks to streamline industry standards. This is due to Turkey's stance not to emphasize the religious aspect of Islamic banking.

Islamic banks in Turkey are termed participation banks, which could work to attract non-Muslims, added Khalid.

Diversify investments

GLOBAL: The global Islamic fund industry needs to offer more innovative investment opportunities by expanding into new and untapped markets, said Dr Mohd Daud Bakar, president and CEO of Amanie Business Solutions.

Dr Mohd Daud added that Islamic fund managers should consider the commodities sector, while stressing the need for innovators to look at other industries in the creation of new funds.

Well capitalized

GLOBAL: Islamic banks already comply with Basel III criteria requiring all major banks and financial institutions to have a minimum 10% core Tier-1 capital by 2019.

Mike Kennedy, head of risk at Bank of London and The Middle East said this is due to existing Islamic financial laws on capital raising, leading the majority of Islamic banks to issue capital in the form of equities which count as Tier-1 capital.

Islamic banks often have over 80% in equity capital, said Kennedy.

He added that Shariah compliant banks are not permitted to gear up their balance sheets, finance non-tangible items or trade speculatively, putting derivatives trading and short-selling off limits. They also have a loyal client base who make long-term deposits, which provides the banks access liquidity.

MIDDLE EAST

No decision yet

UAE: Abu Dhabi Commercial Bank has confirmed that it has hired Goldman Sachs and Bank of America Merrill Lynch to advise on the potential sale of its 25% stake in RHB Capital.

Ala'a Eraiqat, its CEO said however the bank has not yet made a firm decision to dispose its interest, valued at US$1.4 billion, in the Malaysian bank.

Restructuring deal done

KUWAIT: First Investment Company (FIC) has completed its KWD92 million (US$331.9 million) debt restructuring program through a Sukuk Wakalah transaction.

FIC's debt obligations included several unsecured bilateral Islamic financing facilities to creditors in the country.

The terms of the deal stipulated that the bilateral agreements will be replaced, subject to certain conditions precedent that must be satisfied in the coming months, through the creditors' subscription into the Sukuk Wakalah.

Liquidity Management House was the structuring advisor on behalf of six Kuwaiti financial institutions while law firm Al Tamimi & Company served as lead counsel on behalf of the creditors.

Financial software installed

UAE: Reem Finance has signed an agreement with International Turnkey Systems Group to implement a Shariah compliant web-based ETHIX financial solution.

The solution will be used to offer customers products relating to retail and small and medium sized enterprises plus corporate banking business including Murabahah, Ijarah, trade finance, share financing and Tawarruq.

Robust growth

QATAR: Qatar National Bank (QNB) reported a 35% year-on-year increase in net profit to QAR1.71 billion (US$469.56 million) in the first quarter of 2011.

The growth was due to contributions from its conventional and Islamic banking as well as substantial gains from its investment portfolio.

Loans and advances plus financing activities grew 20% from the first quarter of 2010 to QAR140.70 billion (US$38.65 billion) in the first quarter of this year.

Its total assets were QAR242.66 billion (US$66.63 billion) and total equity was QAR23.87 billion (US$6.55 billion).

Cash strapped

SAUDI ARABIA: Khalijia Invest is planning to shut down most of its operations due to a lack of cash.

The firm, which operates Islamic investment banking and asset management within the GCC, has decided to cancel its asset management, brokerage and custody services licences.

It will however retain its investment advisory and consultancy business and decrease its capital base.

According to media reports, Khalijia which was set up in 2008 with an authorized share capital of SAR400 million (US$106.70 million), saw its capital base fall below the stipulated regulatory requirement of SAR50 million (US$13.33 million).

Khalijia is also expected to meet with Saudi Arabia's Capital Market Authority concerning its plans and the authority may intervene to bail them out.

Deadline extended

UAE: Creditors have agreed to grant Dubai World's property arm Limitless a 90-day

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extension on a US$1.2 billion Islamic syndicated financing.

The payment due date was on the 30th March and has been postponed to the 30th July, to enable the firm to complete a debt restructuring agreement with creditors.

No more extra rental fees

UAE: Amlak Finance has agreed to waive additional rental payments for delayed property projects in Dubailand.

Arif Alharmi, its CEO said this waiver will help safeguard customers' interests and reduce their financial burden.

Toll road financing

UAE: Dubai's department of finance is planning to launch a US$800 million, dual currency six-year financing, based on the monetization of receipts from the city's road toll system, Salik, to help fund transport projects under the Road & Transport Authority (RTA) in the emirate.

The department has hired Dubai Islamic Bank, Emirates NBD, Citigroup and Commercial Bank of Dubai to arrange the financing, which will include conventional and Islamic portions, and may be syndicated to more financiers.

Last year, the RTA earned around AED800 million (US$217 million) from Salik, up from AED776 million (US$211 million) in 2009 and AED669 million (US$190 million) in 2008, with plans for more gates under consideration.

Seek consent first

UAE: The Central Bank of the UAE has ordered the country's banks to seek its approval before appointing board members to ensure only qualified persons sit on the board.

The order applies to both conventional and Islamic banks.

SME focused growth

UAE: The National Bank of Abu Dhabi (NBAD) will launch 14 business banking centers catering exclusively for small and medium sized enterprises (SMEs) in the UAE this year.

The move is in line with the NBAD business banking group's expansion plan to serve this sector, as SMEs account for more than 46% of the UAE's GDP and around 90% of all the country's businesses.

Qatari Diar enters US

QATAR: Property developer Qatari Diar has made its first step into the US property market by funding a US$700 million development in Washington.

The 100% equity financing was put in place by Barwa Bank, which is part owned by Qatari Diar. Barwa Bank's investment banking subsidiary, The First Investor will co-invest and manage the fund.

The financing is for a two phased, 10-acre, mixed-use development in Washington which will include retail and office space, rental apartment and condominium units.

Restructured payments

UAE: Abu Dhabi Commercial Bank's (ADCB) write back on loan provisions amounting to AED1 billion (US$272.25 million) for financing on Dubai World will reflect in its first quarter 2011 financials.

Ala'a Eraiqat, CEO of ADCB said under the bank's agreement with Dubai World, the AED1 billion owed will be repaid in eight years with yearly installments of AED120 million (US$32.67 million).

In 2010, the bank booked AED116 million (US$31.58 million) in provisions on its real estate portfolio.

Ala'a added that the bank has no plans to issue debt papers this year and has excess liquidity.

Possible listing in a year

UAE: The first Dubai real estate investment trust (REIT), Emirates REIT may be listed on Nasdaq Dubai within a year, said Marwan Ahmad Lutfi, deputy CEO of Dubai International Financial Centre (DIFC) Authority.

Emirates REIT is a joint venture between Dubai Islamic Bank and France's Eiffel Management, based in the DIFC and governed by the Dubai Financial Services Authority.

Positive results

SAUDI ARABIA: Saudi Hollandi Bank, Alinma Bank and Arab National Bank (ANB) have reported profits in the first quarter of 2011.

Saudi Hollandi recorded a 3.5% year-on-year increase in net profit to SAR238 million (US$63.5 million) as operational income rose 3.8% to SAR485 million (US$129.33 million) and special commissions grew 1% to SAR310.8 million (US$82.88 million). Its financing portfolio however declined 9.5% to SAR32.9 billion (US$8.77 billion) while deposits fell 7% to SAR39.5 billion (US$10.53 billion).

Alinma posted a net income of SAR70 million (US$18.67 million) in the first quarter compared to a net loss of SAR75 million (US$20 million) in the same period in 2010. Total operating income surged to SAR262 million (US$69.86 million) in the first quarter of last year against SAR82 million (US$21.87 million) in 2009.

Meanwhile, ANB reported a lower net profit of US$157 million in the three months to March 2011 compared to US$169 million in the previous corresponding period. Total operating income in the first quarter decreased 1% year-on-year to US$297 million.

Cautious growth

UAE: Abu Dhabi Islamic Bank (ADIB) will decide by September whether it will issue a Sukuk by the end of this year.

Tirad Mahmoud, its CEO said the bank is assessing whether to refinance or repay a US$800 million Sukuk maturing this year.

He also said ADIB would post single digit credit growth this financial year, adding that the bank will go through a period of adjustment with regard to consumer credit growth.

The bank will also continue booking provisions going forward, after recording credit provisions and impairments worth AED224.4 million (US$59.84 million) in the fourth quarter of 2010.

Tirad added that ADIB has adequate liquidity with a capital adequacy ratio of 16%.

More returns than expected

BAHRAIN: Islamic investment firm Arcapita has exited its Indian healthcare investment MedPlus Health Services with more than 60% of expected returns, by selling its majority stake to a consortium of private equity investors.

Although the sale amount was not disclosed, the transaction has valued MedPlus at US$72 million.

Badly hit by the financial crisis, Arcapita expects to exit more investments to allow it to return to profit. The firm also has a US$1.1 billion financing due in April 2012.

Debt deal soon

UAE: Dubai Group is expected to reach a debt restructuring agreement with creditors by the end of second quarter, said Hussain Al Qemzi, CEO of Noor Islamic Bank.

Noor Islamic Bank is one of the banks in Dubai Group's creditor committees.

Exit plan continues

QATAR: Qatar First Investment Bank is still planning to exit its investment in Abu Dhabi based Al Noor Medical Company through an initial public offering (IPO), despite not having a fixed deadline for its plan, said Emad Mansour, its CEO.

The bank has a 14% stake in Al Noor, through a consortium which holds 50%.

The consortium has picked HSBC and JP Morgan to assist the bank with the IPO.

Murabahah financing

SAUDI ARABIA: Arab National Bank and Banque Saudi Fransi have signed a two-year Murabahah refinancing agreement worth SAR2.25 billion (US$600 million) with telecommunication firm, Zain Saudi Arabia.

The financing will be used to fund Zain's capital projects and meet its previous obligations.

Banking investments

BAHRAIN: The International Finance Corporation, a unit of The World Bank, has signed an agreement with Ahli United Bank (AUB) to support the bank's capitalization and expansion plans.

The corporation will invest in AUB through US$125 million in equity and US$165 million in subordinated debt.

Flat net profit

SAUDI ARABIA: Al Rajhi Bank registered a net profit of SAR1.7 billion (US$453 million) for the first quarter ended on the 31st March, in contrast with SAR1.68 billion (US$448 million) in the same period last year.

Operating profit increased 3.7% to SAR2.9 billion (US$773 million). However, investing and financing profits fell 1% to SAR2.2 billion (US$587 million).

Double Sukuk mandates

UAE: Noor Islamic Bank has received the mandates to arrange two Sukuk issuances, one each in the Gulf region and Turkey, said Hussain Al Qemzi, its CEO.

He added that the Sukuk issuances are expected to be valued between US$250 million and US$300 million.

CONYERS DILL & PEARMAN

UAE: Legal firm Conyers Dill & Pearman has promoted Fawaz Elmalki from associate to director at its Dubai office.

Fawaz specializes in investment fund creation including private equity funds, real estate funds, hedge funds and Shariah compliant funds.

He also has experience in corporate finance, joint ventures and offshore Sukuk structuring.

AL-ARAFAH ISLAMI BANK

BANGLADESH: Al-Arafah Islami Bank has appointed M A Malek as an independent director.

ABU DHABI COMMERCIAL BANK

UAE: Abu Dhabi Commercial Bank has appointed Mervyn Davies, vice chairman of Corsair Capital, as advisor to its board of directors.

Davies was a former banker and a UK government minister until May 2010.

SHUAA CAPITAL

UAE: Shuaa Capital, Dubai's state-backed investment bank, has confirmed the resignation of David Deards, chief financial officer, effective from the 5th April.

His successor has not yet been appointed.

ISLAMIC BANK OF BRITAIN

UK: The Islamic Bank of Britain has appointed Khalifa Jassim Al-Kuwari as its new chairman. Khalifa is also the present chief operating officer of the Qatar Investment Authority and Qatar Holding.

The bank has also named Adel Mohammed Tayyeb Mustafawi and Jamal Abdullah Al-Jamal as directors to its board of directors.

AFRICA

Takaful business soon

NIGERIA: Royal Exchange, a financial services and insurance firm, is planning to start its Takaful business before the end of the second quarter this year.

According to Alhaji Auwalu Mukhtari, its group executive director (marketing and sales), an Asian consultant will be assisting the firm in starting the business.

ASIA

Capital boost

MALAYSIA: MIDF Amanah Investment Bank has provided a RM120 million (US$40 million) short-term credit facility to reinsurance company MNRB Holdings.

MNRB will use the facility to meet working capital requirements and strengthen the balance sheet of Takaful Ikhlas, its subsidiary.

High premium target

MALAYSIA: Hong Leong Tokio Marine Takaful is targeting to reach RM2 million (US$661,485) in premium contributions by year-end from its newly launched MATTA Hajj & Umrah personal accident Takaful scheme.

The scheme was developed in collaboration with the Malaysian Association of Tour and Travel Agents (MATTA) and will be offered via basic, premium and premium plus plans.

The firm is optimistic on achieving the goal as it is compulsory for all Hajj and Umrah pilgrims to have a valid Takaful coverage, under section 6(1A) of the Tourism Industry Act 1992.

Takaful industry success

MALAYSIA: Malaysia has successfully propelled the Takaful industry to the next level, according to RAM Rating Services (RAM).

Driven by the increasing demand for Takaful products, the local Takaful industry has evolved from having a single player with limited basic products to a viable sector that has been integrated into the mainstream financial system, added RAM.

It added that the Takaful industry has charted 20% to 26% year-on-year growth in terms of total assets and contributions between 2004 and 2009.

EUROPE

Islamic insurance broking

UK: Gatehouse Bank has entered into a joint venture with Paul Napier, a London based Lloyd's insurance broker to form Gatehouse Napier, a Shariah compliant insurance broker.

Gatehouse Napier will offer premium Takaful and re-Takaful commercial risk solutions in London and provide Takaful protection for Shariah investors investing in large commercial assets in Europe.

The company's initial mandate will be to focus on covering the management and provision of risk protection for real estate, trade finance and financial institutions.

Richard Bishop, CEO of Gatehouse Napier said the company would also provide solutions for GCC investors with commercial interests in the GCC and Europe.

GLOBAL

Takaful sector growth

GLOBAL: The current political unrest in the MENA region should help bolster growth within the Takaful industry as it will boost demand for Takaful products, said Saleh J Malaikah, vice president and CEO of Salama Islamic Arab Insurance.

Saleh added that riots have also caused an increase in damage claims and awareness for insurance.

Takaful to boom in 2011

GLOBAL: Global Takaful contributions are expected to reach US$12 billion this year, an increase of 31% from US$9.15 billion in 2010, according to Ernst & Young's World Takaful Report 2011.

Saudi Arabia, Malaysia and the UAE accounted for the most contributions.

Ernst & Young also reported that Takaful contributions grew by 85% in the South Asian region. This was followed by Asia (40%), GCC (31%), Southeast Asia (29%) and Africa (26%).

For individual countries, Indonesia topped the Takaful market with a growth rate of 67%, followed by Bangladesh (58%) and Saudi Arabia (34%).

MIDDLE EAST

Uninterrupted business

BAHRAIN: Trust Re has not been affected by the recent local unrest and the company's first quarterly board meeting and annual general meeting held in the country assured clients and associates of this, said Kamel Ghazi Abu Nahl, its chairman.

Fadi Abu Nahl, its CEO also said Trust Re had ensured that its employees and their families were safe and made arrangements for its staff to carry on their duties and communicate with clients in Asia and Africa without interruption.

Headquartered in Bahrain, Trust Re also has branches and market offices in the US, Malaysia and Cyprus.

Takaful IPO

UAE: The National Takaful Company (Watania) will launch its initial public offering on the 18th April to raise AED82.5 million (US$22.5 million) or 55% of its share capital.

Watania's founders have subscribed to an aggregate value of AED67.5 million (US$ 18.4 million) shares representing 45% of the share capital of AED150 million (US$440.8 million).

The offer price for each share is fixed at AED1 (27 US cents) with an additional AED0.05 (1.36 US cents) as subscription fee per share offered. The shares will be listed on the Abu Dhabi Securities Exchange and the subscription period will be open from the 18th April through to the 1st May 2011.

ASIA

Solid ranking

PAKISTAN: The Pakistan Credit Agency has assigned a long-term entity rating of 'AA' and short-term entity rating of 'A1+' to Liberty Power Tech.

The firm's PKR13.5 billion (US$159 million) Sukuk and PKR1.65 billion (US$19 million) term finance facility are also upgraded to 'AA' from 'AA-'.

These ratings are based on a low expectation of credit risk.

Constructive start

MALAYSIA: RAM Rating Services has assigned preliminary short- and long-term ratings of 'P1' and 'AAA' to Telekom Malaysia's respective proposed Islamic commercial papers program and Islamic medium-term notes program, with a combined limit of RM2 billion (US$661 million).

The long-term rating has a stable outlook. The ratings are based on the firm's strong credit profile.

Another look at Sukuk

MALAYSIA: RAM Rating Services (RAM) will reassess the ratings of New Pantai Expressway's Sukuk upon the recent finalization of the financial and technical conditions for its proposed extension of the 19.6 km New Pantai Highway to Ampang-Kuala Lumpur elevated highway within the next six months.

According to RAM, the impact of the extra borrowings on the Sukuk ratings would depend on the company's funding arrangements.

MIDDLE EAST

Double positives

UAE: Fitch Ratings (Fitch) has affirmed Ras Al Khaimah's long-term foreign and local currency issuer default ratings (IDR) at 'A' with stable outlooks.

Fitch has also affirmed the short-term foreign currency IDR at 'F1'.

Leaning on its strength

QATAR: Capital Intelligence has upgraded Qatar National Bank's financial strength rating to 'AA-' from 'A+'.

The bank's long-term and short-term foreign currency ratings are affirmed at 'AA-' and 'A1+', respectively. The support rating is also affirmed at '1'. The outlook for all ratings is stable.

The ratings follow the bank's improved performance and strong financial condition.

Shaky position

BAHRAIN: Capital Intelligence (CI) has downgraded Bahrain's long-term foreign and local currency ratings to 'BBB+' from 'A'.

CI has also lowered the kingdom's short-term foreign and local currency ratings to 'A2' from 'A1'. The outlook is negative.

The downgrade is based on the recent increase in political risk, which may affect economic growth and public finances in the short-term.

Back on track

UAE: Moody's Investors Service (Moody's) has upgraded DP World's credit ratings to investment grade from junk.

Moody's has upgraded DP World's long-term foreign and domestic currency ratings of DP World to 'Baa3' from 'Ba1' as well as the rating on US$1.5 billion Sukuk issued by DP World Sukuk. All ratings carry a stable outlook.

The ratings are based on the firm's rapid recovery in financial performance.

Firm backing

QATAR: Capital Intelligence (CI) has affirmed the Commercial Bank of Qatar's long-term and short-term foreign currency financial strength ratings at 'a' and 'a2'.

The outlook for the foreign currency ratings were revised to stable from negative, following government support for all Qatari banks.

CI has also affirmed the bank's financial strength rating due to its strong capital adequacy, improved liquidity and large business franchise.

Positive grade

UAE: Fitch Ratings has affirmed First Gulf Bank's long-term issuer default rating (IDR) at 'A+', short-term IDR at 'F1', individual rating at 'C/D', support rating at '1' and support rating floor at 'A+'.

The outlook on the long-term IDR is stable.

The bank's long- and short-term IDRs are based on support from the UAE authorities, while the individual rating reflects its solid profitability and local franchise, strong capitalization and adequate liquidity.

Amlak Finance's troubles persist

One thing is clear from Amlak Finance's 2010 financial results — the Islamic mortgage company is still troubled with no clear end in sight.

Although Amlak succeeded in keeping expenses down, with impairment charges decreasing to AED229.49 million (US$62.48 million) in 2010 from AED269.65 million (US$73.41 million) in 2009, its net loss grew 43.39% from 2009 to AED223.08 million (US$60.73 million) last year.

The losses were mainly due to a 19% lower income from Islamic financing and investing assets to AED616.04 million (US$167.72 million) and a 20% wider loss on advances for investment properties to AED82 million (US$22.32 million).

Amlak has been making losses since the fourth quarter of 2008 on bad debt from financing Dubai properties. While it reduced quarterly losses in the first and second quarters of 2010 and posted a profit of AED5.36 million (US$1.4 million) in the third quarter, back-of-the-envelope calculations showed a substantial loss of AED221.65 million (US$60.34 million) in last year's fourth quarter.

At the core of Amlak's woes is its exposure to Dubai's real estate, which also raises questions of whether a financing company should have direct involvement in property development. It made healthy profits while riding the property boom but has since not recovered from the crash. The company has taken steps to counter this by reclassifying its assets as properties held for trading to investment properties to be kept for long-term capital gain. This increased the value of its investment properties to AED3.29 billion (US$895.71 million) in 2010 compared to AED3.09 billion (US$841.26 million) in 2009.

However the gain in its investment properties does not reflect current market prices, which means the value of its investment properties could be lower than the AED3.29 billion recorded. The company noted that the value of its property assets have "generally declined" since its purchase but was unable to record the properties' fair value due to market conditions, where there are only limited transactions in distressed situations taking place. As a result, although the company practices fair value accounting policies, as at December 2010 it could only record the value of the assets at its original acquisition cost.

Amlak's real estate dilemmas do not end there. In 2010, the company paid AED670.08 million (US$182.43 million) towards the acquisition of Dubai property projects still under development. The company said it has committed to pay an additional AED35.93 million (US$9.78 million) in accordance to its sale and purchase agreements, but it has yet to obtain the title to those properties. The company has also yet to receive the title for a piece of land in Egypt purchased last year by one of its subsidiaries, for which it paid AED335.94 million (US$91.46 million). Amlak did not specify the subsidiary but said it has taken full possession of the land and is now negotiating with the seller for the land title transfer. The dispute involves the land's vendor and its prior seller.

Furthermore, the company has AED9.28 million (US$2.53 million) due to sellers in respect of advances for investment properties and is in negotiations for a new plan for these payments. It said however the payments are not expected to have an adverse impact on its financials.

Other red flags in its 2010 financial results include a cancelled sale transaction which resulted in the reversal of a previously recorded gain of AED37.74 million (US$10.28 million). The company also recorded a loss of AED44.24 million (US$12.04 million) from the consolidation of certain real estate developments, although it did not specify which project the consolidation is related to.

Meanwhile, Emaar Properties, which owns 48.08% in Amlak appears to have taken a step back from Amlak's affairs. In December 2010, it released a statement to the Dubai Financial Market saying that while it had earlier considered an option to convert a AED230 million (US$62.62 million) financing taken by Amlak from Emaar into equity, it has since identified other better and more viable options. In Emaar's 2010 financial statements, it stated that it is not in a position to assess its investment in Amlak for an impairment pending recommendations from the governmental committee set up in November 2008 to reorganize Amlak. Emaar's results also reflected the carrying value of its investment in Amlak declined to AED824 million (US$224.34 million) in 2010 against AED944.42 million (US$257.12 million) in 2009.

As for the governmental committee, it is still exploring possibilities of restructuring Amlak's financials and merging it with another company. A merger with Tamweel, another Islamic mortgage provider had been on the table in November 2008 but was scrapped after Tamweel's take over by Dubai Islamic Bank. The committee's efforts include a full review and assessment of Amlak's business operations and liquidity position, and providing guidance to the company's management and regulators. It will also make recommendations to the UAE government on Amlak's long-term stability, liquidity and asset and liabilities management requirements.

Amlak's shares, listed on the Dubai Financial Market have been suspended since the entry of the governmental committee. In its financial statements, Amlak said the shares will be suspended until the committee finalizes its recommendations but no date has been set. Mohammed Al Shaibani, deputy chairman of the Dubai government's supreme fiscal committee said that a resolution for Amlak could be reached in the first quarter of this year but this has yet to materialize.

Bank Islam Malaysia's global expansion

Bank Islam Malaysia, which recently acquired a 20% stake in Sri Lanka's Amana Bank, is eager to expand overseas as it eyes an entry into Bangladesh and Indonesia.

Zukri Samat, managing director of Bank Islam told Islamic Finance *news*, "We are keen on Bangladesh and are looking for potential acquisitions but we are not talking to anyone yet. Bangladesh has a ready infrastructure for Islamic banking but the market is underdeveloped, which is why we are interested." There are six domestic Islamic banks in Bangladesh, including Islami Bank Bangladesh, Shahjalal Islamic Bank and Al-Arafah Islami Bank.

Bank Islam had also eyed an Indonesian acquisition but it did not materialize, said Zukri. Bank Islam was invited to bid for a stake in Bank Muamalat Indonesia (Bank Muamalat) but passed this up as it was deemed too expensive. Bank Muamalat's three major shareholders, the Islamic Development Bank (28.01%), Boubyan Bank Kuwait (21.28%) and Sedco Group (21.28%) are said to be looking to sell their stake in the Indonesian bank. Despite walking away from the Bank Muamalat deal, Bank Islam is however still looking for opportunities in Indonesia as it seeks to expand its presence, especially in Asia.

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Once troubled by hefty non-performing financings, Bank Islam posted a recovery in financials in 2007 after two years of recording losses. It also saw the emergence of Dubai Financial Group (DFG) as a 40% shareholder, which injected fresh capital into Bank Islam.

While DFG's shareholding was brought into question in 2009 when it announced it was reviewing its options in relation to the stake and after it turned down an offer from Bank Islam to take up RM216 million (US$71.45 million) worth of preference shares, it remains a substantial shareholder with a 30.5% stake. Bahrain's Unicorn Investment Bank had also been mulling taking up DFG's stake in Bank Islam, but said in February that it decided to forgo the deal as it did not make strategic sense.

Meanwhile, Bank Islam has since stabilized its operations and now seems committed to spreading its wings outside Malaysia. Sri Lanka represents Bank Islam's first foray overseas and its investment in Amana Bank illustrates its measured approach to foreign acquisitions. Bank Islam first took up a 10% stake in Amana Investments (AIL) in 1999. AIL's assets and liabilities have been transferred to Amana Bank, which is still in the process of being set up following the receipt of Sri Lanka's first fully fledged Islamic commercial bank license in February this year. AIL was previously licensed to provide Shariah compliant financing but was not allowed to receive deposits and undertake other commercial banking activities.

On the 8th April 2011, Bank Islam completed a deal to acquire new shares in Amana Bank and swap its existing shareholding in AIL for Amana Bank shares in a transaction worth RM22.6 million (US$7.48 million). Amana Bank's other shareholders are the Islamic Development Bank (10%) and Bangladesh's AB Bank (15%).

Faizal Salieh, managing director of Amana Bank said the bank which will commence operations in the second half of this year is targeting to break even in three years. It also plans to have at least 60 to 65 branches in five years and is currently converting AIL's 14 branches into Amana Bank ones.

The bank is also expected to be listed on the Colombo Stock Exchange in two years. Faizal said Bank Islam will not have to reduce its shareholding in Amana Bank upon its listing, but will have to do so within 10 years pursuant to the Central Bank of Sri Lanka's regulations which prohibit foreign banks from taking up more than 15% interest in local banks, except under special consideration.

On Bank Islam's other target markets for expansion, Zukri added that they comprise those in Asia which have existing regulations for Islamic banking. Judging from its current overseas investment, Bank Islam's methods may be slow and steady, but the future potential of Amana Bank could show that the Malaysian bank's moves may well be worth the wait.

Indonesia entices the Middle East Islamic banks

For banks looking to expand their global reach, Indonesia has long made a compelling story. Now the country has caught the attention of Middle Eastern Islamic banks which want to capitalize on growth opportunities in the nation where Muslims make up over 80% of its 238 million population.

It recently emerged that Al Baraka Banking Group and Qatar Islamic Bank (QIB) plan to acquire Islamic banks in Indonesia. Al Baraka is reportedly willing to spend up to US$100 million on a purchase while QIB is eyeing an acquisition via its Malaysian unit, Asian Finance Bank (AFB).

AFB is said to have identified two or three potential targets and could complete an acquisition by the end of this year.

According to a Singapore based analyst who researches Indonesian banks, the country is still under-banked despite having 122 banks in operation. "The outlook for the industry is pretty good. Banks in Indonesia are profitable and provide between 17% and 30% return on equity, while loan and financing growth are projected to reach between 20% and 24% this year," said the analyst.

He also said foreign interest in buying Indonesian banks has been picking up as of late, with the market becoming quite crowded with foreign entrants especially from Malaysia.

CIMB Group bought a controlling stake in Indonesia's Bank Niaga in 2002, which eventually led to the establishment of CIMB Niaga Syariah in 2008. Malayan Banking also has an Islamic finance unit, Maybank Syariah Indonesia which was converted from a conventional bank to a fully fledged Islamic bank last year. Affin Bank recently acquired Bank Ina Perdana, while the RHB banking group is in the midst of completing its purchase of Bank Mestika Dharma.

The analyst said however, there remain many opportunities for foreign banks to enter Indonesia, especially by acquiring small or medium sized banks.

The entry of Middle Eastern banks into Southeast Asia is not new, although their presence has been concentrated in Malaysia. Kuwait Finance House entered Malaysia in 2005 followed by Al Rajhi Bank in 2006. AFB set up its Malaysian operations in 2007, the same year which Dubai Financial Group (DFG) took up a 40% stake in Bank Islam Malaysia. Abu Dhabi Commercial Bank bought a 25% interest in RHB Capital in 2008 although this stake is said to be up for sale.

Al Baraka does however have a representative office in Indonesia while Qatar National Bank recently emerged with a controlling 65.59% stake in Bank Kesawan after it took up the bank's IDR734 billion (US$84.76 million) rights issue.

Speaking to Islamic Finance *news*, Mahin Dissanayake, director of Middle East financial institution ratings at Fitch Ratings, said it is not surprising for Qatari banks to look into entering Indonesia as they seek to diversify their earnings.

"Qatar is a small market, and even though the economy is expanding rapidly, the local banks have traditionally gone further afield in search of business. Indonesia presents a huge market for Islamic finance," he said.

He added that QIB has a strong balance sheet which makes it well positioned to undertake overseas acquisitions. As at December 2010, QIB's total equity amounted to QAR9.12 billion (US$2.5 billion). On Middle Eastern banks already present in Asia, Dissanayake believes that they have gained important Islamic banking product knowledge from markets such as Malaysia and Indonesia.

Liquidity Management at UK Islamic Banks

By Mohammed Amin

Liquidity management is a challenge for British Islamic banks.

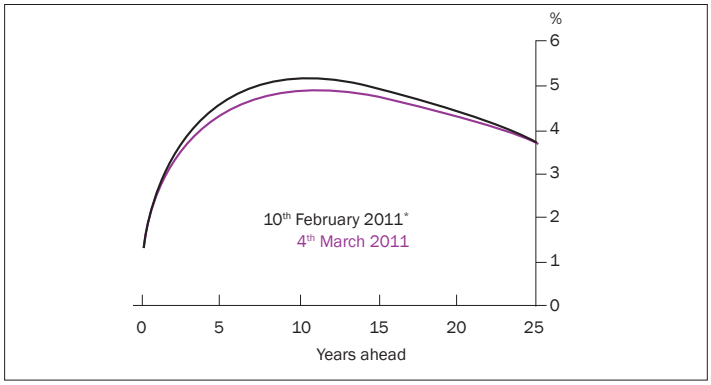
Balancing between too much and too little liquidity is one of the key challenges for anyone running a bank. After explaining the basic issues for conventional banks, this article outlines why liquidity management is even more challenging for Islamic banks, and then considers the situation of Islamic banks in the UK.

Liquidity management and conventional banks

The key management challenge is that holding liquidity imposes a cost on banks in the form of foregone profits. Conversely, holding insufficient liquidity can be fatal.

The diagram below from the Bank of England website shows the sterling yield curve on the 4th March 2011 and also for comparison the yield curve on the 10th February 2011. The data spreadsheets from the same page show an interest rate of 0.69% for one month duration borrowings.

UK instantaneous commercial bank liability foward curve



In very simple terms this means that a conventional bank can borrow "one month money" at 0.69% and lend it out as a 10-year fixed rate loan earning about 5%, making a profit of 4.31%.

This duration mismatch is one of the key reasons a bank is able to charge borrowers a higher rate of interest than it pays to its depositors. If instead the bank made loans of only the same duration as its borrowings, it would not benefit from the spread between short-term and long-term rates.

The danger for the bank is that its one month borrowings will become due in 30 days, and will need to be rolled over. If it cannot roll those borrowings over, it risks failure. Readers will remember the queues in the summer of 2007 around branches of the UK conventional bank Northern Rock once customers developed doubts about the bank's ability to repay its short-term borrowings.

There are three principal ways a conventional bank manages its liquidity risk:

1. By holding assets that can be quickly converted into cash. These assets will include interest earning deposits with the central bank, but more importantly will comprise high quality (to avoid credit risk) short dated (to avoid market illiquidity and interest rate risk) securities such as short-term obligations issued by the government (Treasury bills).

2. By structuring its long-term lendings in a manner that allows them to be sold on the secondary market. It is normal for conventional UK bank long-term loans to contain provisions that enable the lending bank to sell the loan.

   Making its long-term lendings resalable is not a substitute for holding liquidity, but it significantly helps the bank to manage its liquidity position over longer periods. Gradual reductions in the funding available can be managed by selling down some of its long term lendings, thereby shrinking the total size of the business.

3. Ultimately the central bank acts as a lender of last resort to conventional banks that are fundamentally sound but face a sudden and unexpected liquidity outflow.

> "Islamic banks face the same liquidity management risks as conventional banks, but can find it harder to manage those risks"

Liquidity management and Islamic banks

Islamic banks neither pay nor charge interest. However their business model is essentially the same as that of conventional banks — they take money from customers on a short-term basis, and use that to finance businesses and individuals on a longer term basis.

Accordingly they face the same liquidity management risks as conventional banks, but can find it harder to manage those risks.

(a) Liquid assets

There is a smaller range of short-term liquid assets that Islamic banks can hold. Interbank Commodity Murabahah transactions entail credit risk (unlike Treasury bills). Also they have fixed durations, for example 30 days, and may not be convertible into cash before their maturity date.

In some countries, central banks have created suitable liquid assets for their Islamic banks to invest in. More recently, on the 25th October 2010, 13 institutions agreed to set up the International Islamic Liquidity Management Corporation (IILM) headquartered in Kuala Lumpur, Malaysia.

These founding bodies included the central banks of a number of Muslim majority countries, but also the central bank of Luxembourg, a

continued...

Liquidity Management at UK Islamic Banks (continued)

UK Islamic banks' liquidity management at 31st December 2009 (GBP million)					
	BLME	EIIB	Gatehouse	QIB (UK)	IBB
Cash and balances with banks	93.6	0.7	1.0	3.3	0.6
Due from other financial institutions (Murabahah and Wakala)	124.4	120.0	30.9	19.1	155.9
Other assets	543.3	46.3	16.5	27.5	50.5
Total assets	761.3	167.0	48.4	49.9	207.0
Liquid assets percentage	28.6%	72.3%	65.9%	44.9%	75.6%

BLME: Bank of London and the Middle East
EIIB: European Islamic Investment Bank
Gatehouse: Gatehouse Bank
QIB (UK): Qatar Islamic Bank (UK)
IBB: Islamic Bank of Britain

country which promotes itself for Islamic finance business. The IILM will issue high quality Shariah compliant instruments which Islamic banks can hold for liquidity management purposes.

(b) Resalable long-term assets
Some long-term assets held by Islamic banks, such as Sukuk, can obviously be sold. Others such as Ijarah contracts and Diminishing Musharakah contracts should be salable provided that the documentation permits sale. However the bank's Shariah scholars may not permit the secondary trading of the bank's rights under long-term Murabahah contracts.

> "Ijarah contracts and Diminishing Musharakah contracts should be saleable provided that the documentation permits sale"

(c) Lender of last resort
One occasionally reads the comment that Islamic banking lacks lender of last resort. This is not accurate in the case of most Muslim majority countries. For example the Malaysian central bank makes it clear on its website page describing the Islamic interbank money market that since 1999 it has been available to act as lender of last resort to Malaysian Islamic banks under its Bai al Inah funding facility.

However in some countries the central bank may not offer Shariah compliant lender of last resort funding.

UK Islamic banks' liquidity management in practice

The UK's Islamic banks all account on a calendar year basis. At the time of writing, they have not published their 2010 accounts, but their 2009 accounts are available. They show the following composition for their liquidity: (see table above).

This review of the banks' balance sheets illustrates the problem of insufficient liquidity management assets mentioned above. All of the liquidity, apart from any actual cash, comprises balances with other banks and Murabahah/Wakalah transactions with financial institutions which will primarily be banks.

In passing, apart from BLME, the other banks appear to be holding more liquidity than they would need for risk management purposes, but a more detailed review would be needed to confirm that.

It is not practical to review the 'other assets' to consider how salable they might be should the banks face a sustained liquidity outflow. However, looking at BLME's accounts since it has the largest balance sheet, of its GBP543.3 million (US$874 million) 'other assets', only GBP96.7 million (US$156 million) comprise Murabahah agreements, where resale may present Shariah issues.

It should be permissible from a Shariah perspective to sell the balance of the 'other assets', provided the relevant documentation allows sale by BLME.

Recommendations

1. It would assist the liquidity management of UK Islamic banks if the UK government were to issue short dated sovereign Sukuk similar to Treasury bills.

2. The Bank of England should set out the procedures under which it would act as a lender of last resort to UK Islamic banks, for example by entering into Commodity Murabahah transactions which were secured on assets held by the Islamic bank.

3. Islamic banks should review their documentation to ensure that wherever possible assets arising from financing customers can be sold instead of having to be held to maturity.

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Islamic Funds, Real Estate Investment Trusts and Unit Trusts in the UK

By Derek Weist

In the current market investors are looking to diversify their investments from a geographical, asset, risk and liquidity perspective.

At Bank of London and the Middle East (BLME) we are seeing particular interest from clients who are looking for an investment that will provide the liquidity of a bank deposit, such as our US $ Income Fund, but with higher returns.

To complement these liquid investments clients are looking for opportunities that are longer term, tax efficient and provide regular return in the form of a dividend.

There remains a strong interest in property as an investment. However many investors are cautious of investing in a single property class, such as commercial office space for fear of 'putting all their eggs in one basket'. Real estate investments trusts (REITs) offer an alternative for those looking for a diversified property investment.

Islamic funds

Islamic funds are entering a period of growth, partly due to the recovery of the Sukuk market that started early in 2010. In addition, investors are beginning to recognize the value of Islamic funds as a source of:

- investment diversification
- risk adverse investments
- ethical investment
- strong yields

BLME's US $ Income Fund is a useful tool to demonstrate such values and qualities. It is a Shariah compliant fixed income fund that was launched over two years ago. The fund has three share classes – euro, GBP and US dollar.

1. **Investment diversification**
   The US $ Income Fund invests in a range of assets, and Sukuk across a wide geographical spread. A lack of diversification is often a criticism that is levelled at Islamic funds, particularly those with large Sukuk exposures. BLME mitigates this risk by ensuring that we do not solely invest in Sukuk — the fund is diversifying its asset base, for example, by acquiring investment grade leased assets and trade related transactions across geographically diverse locations. In addition, the Sukuk we do acquire are generally highly rated.

2. **Risk adverse investments**
   As with all funds, risk appetite is directly linked to the anticipated yields. Generally the higher the yield, the higher the risk. However Shariah principles can help prevent excessive risk taking. The US $ Income Fund has at least 65% of investments with a credit rating of over 'A'.

3. **Ethical investments**
   There are many parallels between ethical investment parameters and Shariah principles, these principles include sharing risk and reward as well as promoting justice and fairness in financial dealings. Complying with Shariah also means that Islamic financial institutions are not permitted to invest in activities prohibited by Shariah or against the public interest including arms production or trade, alcohol, pornography and gambling.

4. **Strong yields**
   Many Islamic funds have outperformed their benchmark. This is due in part to the opportunities for investment in the GCC and the robust performance of Sukuk. The US $ Income Fund has outperformed its benchmark for the 2010 and had its best week since its launch in March 2011.

> "REITs are typically listed, meaning that investors have a practical way of holding professionally managed and liquid assets in their portfolio"

REITs

REITs are mostly structured as companies. The company owns and manages property on behalf of its shareholders. Shareholders can therefore invest in these entities in a way that provides access to a diverse range of properties without having to buy them directly.

The level of tax imposed on REITs varies from country to country but, provided that income is predominantly paid out as dividend each year, the REIT is exempt from corporation tax. REITs are typically listed, meaning that investors have a practical way of holding professionally managed and liquid assets in their portfolio.

- **REITs in the UK**

Reita was set up in 2007 by the British Property Federation to support the launch of the REIT. Reita has calculated the total market capitalization of UK REITs at GBP22.76 billion (US$37.4 billion).

In last week's budget the coalition government made some key changes to the UK REIT industry. The government has indicated that the current 2% fee charged to companies who convert their investment funds into REITs which will significantly reduced.

The ownership rules have also changed reducing the minimum number of shareholders required. These changes will spur growth and encourage more companies particularly pension and life insurance funds to convert some of their property portfolios into REITs.

We expect to see the market capitalization increase significantly over the coming years as companies begin to take advantage of the new regulation that the government will introduce.

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Islamic Funds, Real Estate Investment Trusts and Unit Trusts in the UK (continued)

- **Islamic REITS**

In the UK, a number of conventional REITs exist of which the largest being British Land, Land Securities and Derwent London. The Islamic REIT market in the UK has not really taken off, with less liquid funds and private portfolio offerings being more usual.

This is partly due to the UK government embracing such vehicles up until relatively recently and, as mentioned above, there were some restrictions that made REITs less attractive as an investment vehicle. Additionally, different offshore structures, with alternative liquidity arrangements, have generally been better known and understood.

> "The changes announced by the UK government recently should increase interest in UK REITS as an investment vehicle"

The REIT structure is inherently attractive to Islamic investors for the following key reasons:

- income is based on predictable rents rather than interest.
- assets are assessed not only on the value of the underlying asset but also the use of the asset. This means that some of the riskier or more speculative investments are avoided.
- the investment and cashflow is asset-backed.

Nevertheless, it took some time for the Islamic community to embrace REITs fully, with Malaysia leading the way in 2006 following guidelines introduced by the Securities Commission of Malaysia in 2005. The first Islamic REIT was launched in the US by the United Bank of Kuwait in the late 1990s.

In the past, Islamic REITS have tended to be relatively undiversified by property type. This is mainly down to the fact that many properties will have a mixed tenancy base and some of these tenants may not be Shariah compliant.

Many properties, such as offices of shopping centres, will include some non-Shariah compliant tenants. Hence, for example, the first Malaysian REIT focused on hospital and healthcare facilities.

Nevertheless, there remains significant opportunity. The changes announced by the UK government recently should increase interest in UK REITS as an investment vehicle.

In addition, the gradual removal during the last few years of tax disadvantages for certain Shariah compliant financing mechanisms, including sale and leaseback, can only help in the development of onshore UK REITs for Islamic investors.

Regarding future BLME property funds, REITS are structures that we have looked into, either at initial fund launch, or to provide a refinancing after a period of years that brings in liquidity for existing investors.

Unit trusts

Unit trusts are a selection of diversified investments in a range of stocks, shares and assets. The unit trust fund manager pools these investments into a collective fund and investors can buy 'units' in the fund.

The advantage of this type of fund is that there are a range of investments that can vary across sector, geography and risk level.

Unit trusts are generally open ended funds and the number and value of investments or units can rise and fall across the life of the fund depending on the underlying performance of the stocks, shares or assets.

- **Investment parameters**

Each unit trust will invest under a set of parameters and objectives which will typically be set out in a trust deed. These parameters can vary and allow investors to target specific unit trusts whether they are fixed income, emerging markets or Sukuk funds.

- **Islamic unit trusts**

Unit trusts fit comfortably into the Shariah principles of sharing risk and reward and transparency. The risk and reward of a unit trust is shared across all investors and all risks are defined in the trust deed, which allows investors to assess the potential risks against their risk appetite before purchasing any units.

> "London is seen as the traditional home for conventional finance and is well positioned to be the centre for Shariah compliant asset management"

Conclusion

Islamic finance and in particular Islamic asset management will continue to be a growth area. London is seen as the traditional home for conventional finance and is well positioned to be the centre for Shariah compliant asset management.

BLME's asset management business is growing and the bank plans to launch several new funds in 2011.

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UK — 2011 Economic Outlook

By Jan Dinger

Indicators for the UK economy in 2011 are tricky to read at the moment.

In the positive, worldwide economic momentum is growing, which in a global marketplace is a good sign for the UK. There is an optimistic outlook for European markets in particular, due to a range of reasons, including some very strong ones.

Policy addressing both the short-term and medium to long-term stability mechanisms of the euro zone has gained in credibility, thanks to Europe's response to the crisis and reduction in the perceived risk of default by peripheral countries. At the same time macro data in Europe has helped convince the markets that recovery is now established.

Furthermore, extremely low bond yields are currently helping state funding, incentivizing spending rather than saving, and making equities a more appealing investment. In addition, the PwC Valuation Index shows that although UK equities have recovered much of the value they lost in the recent financial crisis, they still stand at a 12% discount to the level implied by long-term economic prospects.

> "Not only is the UK's national debt very high but the deficit is a more pressing problem"

On the other hand, we are facing the largest fiscal pressure since the second world war, which increases the risk of slowing down the economy, while house prices have started falling, manufacturing output is slowing down, low interest rates have not created either supply or demand for credit so far, and the 2011 forecast for UK growth has been revised to 1.7%.

In the midst of this low outlook, the UK is experiencing above-target inflation, which has revived talks of an early interest rate rise that would put additional pressure on recovery.

In addition, the UK's financial debt and deficit position is precarious. Not only is the UK's national debt very high (which is not an immediate issue, funding being over 10 years, although it will need to be dealt with at some point), but the deficit is a more pressing problem.

Levels of spending are higher than revenue, which is unsustainable and urgently needs to be addressed. Real income levels and higher taxation have already had a positive impact, but government policy needs to go further to solve this issue.

This is the context in which George Osborne recently presented the 2011 budget, with a clearly announced goal to stimulate growth. Although he confirmed a billion pound crackdown on tax avoidance and heavy levies on banks and carbon use, which will affect oil and power companies, he also outlined a number of measures aimed at supporting the economy, such as an additional percentage point cut in the main corporate tax rate, the easing of planning rules, a promise of less regulation and a plan to simplify taxes.

So what does the investment management industry need to specifically look out for in the coming months?

1. 2011 budget — tax changes

Entrepreneur's relief

This relief offers an effective 10% tax rate to entrepreneurs selling shares in a business where they own at least 5% and work for the business. It is currently capped at lifetime gains of GBP5 million (US$ 8.1 million), but from the 6th April 2011 this cap will be doubled to GBP10 million (US$16.2 million) which is great news for entrepreneurs with high value business assets.

Non-domicile tax

Some aspects of the current rules of taxation for non-UK domiciles will be simplified to make the regime easier to apply, and the annual remittance basis charge for non-domiciles who have lived in the UK for more than 12 years is being increased from GBP30,000 (US$49, 000) to GBP50,000 (US$81,000).

Income tax and national insurance

The government has announced consultation on the reforms to align income tax and National Insurance contributions. This is a big change to the UK tax system and will take a few years to fully implement, but should ultimately lead to a more transparent tax system and reduce unnecessary compliance burdens on business, and particularly small businesses.

Tax relief to business investment

Over the years the government has sought to encourage private investment into company start-ups by allowing generous tax reliefs through schemes like venture capital trusts (VCTs) or the enterprise investment scheme (EIS). From the 6th April 2011, the tax relief available under the EIS will be increased from 20% to 30%, and from April 2012 the investable amounts under these schemes will also be increased, subject to receiving state aid approval.

Business investment by non-UK domiciles is also being encouraged, with tax relief for income or capital gains brought into the UK for the commercial investment in UK businesses.

Tax relief on pension contributions

From the 6th April 2011 the annual amount of pension contributions on which tax relief will be available is being reduced from GBP255,000 (US$415,000) to GBP50,000 (US$81,000).

Islamic finance related tax

Among other laws of the Finance Bill 2011 aimed at closing tax loopholes, the UK Treasury is proposing two changes relative to reliefs for financial products designed to be Shariah compliant (or "alternative finance products"), to ensure that these are not used to avoid tax payments. This includes a long-identified loophole on high-end stamp duty land tax in commercial property transactions, in both conventional and Islamic transactions.

The Treasury had also held an Islamic finance tax working group in October last year, drafting several pieces of legislation, and called for

continued...

UK — 2011 Economic Outlook (continued)

a consultation, ending the 31st March 2011, on its proposed changes to income and corporation tax, which would cover Islamic finance derivatives and Islamic equivalents to variable rate loans.

The Treasury's aim is to create and maintain fairness of conditions applying to Islamic versus conventional financial products, while closing potential tax loopholes stemming from specificities of some Islamic finance products.

> "The Treasury's aim is to create and maintain fairness of conditions applying to Islamic versus conventional financial products, while closing potential tax loopholes"

2. Reforms and regulation

More flexible immigration rules for high net worth individuals

In addition to tax relief for investment in UK businesses, the government has announced changes in immigration rules designed to encourage high net worth individuals (HNWIs) from outside the European Economic Area (EEA) to invest and reside in the UK. These proposed new rules include the following:

- Individuals who invest GBP10 million(US$16.2 million) in the UK will qualify for settlement within two years of coming to the UK;
- Individuals who invest at least GBP5 million (US$ 8.1 million) in the UK will qualify within three years;
- Individuals who invest at least GBP1 million (US$1.6 million) in the UK will continue to qualify after five years;
- Tier 1 (investors) will be able to spend up to 180 days a year out of the UK while remaining eligible for settlement;
- In addition, investors will be able to choose between investments in UK government bonds or in active trading companies.

The shortened qualifying periods for settlement for HNWIs investing over GBP1 million will make the UK a more attractive destination of choice. It is anticipated that these new rules will enable the UK to compete with other countries such as Canada and Switzerland, which already have rules in place to incentivize immigration and local investment by high net worth individuals.

Retail distribution review

The Financial Services Authority (FSA) launched the Retail Distribution Review (RDR) in June 2006. The objective is to tackle what the FSA perceived to be a persistent problem of "insufficient consumer trust and confidence in the products and services supplied by the market" and thus promote a "resilient, effective and attractive retail investment market."

Back in 2006 the RDR was a key element in the FSA's strategy to protect consumers and enhance their faith in financial service providers, a critical consideration given the ever growing need for retail investors to work with the industry to meet their retirement and savings planning requirements.

After the fallout from the financial crisis, implementing measures that will help rebuild consumer trust in the financial sector has gained even greater importance.

In its early days there was uncertainty about what shape the RDR rules would take, and some skepticism about whether the proposed measures would even come to pass.

However, it is now clear what the RDR will entail, and that it will take effect from January 2013. The changes it brings will have a profound impact on all participants serving the retail investment marketplace in the UK.

> "Its goal is to create a single European market within which managers of alternative investment funds (AIFs) can operate"

For the wealth management industry, therefore, it is vital they are ready not only to comply with the new regulations, but to take advantage of the changes it will bring.

Alternative Investment Fund Managers (AIFM) Directive

The AIFM Directive applies to a range of alternative asset managers: primarily hedge funds, but also those in the private equity, venture capital, commodity and real estate sectors. Its goal is to create a single European market within which managers of alternative investment funds (AIFs) can operate.

In addition, it seeks to implement a more robust and harmonized regulatory and supervisory framework to monitor and control managers' activities, thereby reducing individual firm and broader systemic risks, and strengthening investor protection. The UK, as a key alternative investment centre, will be heavily impacted by the directive.

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Social Infrastructure — Islamic Finance Opportunities

By Salman Al-Sudairi and Craig Nethercott

Throughout the Middle East governments are focused on continuing to upgrade the social infrastructure.

Qatar has ambitious plans leading up to the World Cup Finals and Abu Dhabi continues to pursue its Abu Dhabi 2030 plan. In Saudi Arabia the government is committed to an aggressive infrastructure development plan in the coming decades.

In order to meet the demands of a growing population and achieve the goal of making Saudi Arabia a regional and global centre of business, the Saudi Arabian government has earmarked a total investment for infrastructure projects over the next 20 years upwards of US$400 billion.

Such social infrastructure projects include the familiar increases in power generating and desalination capacity, but improving transportation infrastructure, building new (and improving existing) roads, bridges, airports and railways (including pilgrimage infrastructure) are increasing priorities in the development agenda.

While these projects have generally been dependent on direct government expenditure, there has been some limited private sector participation. With a broad spectrum of social infrastructure projects under development there should be much greater private sector participation in the future.

Private sector participation in public infrastructure through the "public private partnership" model (PPP) is well known in Europe. The PPP model has found some limited application in the Gulf states to date.

Abu Dhabi has used a PPP structure for its UAE University, Sorbonne and Zayad Universities and is considering a PPP structure for a road development (bids are currently being considered for the 327 km Mafraq Ghweifat highway).

> "The PPP model presents at first sight some structural "complications" for the Islamic financing of new build assets, such as a road or an airport terminal"

In Saudi Arabia, GACA (the aviation authority) used the PPP model for the expansion of the Hajj Terminal in Jeddah and has pre-qualified a number of consortia for the PPP redevelopment and expansion of Prince Mohammed International Airport in Madinah.

PPPs and Islamic finance

The PPP model presents at first sight some structural "complications" for the Islamic financing of new build assets, such as a road or an airport terminal. In a BTO (build transfer operate model) the physical assets, are transferred to the grantor on completion and are not available as a subject matter for an Ijarah structure.

This was exactly the issue facing the Islamic financiers (the Islamic Development Bank, Bank AlJazira and Credit Suisse) in the Hajj Terminal project, the first Islamic financed PPP (built on a BTO) in Saudi Arabia.

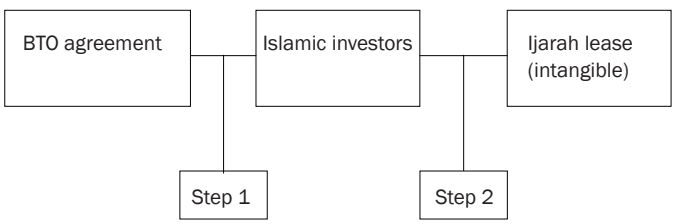
> "In Saudi Arabia, GACA (the aviation authority) used the PPP model for the expansion of the Hajj Terminal in Jeddah"

The Hajj terminal expansion (a separate terminal at the King Abdulaziz International Airport in Jeddah, Saudi Arabia dedicated to pilgrims and visitors of the holy city of Mecca) was financed with approximately US$205 million of Shariah compliant debt.

The sponsor, the Saudi Binladin Group, was awarded a concession (the right to operate the terminal) with the new and refurbished assets required to be constructed being transferred to GACA after completion of construction works. Therefore the new terminal assets constructed by the concessionaire could not form part of an Ijarah structure.

To overcome this issue the financing was structured under an Ijarah structure where rights under the concession agreement (the BTO Agreement granting the right to run the terminal) were sold to the Islamic financiers and then leased back to the sponsor in exchange for traditional rental payments. This structure is well suited to further infrastructure PPP projects (see figure 1.1 below).

Figure. 1.1 – Hajj Terminal Structure



Step 1. BTO Agreement between GACA and concessionaire. Rights under the agreement are sold to a third party. Islamic investors purchase BTO agreement rights from third party.

Step 2. Islamic Investors enter into a forward lease agreement of the rights under the BTO with the Hajj Terminal Development Company.

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Social Infrastructure — Islamic Finance Opportunities (continued)

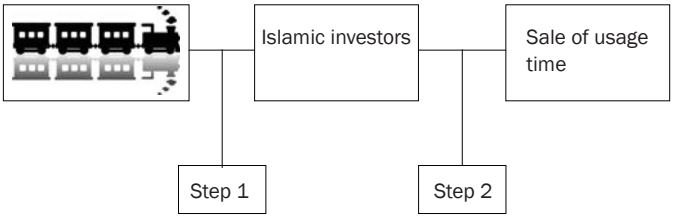
Other potential Shariah compliant structures

Beyond the Hajj terminal structure and the commonplace Murabahah facilities, hybrid structures such as the Mobily "Airtime" facility (the mobile telecom operator) are easily adaptable to PPP financings of infrastructure assets. In the Mobily transaction, the Islamic investors purchased a few billion US dollars of "airtime" on the Mobily network.

> "In the Mobily transaction, the Islamic investors purchased a few billion US dollars of "airtime" on the Mobily network"

This airtime was then sold on behalf of the Islamic investors to Mobily's customers at a profit. There is no reason why this structure could not be applied to road users, railway users or airport users.

Figure 1.2 – Hybrid Structure



Step 1. BTO Agreement (with respect to relevant infrastructure) between grantor and concessionaire. The concessionaire sells usage time on the relevant infrastructure (for example a usage right on a railway or a right to travel across a toll road).

Step 2. The Islamic investors sell the usage on the relevant infrastructure to end users at a profit via a marketing agent.

Conclusion

The growing demand for infrastructure projects and increased private sector participation therein, presents real opportunity for Islamic finance to support the development of social infrastructure. The investment in the development of suitable Islamic finance structures has already been made. Islamic finance investors are well placed to occupy a prominent role in regional infrastructure development in the near term.

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Challenges in Structuring non-recourse Financing for Projects in the UAE

By Nabil A Issa

In recent years, the UAE has witnessed an increase in the number of investors interested in financing energy and industrial projects in a Shariah compliant manner. In this article, a number of specific challenges are addressed in relation to structuring a financing in the UAE.

Generally speaking, non-recourse financings (conventional or otherwise), other than in the context of infrastructure projects, continue to be highly unusual in the GCC (including the UAE), as most financings are backed by personal or corporate guarantees from creditworthy borrowers or their ultimate parent or shareholders.

Borrowers who wish to structure a financing in a Shariah compliant manner not only seek to finance their investments in ways that do not involve the payment of interest or riba, but also look to abide by other underlying Shariah requirements. Acheiving a non-recourse, Shariah compliant financing will obviously add another level of complexity to the transaction.

Although the UAE is a civil code jurisdiction, Shariah is embedded in many provisions of law. Article 7 of the UAE Constitution provides that Shariah is "a source" for legislation. Article 2 of the Civil Code provides that the principles of Fiqh are to be utilized in understanding the underpinnings of the Civil Code provisions. Article 27 of the Civil Code provides that the provisions of a governing law cannot be applied if they contravene Shariah, public order, or the morals of the UAE.

However, the reality is that similar to jurisdictions in the region other than Saudi Arabia, interest provisions are enforceable in the UAE. The Federal Supreme Court and the Dubai Court of Cassation have upheld Article 76 of the Commercial Code enforcing interest provisions in financing agreements. However, local law challenges exist in structuring an Islamic financing for a project financing in the UAE. Interestingly, some of the free zones in the UAE make it easier to create security interests in property and companies, particularly the Dubai International Financial Centre.

Specific challenges in structuring a financing in the UAE

In addition to the common use of Tawarruq, we have seen the growing use of Diminishing Musharakah and Bai al Ajal in terms of Shariah compliant financing structures and the increased use of Sukuk and Shariah compliant funds as a means of raising funds from parties other than traditional financing parties.

Governmental and quasi-governmental entities are particularly using Islamic project bonds/Sukuk to raise funds, including recent discussion of financing additional roads through the use of the Salik system that charges vehicles using certain roads in Dubai.

There is also a set of new funds regulations and it is expected that the growth of locally domiciled funds will grow dramatically once the draft regulations are enacted. As in other jurisdictions, many of these projects have a substantial component that consists of conventional financing, particularly financing received from international export credit agencies and conventional lenders.

Structuring the Shariah compliant financing or investment properly with the conventional financing is essential and is often made by way of a bifurcated structure so that non-Shariah compliant investment is made directly into the project company.

A number of challenges also exist in structuring a financing in the UAE, particularly the concept of "security" and the means of "perfecting" and enforcing security interests, as discussed below.

Rahn

Lenders normally wish to obtain a Rahn (a pledge) of the real estate, movable property of the project company and the facility to be constructed for use by the project company. Below is a brief discussion of each type of asset:

i. Real estate/immovables

Unlike certain surrounding jurisdictions, it is possible to record a mortgage over real estate in the UAE. Technically to have effect, a mortgage must be registered. Until recently, only UAE nationals (with certain exceptions for other GCC nationals) could own property in the UAE. In recent years, certain demarcated areas have been approved to allow foreign ownership (although in Abu Dhabi such areas are still limited to long-term leases). Unlike surrounding jurisdictions, the UAE does have a central registry for the recording of real estate title deeds with the UAE Lands Department. In connection with the sale of real property, the Lands Department charges a fee over a certain percentage of the value of the property.

If the property is in one of the designated freehold areas in which foreign ownership is permitted, the developer usually charges a transfer fee to transfer the title deed. This becomes an issue when using the Ijarah structure. In an Ijarah financing, the ownership of the real estate is transferred in the name of the financier. This will result in significant fees, which will again be charged when the real estate is transferred back in the name of the lessee under the Ijarah.

Due to the significant fees, the financier sometimes simply accepts a contractual right as the owner of the concerned real estate without registering its ownership with the Lands Department or the concerned developer. For off plan projects, it is common to use forward Ijarah in the UAE.

ii. Movables

In a non-recourse financing, the financiers normally wish to take a mortgage over all the movables that belong to the concerned borrower. In Dubai, there is no general register for pledges over movables. Certain governmental departments, however, will permit a registration of such Rahn. For example, the General Civil Aviation Authority has in the past provided an undertaking to deregister an aircraft upon request by the financier upon an event of default. It is not clear, however, if such Rahn would actually be effective in practice.

In general, Article 165 of the Commercial Code requires that the subject of the pledge must be placed in joint possession of the pledgor

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Challenges in Structuring non-recourse Financing for Projects in the UAE (continued)

and pledgee in such a manner that the pledgor cannot dispose of the assets without the pledgee's knowledge. Article 1487 of the Civil Code provides that a pledge of movable assets shall not be effective against third parties unless it is recorded in writing on a fixed date and states the amount of the secured debt, the asset pledged and the fact of the transfer of the possession of the pledged asset to the pledge.

> "Under Shariah precepts as applied in Dubai, however, unilateral assignments are not effective"

iii. Pledge of interests in a UAE LLC

A UAE limited liability company (LLC), the corporate form most often utilized for joint venture entities in the UAE, does not issue share is certificates. This has historically presented difficulties in raising non-recourse financing for UAE LLCs to the extent that there are no share certificates of the project company that can be pledged to the lenders.

A few months ago, it did, however, become possible to take a pledge over the shares of a UAE LLC incorporated in Dubai. Also, lenders will often require sponsors to form SPVs in the Jebel Ali Free Zone as an offshore company or establish an entity in the DIFC.

Dubai has treated 100% UAE owned entities in the DIFC as 100% Emirati entities and has benefited from local ownership requirements when such entities form an entity in Dubai. Thus, this facilitates taking a pledge at the DIFC level and then at the company level in Dubai. It is less clear if other Emirates will provide such benefits to Emirati owned entities in the DIFC.

To the extent foreign ownership is not an issue, financiers will encourage borrowers to form entities in offshore jurisdictions (for example, the Cayman Islands or elsewhere) to serve as the actual shareholders in the UAE project company, as the shares of such SPVs may be more readily pledged to the lenders as additional security for the financing provided.

The financiers can then take security over the second-tier shares, the shares of the offshore companies established by the borrowers to hold their shares in the project company. However, this solution is of limited effect since an offshore company will only be able to own 49% of a UAE LLC. Therefore, financiers also often require a power of attorney from each of the shareholders of the UAE LLC (discussed below) to exercise step-in rights.

iv. Business mortgages

The Commercial Code permits the creation of a Rahn over a business and its assets in favor of a financier. The Commercial Code requires such Rahn to be executed before a Notary Public and registered in the Commercial Register. Registration includes registration at the Commercial Registration Section of the Dubai Department of Economic Development and publication of such in the local Arabic language press.

Upon an event of default, the financier may not exercise self-help (regardless of any provision to the contrary in the Rahn agreement). Instead, the financier as the mortgagor, may, after eight days notice, apply to a local court for the sale of the assets subject to the Rahn in a public auction. Note the real estate where the business is conducted is not deemed to be part of the business. A separate mortgage to secure any interest in real estate must be registered with the Lands Department.

v. Bank accounts

In general, the concept of floating charges is not recognized in the UAE. An identifiable asset is required, such as a fixed deposit. It may be arguable that the amount pledged is the amount standing in such account on the date of enforcement, but we are unaware of consistent precedent that supports this view point.

Therefore, financiers normally require that certain project accounts be maintained in an account in a jurisdiction in which the financiers can take a floating charge over the account (like England or New York). For example, financiers will likely require that proceeds generated from offshore offtake agreements or rents in connection with the real estate, that is the subject matter of the financing, be deposited directly into certain offshore accounts subject to such floating charges.

However, this mechanism is often impractical where onshore counterparties are reluctant to pay into an offshore account. In these instances, financiers have employed "cash sweep" mechanisms to move cash from an onshore account of the borrower to an offshore account subject to a floating charge. This can be accomplished by creating a segregated onshore account and contracting with the deposit bank to permit a representative of the financier to manage or direct disbursements from the onshore account.

Offshore financiers will typically also require set-off rights with respect to accounts held with them. The rights of banks in the UAE to set-off are generally broad. Financiers must ensure that such rights are provided for in the finance documentation. In absence of such agreement, financiers may arguably require a court order before exercising any claimed set-off rights.

Assignment of contract proceeds

It is possible to assign contract proceeds and other intangible rights under Shariah as applied in Dubai, subject, however, to the caveat that it is not possible to "perfect" such assignments through recordation with a central registry. Instead, borrowers in Dubai are often asked to assign specific contract proceeds, with an acknowledgment from the payor that the assignment shall remain in effect until the assignee consents to any transfer or termination of the assignment.

Under Shariah precepts as applied in Dubai, however, unilateral assignments are not effective. In order to create an effective assignment of a contract of the relevant project company and/or contractual obligations of counterparties thereto, such counterparties must be given notice of the assignment and must consent to the assignment. Thus, an assignment to the financiers of amounts owed to the borrower must include a written consent of such assignment by the payor(s) in order to improve the enforceability of such assignment.

We note that some local commentators believe that as per Article 1130 of the Civil Code, it is not possible to have such assignment effective

continued...

Challenges in Structuring non-recourse Financing for Projects in the UAE (continued)

against third parties (for example a liquidator) unless there is a "date certain" for the assignment. Such commentators believe a date certain is not achievable in Dubai unless the signatures on such assignment are recognized by a local Notary Public and such date becomes the "date certain" of the assignment. Other local commentators, however, believe it is sufficient to simply provide written notice to the original payor to make the assignment effective. We note that the Notary Public has refused to notarize assignments in relation to real estate transactions in Dubai.

Power of Attorney

Financiers in Dubai often rely on a Wakalah or a power of attorney given to a designee of the financiers in order to exercise certain "step-in rights" in an event of default scenario. However, it is critical to note that powers of attorney in Dubai are revocable, even if the power of attorney is characterized on its face and in the security documents as an "irrevocable" power of attorney.

In order to protect against the revocation of a power of attorney granting step-in rights, financiers often include a liquidated damages provision in the concerned security agreement that is triggered upon premature revocation.

In our experience, liquidated damages have been enforced by the local courts as long as the liquidated damages approximate the actual damages and are not drafted as excessive financial penalties for non-performance.

Checks

Financiers in the UAE often rely on post-dated checks as additional security. The UAE Penal Code makes it a criminal offence to issue a check without sufficient funds. The arrest of the drawer for "bouncing" a check is a strong deterrent against default. Also, as payment of a check may only be stopped upon a court order, banks regularly utilize post-dated checks as another means of security.

Conclusion

There are a number of challenges in structuring a non-recourse financing for a non-recourse project in the UAE, particularly large projects that are partly financed using conventional financing. However, the fact that such projects are being closed and include both local and international financiers indicates that, with appropriate structuring, such financings are possible in the UAE.

The UAE is currently reviewing its Companies Law and it is hoped that such review will also consider some of the above issues particularly in relation to taking pledges over shares.

Financiers and borrowers must also re-examine the Islamic financing industry in the UAE and continue to focus on structures other than Tawarruq, as there are a number of excellent structures that are not only legally enforceable in the UAE but also Shariah compliant.

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Luxembourg: The Place to Structure Shariah Compliant Cross Border Investments

By Marc Thiesen

It is only since the sixties and the burgeoning independence of Muslim countries that Islamic finance has emerged.

In this context it is interesting to mention that in 1978 the first Islamic institution in Europe appeared in Luxembourg, the Islamic banking system later renamed Islamic Finance House Universal Holdings. Its activity was essentially focused on the acquisition by purchase, exchange and subrogation of shares in companies in Europe and around the word. The Islamic banking system was liquidated at the end of the eighties.

In 1983, Takafol (UK) created a company in Luxembourg, Takafol SA which offered Muslim clientele insurance products conforming to Shariah principles.

In 2002 Luxembourg was the first European Stock Exchange to enter the Sukuk Market (Malaysia Global Sukuk).

In 2009 the "Al Mi'yar" Shariah compliant securities established a platform in Luxembourg. In the same year the Central Bank of Luxembourg became the first western and non-Muslim institution to become a member of the IFSB.

This early demonstration of openness, flexibility and expertise in proposing innovative solutions, which are key foundations of the Luxembourg financial centre, have also resulted in Luxembourg being recognized as one of the leading European centres for Islamic finance with:

- 38 Shariah compliant funds
- 16 Sukuk with a combined value of US$7.3 billion listed on the Luxembourg Stock Exchange
- Sixth domicile for Shariah compliant funds in the world

Luxembourg is the ideal hub for international investment structures and solutions, both conventional and Shariah compliant, in view of its interesting corporation tax situation. Under certain conditions reductions of dividend withholding tax, interest withholding tax, tax on royalties, participation exemption or capital gains on the sale of shares.

In conventional finance, Luxembourg has consolidated its position as an international investment fund distribution centre and continues to enter new markets and to expand its market share.

Related to recent statistics, some 75% of all funds with cross border distribution are domiciled in Luxembourg. Chile has a 78% share, Hong Kong 72%, Singapore 67%, Japan 76% and Bahrain 77%.

So Luxembourg offers huge potential for an Islamic finance hub in Europe, for Muslims as well as non-Muslims, institutional or high net worth individuals, and a unique opportunity to tap the high liquidity of pension funds such as Takaful.

Despite these hard facts, and its unique positioning as a gateway to Europe and other international markets, Luxembourg remains relatively unknown within the key markets for Islamic finance — Saudi Arabia, the UAE, and/or Malaysia.

This has led the government, supported by the financial community to demonstrate its interest to partners and long-term commitment through the organization of several financial missions to those countries since 2008 under the initiative of Luc Frieden, minister for finance and budget, and Jeannot Krecke, minister of economics and foreign trade.

This situation is likely to change as on the 10th May 2011, the IFSB will be organizing its summit in Luxembourg.

> "Luxembourg remains relatively unknown within the key markets for Islamic finance — Saudi Arabia, the UAE, and/or Malaysia"

That said, the

- Expertise (number one international fund servicing centre in Europe, and second worldwide, consisting of 145 banks);
- Quality (high quality regulated framework for UCITS and non-UCITS funds);
- Leadership (worldwide leadership in cross border distribution of financial products);
- Flexibility (flexible and tax-efficient structures such as the Specialized Investment Fund (SIF) or Financial Participation Company (Soparfi);
- Development (the governments' commitment to develop Shariah compliant solutions within a stable and predictable environment);

combined with the European passport and above all distribution to the markets of Asia, have enabled Luxembourg to position itself as a leader in the global distribution of investment products and could enable it to carve itself a vital place in international Islamic finance.

Furthermore, for two years now there has been a genuine drive for a better level of communication, achieving greater awareness of what Luxembourg is offering in Islamic finance.

The legal environment is absolutely compatible with Shariah law and a very large range of double taxation treaties (61 in force and 16 pending) enable retentions at source on dividends to be reduced to a more favourable rate, and they frequently permit reduced tax rates on interest and royalties.

Luxembourg is perfectly equipped to address the dynamic needs of Islamic finance investments throughout Europe and worldwide, due

continued...

Luxembourg: The Place to Structure Shariah Compliant Cross Border Investments (continued)

to strongly regulated investment vehicles (UCITS and UCI), lightly regulated investment vehicles (SIF and SICAR) and lastly the holding company (Soparfi) and securitization vehicles. All Shariah compliant products may be implemented through Murabahah, Musharakah, Mudarabah, Ijarah, Sukuk and so on.

These fund structures must comply with the law as implemented on the 10th December 2010, and within that framework should perfectly respect the written guidelines relating to Shariah investment principles, and there are no legal or other constraints to running the fund within Shariah principles interpreted and laid down by the Shariah board and provided to the board of directors and/or management company.

Accounting, auditing, custody and banking in respect of Shariah principles may be set up within existing structures.

Luxembourg fund law may be described as "Shariah friendly" as it does not pose any legal obstacles or constraints to the development of the fund business. The same applies to unregulated structures such as securitization and moreover the Soparfi regime.

"Luxembourg fund law may be described as "Shariah friendly" as it does not pose any legal obstacles or constraints to the development of the fund business"

Two tax circulars

1. The circular dated the 12th January 2010 in relation to direct taxes applicable to Murabahah and Sukuk transactions, and

2. The circular dated the 17th June 2010, issued by the Luxembourg indirect tax authorities, providing guidance regarding registration duties (real estate transfer taxes) and certain VAT aspects applicable to Murabahah and Ijarah transactions involving Luxembourg real estate, guarantee that Islamic finance transactions are not penalized in comparison to conventional transactions.

Both circulars are based on a liberal and economic as well as pragmatic approach to accommodating Islamic investments within the Luxembourg legal and tax framework.

Lastly Luxembourg offers excellent opportunities for Sukuk.

We may see the development of Sukuk in Luxembourg at three levels:

- Level 1: listing on the Luxembourg Stock Exchange — pragmatic approach and low costs.
- Level 2: special purpose vehicle (SPV) registered with an address for service — tax-neutral vehicle with no taxation at source on interest, royalties and dividends paid.
- Level 3: structure of the Sukuk — Sukuk structuring which should enable both the state and corporate sectors to benefit from investor potential that at present is not accessible, and to obtain a new, major source of liquidity and finance, indirectly benefiting from a flow of liquidity and also a parallel development of the bank sector, with new employment opportunities (banks, trustees, law firms and so on).

"By issuing Sukuk, Luxembourg should take a very important step forward in the world of Islamic finance"

Moreover, on the 26th January the Luxembourg Regulator (CSSF) issued a ruling that Sukuk may be treated as asset-backed securities pursuant to the provisions of Article 2.5 of the Prospectus Regulation, or subject to certain conditions, and guaranteed debt securities pursuant Article 23.2 Appendix VI of the Prospectus Regulation.

In other words, if the payment of principal and the periodic distributions are independent from the performance of the underlying asset, the CSSF considers that the underlying entities may be described in accordance with the provisions of Appendix VI of the Prospectus Regulation.

This is certainly a matter for discussion and interpretation, but at the end of the day a ruling positioning the regulator. By issuing Sukuk, Luxembourg should take a very important step forward in the world of Islamic finance.

Conclusion

In general the regulatory legal and tax framework in Luxembourg are suitable to the establishment of Shariah compliant investment funds.

The same applies for the listing of a Sukuk on the Luxembourg Stock Exchange, the establishment of a SPV within a Sukuk structure and with ad hoc efforts the structuring of a Sukuk as such, knowing that the initial steps will involve the expenditure of both time and money. However, it could be worth doing.

It remains that there must still be effort made on a financial and a technical level to push Luxembourg to the fore. Lastly, Luxembourg is already perfectly equipped to be a hub for structuring Shariah compliant investments in private equity, real property, intellectual property and so on.

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The Takaful Idea and its Role in the Transformation of Middle Eastern Societies

By Dr Ludwig Stiftl

It has always been accepted that Takaful is close to mutual and cooperative insurance. Indeed, a number of Takaful companies are members of the International Association of Mutuals (ICMIF).

Similarly, there is a widespread view that Takaful is best suited to increasing retail penetration. In this process, Takaful operators can fill those spaces in the insurance landscape of the Islamic countries that are filled by mutuals and cooperatives in the western markets. These spaces are, generally speaking, the rural and peripheral areas, covered by a decentralized network.

Furthermore, there are deeply rooted historic parallels and even connections between the mutual economy in western countries and Islamic finance. The western mutual idea appeared within gradually opening and rapidly industrializing societies as a means to ensure an even spread of capital among a broad middle class and as a counterforce to the concentration of capital — and thus power — in a few hands.

> "The Takaful operators as Wakeel need to provide their work and expertise in managing the participants' fund, not necessarily capital"

It was also intended as a "third way" between Manchester capitalism and socialism, often motivated by a genuinely Christian sense of responsibility which — like Islamic finance – sees God as the ultimate owner of all worldly goods.

These intrinsic parallels surfaced in the first interest free bank, the Mit Ghamr project, whose founder had studied in Germany and observed the mutual economy there. And it was no coincidence that this first Islamic bank of the modern era was a joint venture with the mutual savings and loans bank of Cologne.

If Middle Eastern societies are now on the brink of a democratic opening, driven by an ambitious, yet threatened, middle class, the tasks ahead are similar. The idea and ideal is that there must be a more even distribution of opportunities and wealth as a requirement for justice and a functioning democracy. In fact, the chances are high that these movements will fail if they bear no real economic fruit for a substantial portion of the population within a reasonable time. Parts of Europe took that path in the 1930s.

Another historic parallel is the transition in Eastern Europe 20 years ago and, again, one of the main tasks then was the flanking of the political and social transition with the privatization of the socialist economical structures. In Germany, this was done by transferring virtually the whole eastern German economy into a trust and gradually selling it off to private investors.

It was, however, not an aim of this transformation process to strengthen the mutual and cooperative economy. Large western corporations invested in the buyout, thus lending their strength and know-how to the transforming economies.

Solving two issues in one go

All historic parallels also contain fundamental differences, and things in the Middle East may well turn out differently, at least in Takaful and insurance. Strictly speaking, there is no social market economy there and also no broad insurance infrastructure, particularly in the rural areas, be it conventional or mutual/Takaful, or even social insurance.

There is no safety net that enables economically active strata to plan and undertake innovations which involve risks. There is little reward for the efforts of small and medium entrepreneurship. And there is little capital and productivity accumulation on the individual level for broad swathes of the population.

Finally, the known allocation advantages which insurance sectors normally provide to their national economies are limited to the industrial segments in these countries. In a word, the economic risk management apparatus of these societies is largely dysfunctional.

But, to switch the spotlight to the micro-level, Takaful is still, if we may say so, experimenting with its final form, model and mission. The involvement of large investors and the specific structure of shareholders' and participants' funds have given Takaful its speed and dynamic so far, just as in the European privatization process.

But it has not spread much into rural areas yet, and outside the GCC countries and Sudan, Takaful is in its infancy anyway. Secondly, the co-existence of the two funds is the source of constant discussion about how, if at all, surplus is distributed between them. The shareholders have to inject a considerable amount of money and they want and need to make profits. However, in Islamic finance, money alone shall not earn money.

And so we reach an important point — the Takaful operators as Wakeel need to provide their work and expertise in managing the participants' fund, not necessarily capital. The insertion of large sums of money into the shareholders' fund is just a solvency requirement and even somewhat problematic, since the Qard Hasan promise is a financial service akin to a guarantee.

There are alternative solutions to ensure solvency— one is re-Takaful. Another is to put the capital directly into the participants' fund. Since both funds together function as capital for solvency purposes, it makes no difference for consumer protection in which one the capital is put. The issue of where the surplus belongs would be solved that way, because only the participants' fund would provide protection and need and deserve the surpluses.

The idea we should thus like to raise here is to introduce a new kind of Takaful operator that maintains only a rudimentary shareholders'

continued...

The Takaful Idea and its Role in the Transformation of Middle Eastern Societies (continued)

fund at least in the long run, thus being closer to pure mutuals. To our knowledge, nothing in Shariah principles really require that shareholders' funds need to be of substantial volume.

Realistically, such operators need to get started, of course, and we have several financial solutions to this. A legal form for these may be Waqf, not unlike the above-mentioned trust Germany created in 1990. All these solutions can be supported and partly substituted by public or private re-Takaful.

A master plan for the diversification of the industry

The area of operation for Takaful operators of this kind should reflect their aim and creation. If these companies were to enter the existing market (industrial risks, metropolitan areas), provided with zero-cost risk capital, this could justly be considered a competitive distortion. And it would not serve the purpose of infrastructure development.

Such companies should — by and large — be of a semi-public type, with a mission to reach out to remote (at first glance less attractive) areas and segments. Experience in the West has shown that such mutuals (banks in particular) have fared well for many decades, largely undisturbed by crises and supported by their stable, often rural, loyal client base. While decentralized and close to the area they cover, they often establish selective co-operations to create critical mass and to meet the expenses of modern technology, namely for IT systems.

Another, more radical application of this particular structure would be to build up an obligatory social insurance — like for unemployment. In this case, Shariah compliance and its features might help in creating acceptance and reducing moral hazard.

A third application of this system is in micro Takaful, for obvious reasons.

All these kinds of pure mutual Takaful operation — fully private, semi-public, social and micro Takaful — could be combined in a mid-term master plan to enrich variation in social safety nets and cure the dysfunctions described.

As mentioned above, we consider that the largest operational obstacle lies in the administration, in the function of Wakeel. The professionalism and service level has to be high, which requires well educated staff who are prepared to earn rather less than in shareholder funded companies.

This problem can be overcome by training the well educated and unemployed young citizens, whose abundance has been a main driver of the Northern African revolutions. Thorough studies of the models and experiences of various types of mutuals and cooperatives in the west and direct know-how transfer through co-operations with western companies may further help to exploit this unique opportunity for the people. It was done before in Mit Ghamr, and it can flourish again.

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Dr Ludwig Stiftl has studied economics and Arabic/Islamic studies, and conducted a thesis on Islamic banking in 1990.

With banks worldwide still feeling the financial impact of bad debt incurred in the recent crisis and global economic growth expected to moderate this year, what is the outlook for Islamic project and infrastructure financing?

Islamic project finance is increasingly being decoupled from global economic growth, partly because it depends on oil prices that tend to be countercyclical. Countries such as Saudi Arabia are increasing spending on infrastructure development as a consequence of domestic pressures to stimulate the economy further to help domestic businesses increase employment for young Saudis. With the currently high oil prices, financing new developments should not prove too great a challenge.

Growth prospects for Malaysia and Indonesia are positive, despite China slowing down and Japan facing enormous problems. Of great long term significance are the possibilities for those Muslim countries which have experienced popular uprisings. There was minimal Islamic project finance in the past in countries such as Egypt, but infrastructure development is likely to be accelerated by a new democratically elected government. Although it is too early to predict what will happen, the political composition of the new government may well favor Islamic finance.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

Project and infrastructure finance are well suited to Islamic finance due to, among others, the fact that it is associated with economic development and has an underlying asset. There are, however, a number of challenges associated with their feasibility for Islamic financial institutions.

Mainly due to the nature of the projects, they are typically long-term with tenors of 20 years being the norm rather than the exception. Generally speaking, Islamic investors currently tend to prefer tenors of up to five years. In addition, project and infrastructure finance typically have a relatively low return profile, which is not in line with the expectations of Islamic investors.

Notwithstanding the above, Islamic investors would do well to consider project and infrastructure finance as part of a well diversified portfolio and to reduce the concentration on real estate which seems typical for an Islamic investor's holdings. After all, a low return asset is typically also low risk which might provide some insurance against a decline in portfolio values when the next asset bubble occurs.

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

Next Forum Question

Apart from setting up the International Islamic Liquidity Management Corporation, what other measures need to be taken to ease liquidity risks faced by the global Islamic finance industry?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Monday, 25th April 2011.

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

Name: Mahomed Akoob

Position: Managing director

Company: Hannover ReTakaful

Based: Bahrain

Age: 57

Nationality: South African

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

My reinsurance career started in 1976 with Munich Re in South Africa, and in 1996 I became general manager responsible for non-life operations, finance and strategy and business development.

I joined the Hannover Re Group in 2002 as group chief financial officer for Hannover Re Africa, responsible for group corporate finance, IT and strategy. I also had the honor of establishing the first Takaful company in South Africa of which I am still chairman. In 2006, Hannover Re Group entrusted me with the responsibility to establish their re-Takaful operation.

What does your role involve?

My role involves the strategic and overall development of our worldwide re-Takaful business operation centered out of Bahrain. With a team of highly qualified individuals, I oversee the implementation of our strategic plans, critical, tactical and operational issues on the underwriting, and provide overall leadership to the team in achieving our common goals.

What is your greatest achievement to date?

I consider my involvement in establishing our successful and profitable operation here as one of the most rewarding achievements. This success could not have been possible without the truly business friendly atmosphere in Bahrain and the unwavering support of Hannover Re Group's colleagues and executive board. We are proud to see this achievement be well recognized by the international financial community and have received several international awards over the years in recognition of our pioneering efforts.

Which of your products / services deliver the best results?

We transact a wide array of re-Takaful lines. We see huge potential in the family Takaful business, and have a team of experts addressing this area with successful outcomes. On the General Takaful side, engineering and casualty lines are key profitable growth areas.

What are the strengths of your business?

The most significant strength definitely lies with our people. We are a team of highly qualified and committed underwriters and support staff. We see our response time and solution driven approach as key strengths. Products are tailored to suit the needs of our re-Takaful clients.

We are also a well capitalized re-Takaful operator providing impeccable financial security to our business partners. We are a member of one of the world's leading reinsurance groups, which affords us the opportunity to leverage on the group's global reach and experience to better serve our core clients and markets.

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

Capitalizing on the strengths added to our successful start in Bahrain. In addition, eminent opportunities in the Takaful market made it interesting for many investors to set up Takaful operators. They were keen on having a world renowned technically competent organization providing re-Takaful solutions, and we were there.

One of our most important success factors is the location. Bahrain has a robust regulatory framework and the Central Bank of Bahrain encourages sound business practices and supports investors. Bahrain's location in the Gulf provides easy access to our target market as well as Asia and Europe.

What are the obstacles faced in running your business today?

On the underwriting side, competition exerts enormous pressure on calculating risk commensurate pricing. This pressure sometimes jeopardizes a technically sound assessment of the underlying risk. Another obstacle is talent. As much as we strive to recruit and retain the best talent, there remains a shortage of trained and specialized re-Takaful professionals.

On the investment side, the lack of quality, rated Shariah compliant products with adequate returns is a continuing obstacle. There is still great potential for corporates and the public sector to issue Shariah compliant instruments and the demand is available. The current condition, however, puts constraints on investment opportunities available for a Shariah compliant institutional investor such as Takaful and re-Takaful operators.

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

The Islamic finance industry is expected to grow as Islamic financial products continue to present a viable alternative to conventional products. The overall size of the Islamic finance industry has exceeded US$1 trillion and is expected to double over five years. On the re-Takaful side, we want to take our rightful place in this development.

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

The challenge is to develop a uniquely Islamic product that is not fundamentally modeled on conventional finance, perhaps using an alternative to the time value of money concept.

SUMMARY OF TERMS & CONDITIONS

Pembinaan BLT Sukuk

Issuance of RM1.1 billion (US$327 million) Islamic medium-term notes (IMTN) pursuant to an IMTN program of RM10 billion (US$3.27 billion) in nominal value

28th February 2011

Issuer	Aman Sukuk (Aman) a wholly owned subsidiary of Pembinaan BLT
Tenor	Up to 25 years
Return	Tranche 1 – 3.73% Tranche 2 – 4.05% Tranche 3 – 4.23% Tranche 4 – 4.55% Tranche 5 – 4.75% Tranche 6 – 5.05%
Payment	29th August 2011
Maturity date	Tranche 1 – 28th February 2014 Tranche 2 – 26th February 2016 Tranche 3 – 28th February 2018 Tranche 4 – 26th February 2021 Tranche 5 – 28th February 2023 Tranche 6 – 27th February 2026
Principal advisor and lead arranger	CIMB Investment
Consultant to PBLT	Prokhas
Main lead managers	CIMB Investment, AmInvestment Bank, Bank Islam Malaysia, Maybank Investment Bank, RHB Investment Bank
Bookrunners	CIMB Investment, AmInvestment Bank, Bank Islam Malaysia, Maybank Investment Bank, RHB Investment Bank
Legal advisors	Kadir Andri & Partners
Governing law	Malaysian
Purpose of issuance	The proceeds raised from the issuance of the IMTN shall be utilized by the issuer for Shariah compliant purposes to acquire the identified assets from Pembinaan BLT (PBLT). PBLT shall in turn, utilize the IMTN proceeds for Shariah compliant purposes to finance, reimburse, and/or refinance (i) development costs, (ii) operating expenses, (iii) financing costs and (iv) existing financing/borrowings.
Principal activities	The issuer is established for the specific purpose on the functions of a special purpose vehicle (SPV) and its principal activity is to undertake the proposed issuance of IMTN and Islamic commercial papers via one or more programs in connection with and in furtherance of the obligations and role of PBLT to undertake the design, construction and completion of the quarters and facilities nationwide for the Royal Malaysian Police.
Rating	'AAAis ' by Malaysian Rating Corporation (MARC)
Shariah advisor	Bank Islam Malaysia
Structure	Musharakah
Tradability	Tradable

The Q&A was conducted with CIMB Investment:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   The Musharakah structure was adopted as it meets PBLT's specific financing objectives as well as the requirement for a cost-effective and generally accepted Shariah compliant structure. Apart from Musharakah, other structures such as Mudarabah and Tawarruq were also considered.

2. **What will this capital be used for?**
   The capital shall be ultimately used by PBLT to finance, reimburse, and/or refinance, the following —
   (i) development costs for the design, construction and completion of the quarters and facilities nationwide of the Royal Malaysian Police
   (ii) operating expenses
   (iii) financing costs of all transaction fees, costs and expenses of the short-term revolving credit-i facility and Commodity Murabahah revolving credit-i facility and IMTN program
   (iv) existing financing /borrowings.

3. **What were the challenges faced and how were they resolved?**
   The deal was launched in a week where a government guaranteed issuance was brought to market and ahead of the long lunar new year break. An investor presentation was held two weeks prior to the deal launch with accompanying documentation to allow investors ample time to obtain internal approvals and earmark funds in anticipation of the inaugural deal. The book building was done over a two day period to capture maximum participation for optimum price tension.

4. **Geographically speaking, where did the investors come from?**
   The RM1.1 billion (US$327 million) IMTNs were fully subscribed by local investors despite being marketed regionally through the joined lead managers' distribution network. Financial institutions showed keen interest on the transaction, contributing 40.02% of the orders while government related agencies showed strong support via 26.03% of demand. Demand originating from asset managers, insurances companies and corporations stood at 18.81%, 14.79% and 0.34% respectively.

5. **Was this deal rated? If not, explain why.**
   Yes, the IMTNs were rated 'AAAis' by MARC based on the credit profile of single obligor and sub-lessee which is the government of Malaysia.

   In relation to the identified assets under the Musharakah, the identified assets consist of PBLT's rights, entitlements and benefits to the sub-lease rental under the relevant sub-lease agreements between PBLT and the Federal Land Commissioner (as agent for the Malaysian government).

Deal tracker

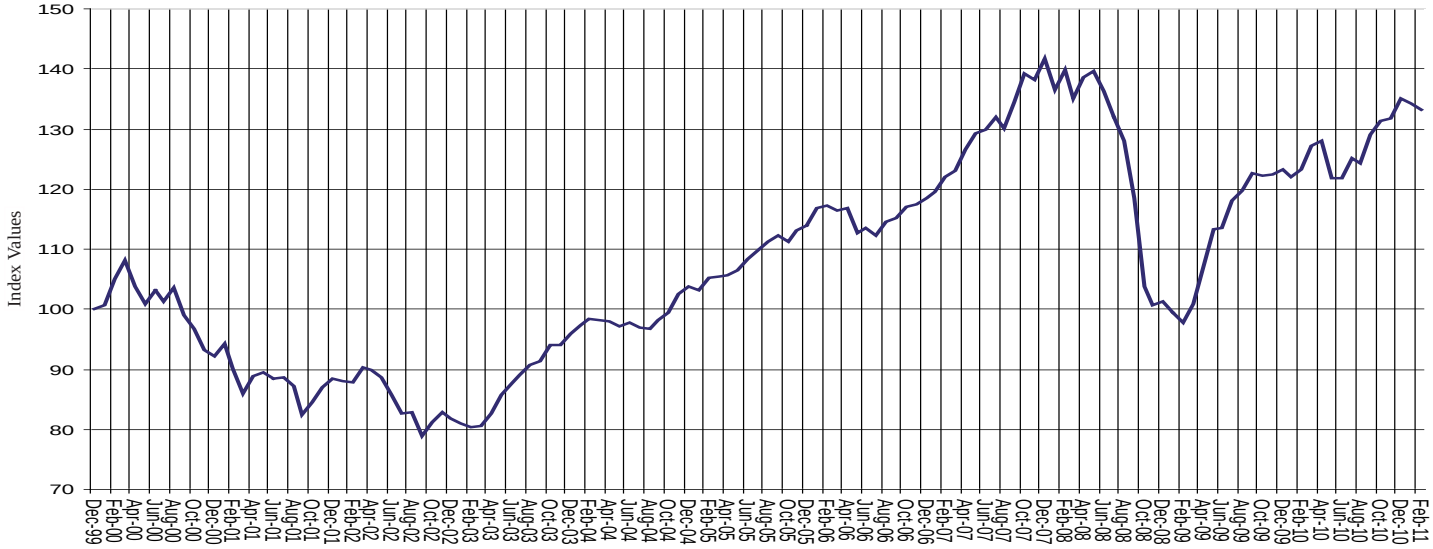
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Noor Islamic Bank	US$250 million to US$300 million	Sukuk
Abu Dhabi Islamic Bank	TBA	Sukuk
Liquidity Management House for Investment	US$1 billion	Sukuk
Telekom Malaysia	RM2 billion	Sukuk
Malaysian government	US$500 million	Sukuk
Indonesia finance ministry	TBA	Sukuk
Tatarstan	US$200 million	Sukuk
Bank Muamalat Indonesia	IDR1 trillion	Sukuk
Gema Padu	RM170 million	Sukuk
Masraf Al Rayan	US$1 billion	Sukuk
First Gulf Bank	TBA	Sukuk
Kazakhstan	US$500 million	Sovereign Sukuk
Prasarana Negara Malaysia	RM5 billion	Sukuk
Bio-Xcell Malaysia	RM250 million	Sukuk
Academic Medical Center Malaysia	RM1.5 billion	Sukuk
Kuwait Finance House-Turkey	US$500 million	Sukuk
Ministry of oil, Iran	EUR2 billion	Sukuk
Qatar International Islamic Bank	TBA	Sukuk
Engro Corporation, Pakistan	PKR3 billion	Sukuk
Aldar Properties	AED3.5 billion	Sukuk
Gatehouse Bank	GBP60 million	Sukuk
Islamic Bank of Thailand	US$250 million	Sukuk
First Investment Company	KWD92 million	Sukuk
Central Bank of Yemen	US$500 million	Sukuk
Qatar International Islamic Bank	US$500 million	Sukuk
Dana Gas	US$1 billion	Sukuk
Amana Takaful	LKR750 million	Sukuk
Bizim Securities, Turkey	TRL100 million	Sukuk
Antara Steel Mills	RM300 million	Sukuk
Brazil	TBA	Sukuk
General Authority of Civil Aviation, Saudi Arabia	SAR15 billion	Sukuk
Kazakhstan	TBA	Sukuk
Albaraka Turk Katilim Bankasi	TBA	Sukuk
Franklin Templeton	TBA	Sukuk
CIMB Islamic	TBA	Sukuk
France	TBA	Sukuk
Bank Negara Malaysia	TBA	Sukuk

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

Top 10 Islamic Funds by Key Performance Statistics



YTD returns for ALL funds (as of the 15th March 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	BIMB	BIMB UNIT Trust Management	18.59	Malaysia
2	ETFS Physical Silver	ETFS Metal Securities	9.25	Jersey
3	ASBI Dana Al-Falah	BIMB UNIT Trust Management	7.11	Malaysia
4	Al Madar US Index Fund	Almadar Finance & Investment	7.01	Kuwait
5	iShares MSCI USA Islamic	Barclays Global Investors Ireland	6.35	Germany
6	Al Rajhi European Equity	Al Rajhi Bank	6.34	Saudi Arabia
7	iShares MSCI World Islamic	Barclays Global Investors Ireland	5.45	Germany
8	ASBI Dana Al-Munsif	BIMB UNIT Trust Management	5.44	Malaysia
9	Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	5.34	Guernsey
10	Al Rajhi International Small Capitalisation	Merrill Lynch Investment Managers	5.17	Saudi Arabia
	** Eurekahedge Islamic Fund Index*		-1.37	

Sharpe ratio for ALL funds (as of the 15th March 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Meezan Tahaffuz Pension Fund - Money Market Sub Fund	Al Meezan Investment Management	8.90	Pakistan
2	Atlas Pension Islamic Fund - Debt Sub Fund	Atlas Asset Management	5.08	Pakistan
3	Meezan Tahaffuz Pension Fund - Debt Sub Fund	Al Meezan Investment Management	4.19	Pakistan
4	Al Rajhi Commodity Mudarabah Fund - USD	Al Rajhi Bank	3.45	Saudi Arabia
5	Commodity Trading Fund - SAR	Riyad Bank	3.34	Saudi Arabia
6	Reliance Global Shariah Growth Fund - USD I	Reliance Asset Management (Malaysia)	3.32	Guernsey
7	Public Islamic Money Market Fund	Public Mutual	2.95	Malaysia
8	AlAhli Saudi Riyal Trade Fund	The National Commercial Bank	2.59	Saudi Arabia
9	AlAhli International Trade Fund	The National Commercial Bank	2.58	Saudi Arabia
10	Al Rajhi Commodity Mudarabah Fund - SAR	Al Rajhi Bank	2.38	Saudi Arabia
	** Eurekahedge Islamic Fund Index*		0.07	

EUREKAHEDGE

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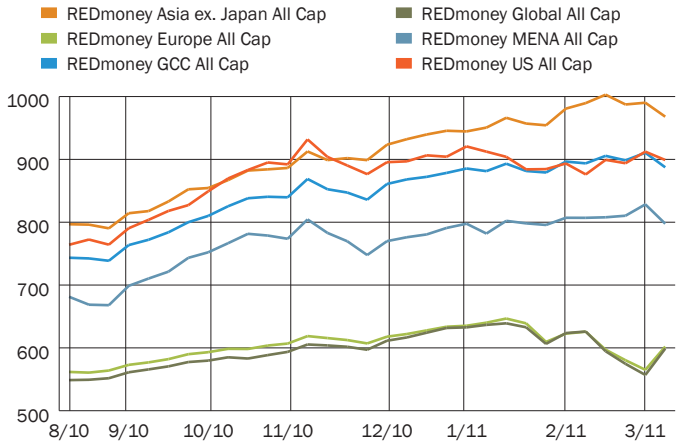
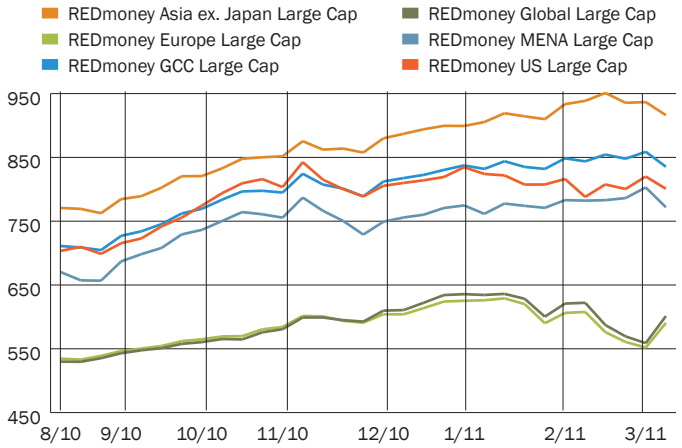
EUREKAHEDGE

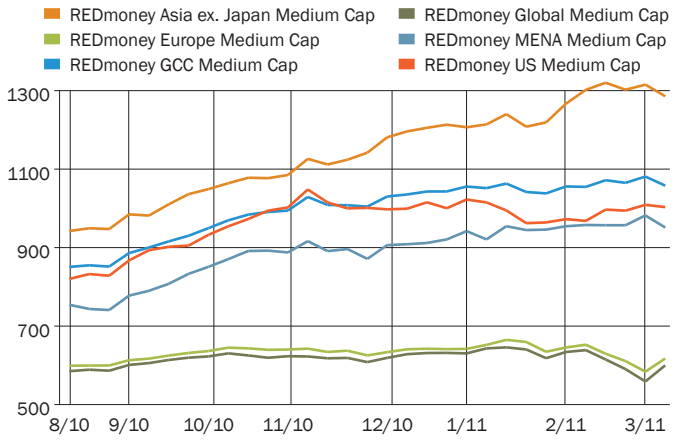
REDmoney GLOBAL SHARIAH INDEX SERIES (All Cap) *6 Months*



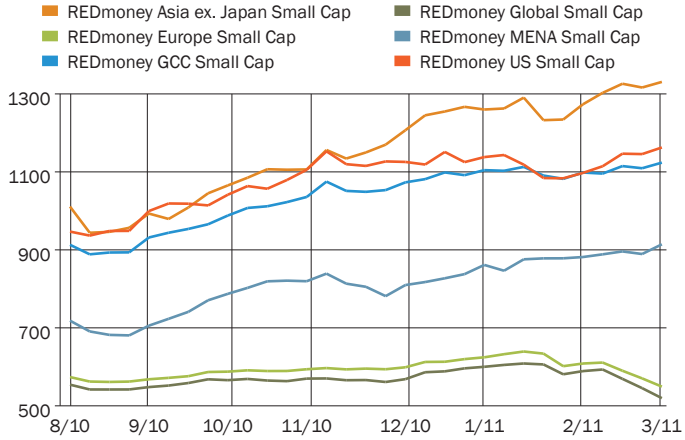
REDmoney GLOBAL SHARIAH INDEX SERIES (Large Cap) *6 Months*



REDmoney GLOBAL SHARIAH INDEX SERIES (Medium Cap) *6 Months*



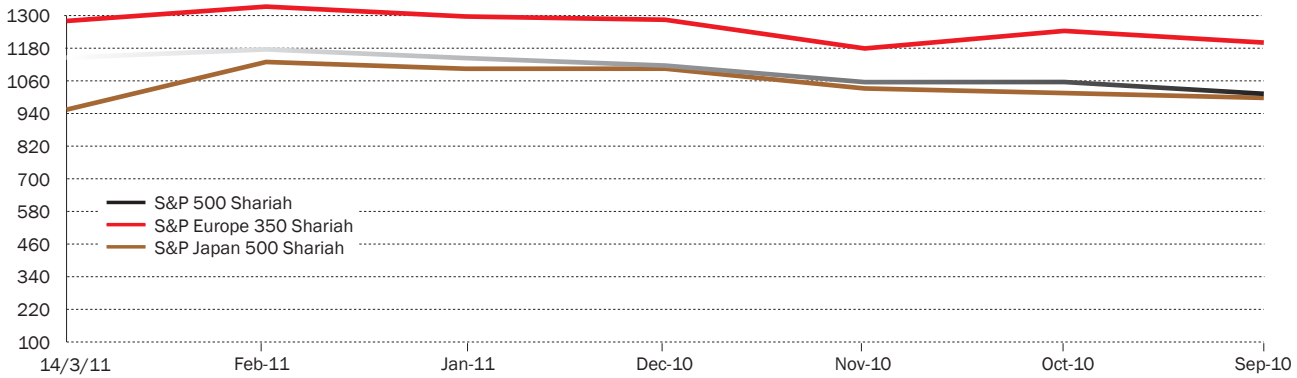
REDmoney GLOBAL SHARIAH INDEX SERIES (Small Cap) *6 Months*



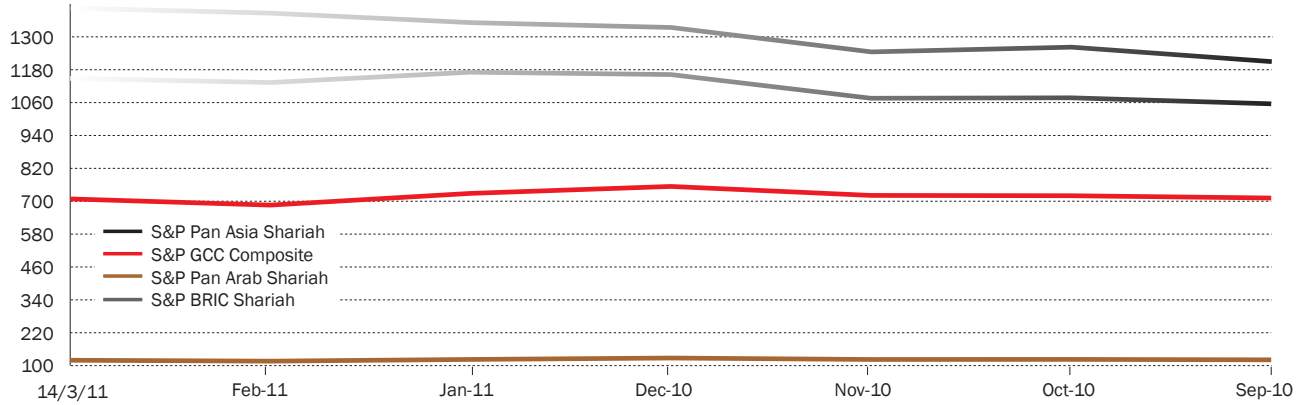
INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US Large Cap	916.18	-2.36	10.39	25.04	1.87	8.10	51.95
REDmoney Europe Large Cap	771.88	-3.36	11.90	20.70	-0.36	4.46	57.00
REDmoney Global Large Cap	835.32	-2.28	9.28	21.85	-0.24	10.10	63.61
REDmoney MENA Large Cap	590.47	5.22	-5.54	4.36	-5.07	8.76	53.28
REDmoney GCC Large Cap	601.26	5.69	-4.62	6.47	-4.86	12.00	64.03
REDmoney Asia ex. Japan Large Cap	800.74	-0.47	2.22	14.65	-4.05	15.57	87.79

INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US All Cap	967.98	-2.23	11.14	27.42	2.48	10.26	60.08
REDmoney MENA All Cap	602.04	4.04	-5.04	2.77	-4.86	4.32	44.48
REDmoney GCC All Cap	598.84	4.69	-4.64	3.82	-4.92	6.55	52.82
REDmoney Europe All Cap	797.60	-3.07	12.27	22.21	-0.00	7.21	64.90
REDmoney Global All Cap	887.38	-1.96	9.00	22.84	0.10	13.02	75.13
REDmoney Asia ex. Japan All Cap	899.00	-0.12	2.86	16.44	-2.32	19.79	107.16

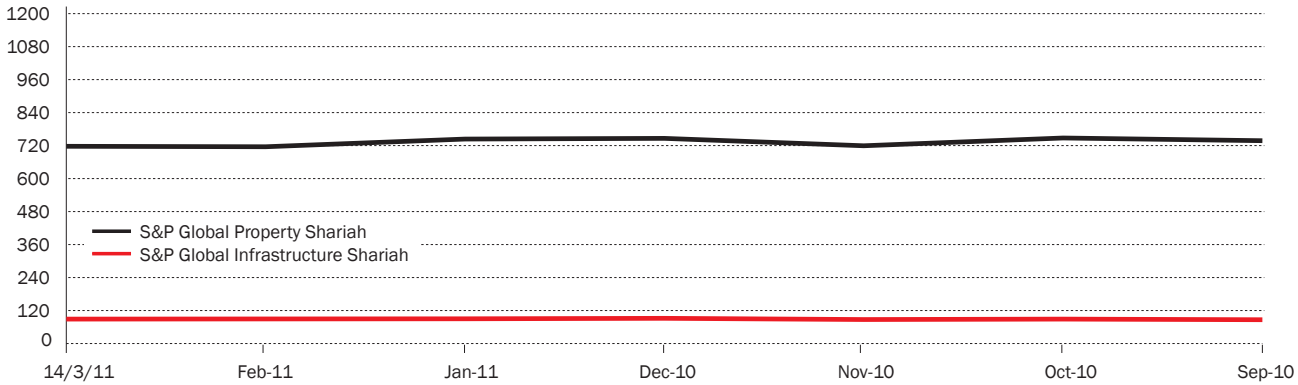
S&P Shariah Indices Price Index Levels



Index Code	Index Name	14-Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10	Sep-10
SPSHX	S&P 500 Shariah	1145.042	1175.593	1143.662	1116.185	1055.305	1055.737	1012.387
SPSHEU	S&P Europe 350 Shariah	1280.145	1332.904	1296.598	1284.601	1179.078	1243.62	1200.681
SPSHJU	S&P Japan 500 Shariah	954.061	1129.41	1104.465	1104.726	1032.02	1015.125	997.313



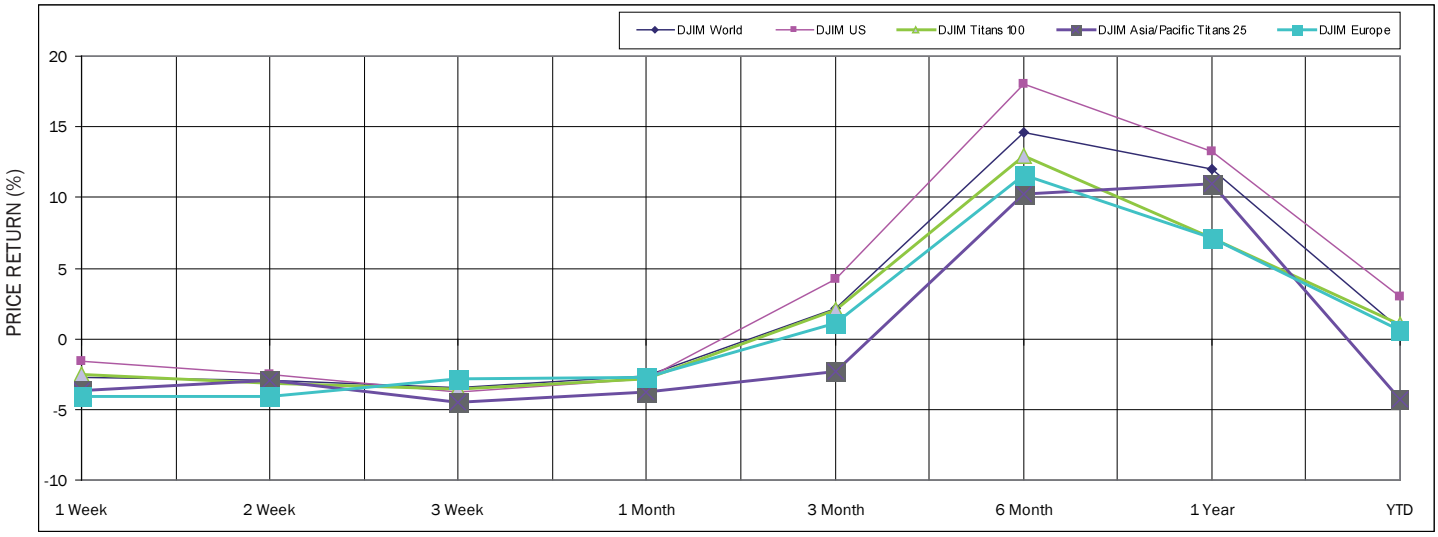
Index Code	Index Name	14-Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10	Sep-10
SPSHAS	S&P Pan Asia Shariah	1148.27	1133.3	1170.956	1162.323	1075.868	1077.471	1055.516
SPSHG	S&P GCC Composite Shariah	708.436	685.834	728.593	753.965	721.171	720.021	711.722
SPSHPA	S&P Pan Arab Shariah	119.567	116.293	122.54	127.698	122.361	122.657	121.1
SPSHBR	S&P BRIC Shariah	1409.164	1390.791	1356.222	1338.497	1249.391	1266.724	1213.917



Index Code	Index Name	14-Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10	Sep-10
SPSHGU	S&P Global Property Shariah	717.396	715.72	743.73	746.209	719.266	747.598	737.706
SPSHIF	S&P Global Infrastructure Shariah	88.872	89.602	89.978	91.68	87.253	88.875	86.53

Data as of the 14th March 2011

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-2.78	-2.99	-3.47	-2.63	2.18	14.57	12.03	0.72
DJIM US	-1.58	-2.53	-3.75	-2.84	4.19	18.02	13.25	2.98
DJIM Titans 100	-2.51	-3.2	-3.6	-2.84	2.08	12.91	7.09	1.02
DJIM Asia/Pacific Titans 25	-3.64	-2.94	-4.54	-3.76	-2.3	10.23	10.99	-4.3
DJIM Europe	-4.11	-4.04	-2.86	-2.78	1.08	11.63	7.14	0.55

*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	2464	17546.8	13789.66	5.6	1.1	415.41	0.007829	3.0124	0.000057
DJIM US	579	7437.58	7008.45	12.1	3.4	415.41	0.123095	5.9272	0.001756
DJIM Titans 100	100	7295.69	6506.8	65.07	44.75	415.41	13.371868	6.3842	0.205506
DJIM Asia/Pacific Titans 25	25	1130.45	744	29.76	26.38	75.12	13.371868	10.0975	1.797297
DJIM Europe	261	3308.03	2644.62	10.13	2.52	139.48	0.285326	5.2739	0.010789
DJIM GCC	114	195.41	83.06	0.73	0.28	9.24	0.024749	11.1266	0.029795
DJIM MENA	163	367.92	108.65	0.67	0.16	14.62	0.007829	13.455	0.007205
DJIM ASEAN	232	465.1	184.58	0.8	0.15	16.29	0.00232	8.8274	0.001257

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A CME Group Company

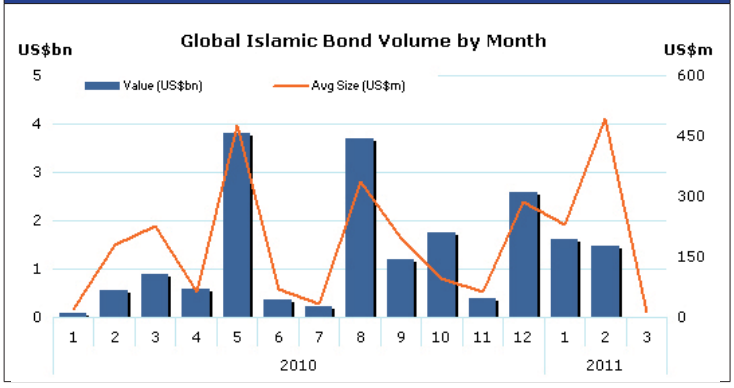
TOP 30 ISSUERS OF ISLAMIC BONDS *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Saudi Electricity Company	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	10.2	HSBC, Samba Capital
2	Danga Capital	Malaysia	Sukuk Musyarakah	Domestic market public issue; Foreign market private placement	1,700,000,000	2	9.3	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB Group, DBS
3	Cagamas	Malaysia	Sukuk	Domestic market private placement; Domestic market public issue	1,430,000,000	10	7.8	AmInvestment Bank, RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank, Standard Chartered Bank
4	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	7.2	CIMB Group, Maybank Investment Bank
5	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275,000,000	2	7.0	Maybank Investment Bank
6	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	6.8	HSBC, Barclays Capital, CIMB Group
7	GOVCO Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985,000,000	1	5.4	HSBC, RHB Capital, CIMB Group
8	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	884,000,000	1	4.8	HSBC, CIMB Group
9	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	792,000,000	2	4.3	CIMB Group, Citigroup
10	Qatar Islamic Bank	Qatar	Sukuk Ijarah Sukuk Murabahah	Euro market public issue	750,000,000	1	4.1	HSBC, Credit Suisse, QInvest
10	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750,000,000	1	4.1	Standard Chartered Bank, HSBC, Barclays Capital
12	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	1	2.7	Standard Chartered Bank, HSBC, CIMB Group, Citigroup
12	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500,000,000	1	2.7	Standard Chartered, HSBC, RBS
14	Government of Ras Al Khaimah	UAE	Legal issuer: RAK capital	Euro market public issue	393,000,000	1	2.1	RBS, Citigroup
15	Pembinaan BLT	Malaysia	Sukuk	Domestic market private placement	360,000,000	1	2.0	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
16	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	312,000,000	2	1.7	HSBC, Maybank Investment Bank, RBS
17	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.6	CIMB Group
18	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	280,000,000	13	1.5	CIMB Group
19	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	240,000,000	2	1.3	Standard Chartered, Bank Muamalat Malaysia
20	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195,000,000	1	1.1	HSBC, CIMB Group
21	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.0	AmInvestment Bank
22	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	0.9	CIMB Group
23	Pelabuhan Tanjung Pelepas	Malaysia	Issued under issuer's MYR1.	Domestic market public issue	167,000,000	1	0.9	RHB Capital, Maybank Investment Bank
24	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	0.9	CIMB Group, AmInvestment Bank, Maybank Investment Bank
25	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	1	0.9	Lembaga Tabung Haji, RHB Capital, CIMB Group
26	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	0.8	HSBC, CIMB Group
27	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	133,000,000	1	0.7	OCBC, Public Bank, Affin Investment Bank
28	Nomura Sukuk	Japan	Sukuk Ijarah	Euro market public issue	100,000,000	1	0.6	KFH
28	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk Murabahah	Euro market public issue	100,000,000	1	0.6	KFH, Citigroup
30	Gamuda	Malaysia	Sukuk Musharakah Sukuk Murabahah	Domestic market private placement	97,000,000	1	0.5	CIMB Group, AmInvestment Bank
	Total				**18,341,000,000**	**92**	**100**	

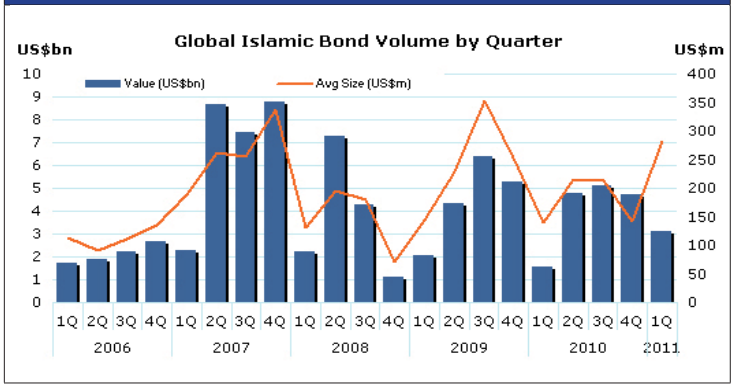
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
23rd Feb 2011	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	132,000,000	CIMB Group, AmInvestment Bank
8th Feb 2011	GOVCO Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985,000,000	HSBC, RHB Capital, CIMB Group
2nd Feb 2011	Pembinaan BLT	Malaysia	Sukuk	Domestic market private placement	360,000,000	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
27th Jan 2011	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500,000,000	Standard Chartere, HSBC, RBS
25th Jan 2011	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	884,000,000	HSBC, CIMB Group
10th Jan 2011	Padiberas Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	114,000,000	Standard Chartered, Bank Muamalat Malaysia
29th Dec 2010	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,192,000,000	Maybank Investment Bank
14th Dec 2010	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	159,000,000	HSBC, RBS, Maybank Investment Bank
10th Dec 2010	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	287,000,000	HSBC, CIMB Group
8th Dec 2010	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	400,000,000	RBS, Citigroup
3rd Dec 2010	Malaysia Airports Capital	Malaysia	Sukuk Murabahah	Domestic market public issue	476,000,000	CIMB Group, Citigroup
29th Nov 2010	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	133,000,000	OCBC, Public Bank, Affin Investment Bank
5th Nov 2010	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195,000,000	HSBC, CIMB Group
28th Oct 2010	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750,000,000	Standard Chartered Bank, HSBC, Barclays Capital
20th Oct 2010	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	Standard Chartered, HSBC CIMB Group, Citigroup
20th Oct 2010	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	161,000,000	AmInvestment Bank
30th Sep 2010	Qatar Islamic Bank	Qatar	Sukuk Ijarah Sukuk Murabahah	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 Group, AmInvestment Bank, Maybank Investment Bank
15th Sep 2010	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	AmInvestment Bank
30th Aug 2010	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	RHB Capital, Maybank Investment Bank

GLOBAL ISLAMIC BOND VOLUME BY MONTH



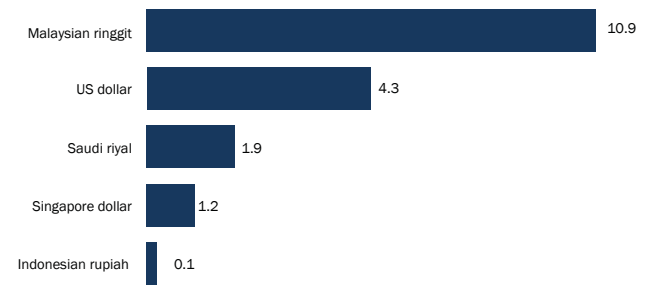
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



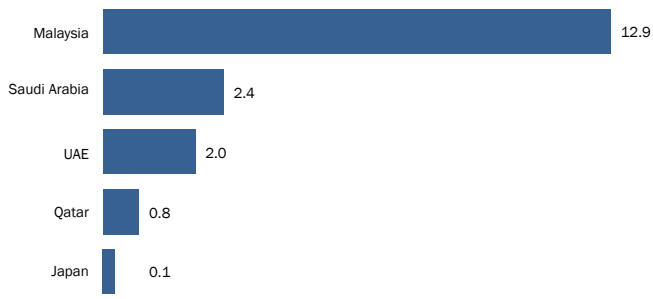
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB Group	4,529,000,000	48	24.7
2	HSBC	3,501,000,000	16	19.1
3	Maybank Investment Bank	2,517,000,000	23	13.7
4	AmInvestment Bank	1,102,000,000	12	6.0
5	Samba Capital	933,000,000	1	5.1
6	Standard Chartered Bank	808,000,000	8	4.4
7	RHB Capital	781,000,000	7	4.3
8	Citigroup	767,000,000	5	4.2
9	Barclays Capital	667,000,000	2	3.6
10	OCBC	530,000,000	3	2.9
11	RBS	522,000,000	4	2.9
12	DBS	363,000,000	1	2.0
13	QInvest	250,000,000	1	1.4
13	Credit Suisse	250,000,000	1	1.4
15	Bank Muamalat Malaysia	168,000,000	3	0.9
16	KFH	150,000,000	2	0.8
17	Lembaga Tabung Haji	131,000,000	3	0.7
18	Al-Rajhi Banking & Investment	122,000,000	2	0.7
19	Public Bank	44,000,000	1	0.2
19	Affin Investment Bank	44,000,000	1	0.2
21	Kenanga Investment Bank	33,000,000	1	0.2
22	Mitsubishi UFJ Financial Group	25,000,000	3	0.1
23	Malaysian Industrial Development Finance	19,000,000	4	0.1
24	Trimegah Securities	18,000,000	1	0.1
24	Bank Mandiri (Persero)	18,000,000	1	0.1
24	(Persero) Danareksa	18,000,000	1	0.1
27	EON Bank	12,000,000	1	0.1
28	Indo Premier Securities	11,000,000	1	0.1
29	OSK	9,000,000	2	0.1
	Total	**18,341,000,000**	**92**	**100**

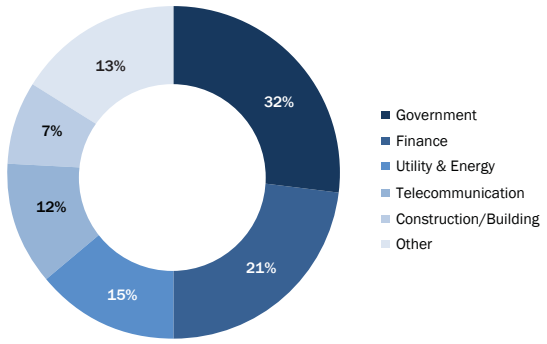
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



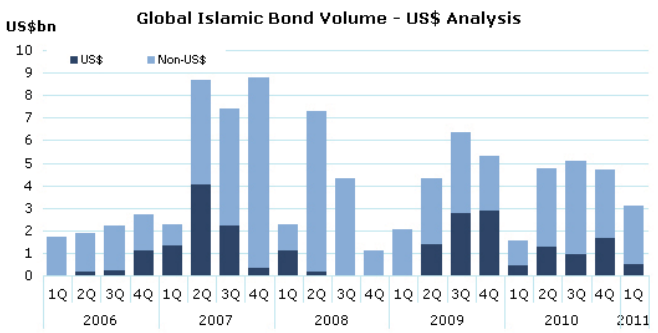
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



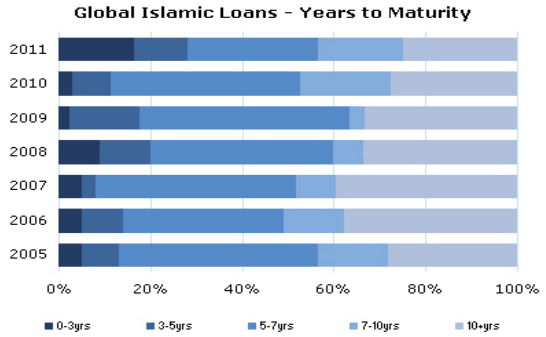
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



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



ALL DATA AS OF THE 14th MARCH 2011

SUKUK MANAGERS (12 months) MAR 2010 – MAR 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	27,718,000,350	118	59.7
2	CIMB	6,569,967,118	97	14.1
3	Malayan Banking	2,931,882,058	117	6.3
4	HSBC Banking Group	1,973,156,368	27	4.2
5	RHB Banking Group	1,146,544,735	27	2.5
6	AMMB Holdings	984,233,866	61	2.1
7	Malaysian Industrial Development Finance	859,508,378	194	1.9
8	Barclays Bank	566,666,667	2	1.2
9	Standard Chartered Bank	510,255,375	7	1.1
10	Bukhary Capital	405,562,190	6	0.9
11	Cagamas	377,521,973	15	0.8
12	Citigroup	349,974,912	4	0.8
13	Kuwait Finance House	200,000,000	2	0.4
14	Affin Holdings	183,016,625	16	0.4
15	EON Capital	179,715,957	57	0.4
16	Indonesia (Government)	172,097,265	6	0.4
17	OSK Holdings	162,614,404	19	0.4
18	RBS	159,113,250	2	0.3
19	Nomura	150,000,000	1	0.3
20	Samba Financial Group	133,333,333	1	0.3

SUKUK MANAGERS (3 months) DEC 2010 - MAR 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	6,507,125,850	25	49.9
2	Malayan Banking	1,986,846,785	54	15.2
3	CIMB	1,243,991,470	16	9.5
4	HSBC Banking Group	978,399,795	7	7.5
5	RHB Banking Group	408,816,685	8	3.1
6	Bukhary Capital	228,571,700	2	1.8
7	Standard Chartered Bank	208,308,245	2	1.6
8	Citigroup	174,974,912	2	1.3
9	Malaysian Industrial Development Finance	167,891,330	44	1.3
10	Indonesia (Government)	166,566,315	4	1.3
11	Samba Financial Group	133,333,333	1	1.0
12	AMMB Holdings	126,399,921	18	1.0
13	RBS	81,606,000	1	0.6
14	OCBC Bank	61,084,239	4	0.5
15	OSK Holdings	53,449,681	5	0.4
16=	Andalan Artha Advisindo Sekuritas	47,145,179	2	0.4
16=	Trimegah Securities	47,145,179	2	0.4
16=	Bank Permata	41,641,579	1	0.3
16=	Ciptadana Sekuritas	41,641,579	1	0.3
16=	Danareksa Sekuritas	41,641,579	1	0.3
16=	Kresna Graha Sekurindo	41,641,579	1	0.3

SUKUK ISSUERS (12 months) MAR 2010 – MAR 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	23,531,564,250	96	46.0
2	Malaysia (Government)	4,438,108,800	21	8.7
3	Perusahaan Penerbit SBSN Indonesia	2,019,555,790	8	4.0
4	Pengurusan Air SPV	2,002,481,940	6	3.9
5	Senai-Desaru Expressway	1,821,445,920	42	3.6
6	Pakistan, Islamic Republic of (Government)	1,594,481,152	3	3.1
7	Celcom Transmission (M)	1,342,937,400	4	2.6
8	Cagamas	1,282,571,730	16	2.5
9	Bank Indonesia	1,124,686,644	19	2.2
10	Govco Holdings	983,928,000	2	1.9
11=	ADIB Sukuk	750,000,000	1	1.5
11=	Qatar Islamic Bank	750,000,000	1	1.5
13	Danga Capital	621,408,000	1	1.2
14=	IDB Trust Services	500,000,000	1	1.0
14=	Emaar Sukuk	500,000,000	1	1.0
16	ESSO Malaysia	499,608,060	13	1.0
17	RAK Capital	400,000,000	1	0.8
18	Khazanah Nasional	367,252,800	1	0.7
19	Padiberas Nasional	364,357,251	4	0.7
20	Aman Sukuk	360,773,600	6	0.7

SUKUK ISSUERS (3 months) DEC 2010 - MAR 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	6,963,971,650	25	45.3
2	Senai-Desaru Expressway	1,821,445,920	42	11.8
3	Pakistan, Islamic Republic of (Government)	988,910,951	2	6.4
4	Govco Holdings	983,928,000	2	6.4
5	Perusahaan Penerbit SBSN Indonesia	963,662,475	3	6.3
6	Pengurusan Air SPV	884,231,100	3	5.8
7	Emaar Sukuk	500,000,000	1	3.3
8	RAK Capital	400,000,000	1	2.6
9	Aman Sukuk	360,773,600	6	2.3
10	Padiberas Nasional	235,428,851	3	1.5
11	Bank Indonesia	215,448,960	3	1.4
12	BMA International Sukuk	175,040,840	6	1.1
13	National Bank of Abu Dhabi	163,212,000	1	1.1
14	ESSO Malaysia	64,449,600	2	0.4
15	KNM Capital	64,094,745	6	0.4
16	Perbadanan Kemajuan Negeri Selangor	59,235,680	3	0.4
17	Goodway Integrated Industries	39,277,485	9	0.3
18	Hubline	36,069,155	3	0.2
19	TSH Sukuk Ijarah	32,827,450	2	0.2
20	Toyota Capital Malaysia	32,797,600	1	0.2

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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 14th MARCH 2011

LOAN MANDATED LEAD ARRANGERS (12 Months) MAR 2010 – MAR 2011

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Alinma Bank	1,350,573,846	2,792,101,042	3	18.3
2=	Credit Agricole	675,997,446	4,064,828,226	3	9.1
2=	Samba	675,997,446	4,064,828,226	3	9.1
4	HSBC	644,583,333	4,237,000,000	4	8.7
5	National Commercial Bank	631,193,862	3,975,221,058	3	8.5
6	Abu Dhabi Islamic Bank	561,678,136	745,179,136	3	7.6
7	Arab Bank	544,583,333	3,937,000,000	3	7.4
8	Saudi Hollandi Bank	499,583,333	3,712,000,000	2	6.8
9	WestLB	295,000,000	475,000,000	4	4.0
10	Al Hilal Bank	183,500,999	367,001,999	1	2.5
11	Standard Chartered Bank	120,333,333	435,000,000	2	1.6
12=	Bank Al-Jazira	119,083,333	1,429,000,000	1	1.6
12=	Riyad Bank	119,083,333	1,429,000,000	1	1.6
12=	Islamic Develop-ment Bank	119,083,333	1,429,000,000	1	1.6
12=	Al Rajhi Banking	119,083,333	1,429,000,000	1	1.6
12=	Saudi Investment Bank	119,083,333	1,429,000,000	1	1.6
17=	Masraf Al Rayan	100,000,000	300,000,000	1	1.4
17=	Royal Bank of Scotland	100,000,000	300,000,000	1	1.4
19=	Arab Banking	83,333,333	250,000,000	1	1.1
19=	Noor Islamic Bank	83,333,333	250,000,000	1	1.1
21=	BNP Paribas	45,000,000	225,000,000	1	0.6
21=	Gulf International Bank	45,000,000	225,000,000	1	0.6
23=	Deutsche Bank	37,000,000	185,000,000	1	0.5
23=	Mubadala GE Capital	37,000,000	185,000,000	1	0.5
23=	Development Bank of Singapore	37,000,000	185,000,000	1	0.5
23=	Abu Dhabi Commercial Bank	37,000,000	185,000,000	1	0.5
27	Citigroup	13,000,000	13,000,000	1	0.2

LOAN BOOKRUNNERS (12 Months) MAR 2010 – MAR 2011

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Alinma Bank	1,099,879,984	1,099,879,984	1	51.1
2	Abu Dhabi Islamic Bank	378,177,137	378,177,137	2	17.6
3	WestLB	325,000,000	475,000,000	4	15.1
4=	Deutsche Bank	92,500,000	185,000,000	1	4.3
4=	Standard Chartered Bank	92,500,000	185,000,000	1	4.3
6=	HSBC	75,000,000	225,000,000	1	3.5
6=	BNP Paribas	75,000,000	225,000,000	1	3.5
8	Citigroup	13,000,000	13,000,000	1	0.6

ISLAMIC LOANS RAISED (12 Months) MAR 2010 – MAR 2011

	Borrower	Country	Islamic Loan Amount (US$)
1	Marafiq	Saudi Arabia	2,283,000,000
2	Jubail 2 Refinery	Saudi Arabia	1,429,000,000
3	Arabian Centres	Saudi Arabia	1,099,879,984
4	Riyadh IPP	Saudi Arabia	616,049,284
5	Emirates Steel Industries	UAE	367,001,999
6	Majid Al Futtaim	UAE	310,109,178
7	Qatari Diar Real Estate	Qatar	300,000,000
8	Albaraka Turk Katilim Bankasi	Turkey	250,000,000
9	Ras Al Khaiman Ceramics	UAE	225,000,000
10	GMMOS	UAE	185,000,000
11	Emirates Trading Agency	UAE	100,000,000
12	Gulf Finance House	Bahrain	100,000,000
13	National Factory for Plastic	UAE	68,067,959
14	Bukhatir Investment	UAE	50,000,000
15	Adopen Plastik	Turkey	13,000,000

ALL DATA AS OF THE 14th MARCH 2011

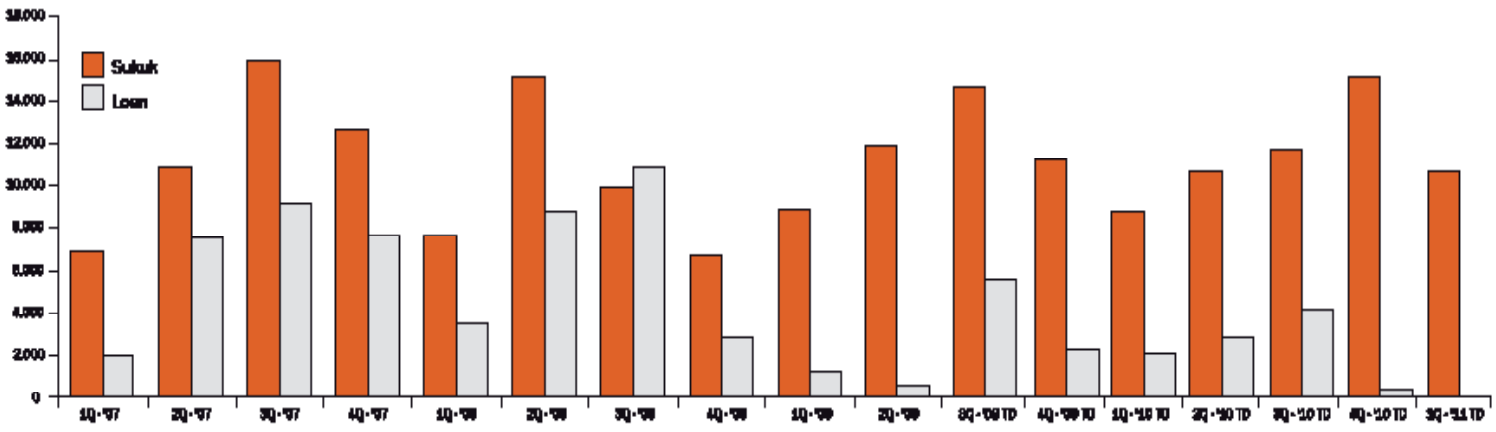
SUKUK BY COUNTRY	(12 Months)	MAR 2010 – MAR 2011
Country	**Volume Issued**	**Volume Outstanding**
Malaysia	42,766,923,872	23,840,227,537
Indonesia	3,240,519,009	2,489,343,144
Eurobond	3,000,000,000	3,000,000,000
Pakistan	1,594,481,152	1,594,481,152
Bahrain	312,985,720	254,599,940
US	125,000,000	125,000,000
Singapore	74,243,950	74,243,950
Saudi Arabia	-	-
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	MAR 2010 – MAR 2011
Country	**Volume (US$)**	**Market Share (%)**
Saudi Arabia	5,427,929,268	73.4
UAE	1,305,179,136	17.6
Qatar	300,000,000	4.1
Turkey	263,000,000	3.6
Bahrain	100,000,000	1.4

SUKUK BY INDUSTRY	(12 Months)	MAR 2010 – MAR 2011
Industry	**Volume Issued**	**Volume Outstanding**
Other financial	34,760,882,509	17,521,857,415
Sovereign	7,157,276,596	6,374,923,831
Agency	2,522,379,000	2,458,978,790
Manufacturing	1,863,904,845	1,109,803,441
Telephone	1,342,937,400	1,342,937,400
Banks	1,256,424,450	1,256,424,450
Transportation	594,228,000	447,280,530
Energy company	562,930,120	32,446,560
Electric power	372,633,000	216,991,000
Consumer goods	364,357,251	364,357,251
Service company	316,200,532	251,895,055
Gas distribution	-	-

LOANS BY INDUSTRY	(12 Months)	MAR 2010 – MAR 2011
Industry	**Volume (US$)**	**Market Share(%)**
Construction	2,608,000,000	35.3
Oil & Gas	1,614,000,000	21.8
Retail & Supermarkets	1,099,879,984	14.9
Utilities	616,049,284	8.3
Financial Services	400,000,000	5.4
General Manufacturing	367,001,999	5.0
Services	310,109,178	4.2
Real Estate	300,000,000	4.1
Chemicals, Plastics & Rubber	81,067,959	1.1

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



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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
May			
9th	IFN Roadshow Australia	Melbourne	REDmoney *events*
16th – 17th	7th Annual Middle East Project Finance Forum	Doha	Fleming Gulf Conferences
June			
8th	IFN Roadshow Thailand	Bangkok	REDmoney *events*
July			
7th – 8th	IFN Europe Forum	London	REDmoney *events*
25th	IFN Roadshow Pakistan	Karachi	REDmoney *events*
27th	IFN Roadshow India	Mumbai	REDmoney *events*
September			
20th	IFN Roadshow Korea	Seoul	REDmoney *events*
22nd	IFN Roadshow Japan	Tokyo	REDmoney *events*
October			
17th – 19th	IFN Asia Forum	Kuala Lumpur	REDmoney *events*
November			
1st	IFN Roadshow Turkey	Istanbul	REDmoney *events*
3rd	IFN Roadshow Egypt	Cairo	REDmoney *events*
8th	IFN Roadshow Canada	Toronto	REDmoney *events*
10th	IFN Roadshow New York	New York	REDmoney *events*
15th	IFN Roadshow Hong Kong	Hong Kong	REDmoney *events*
30th	IFN Roadshow Brunei	Brunei	REDmoney *events*

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Individual Subscription Rate: US$995/Year
Company-Wide Subscription Rate: US$4,495/Year

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Islamic Finance *news* Awards

Law

Poll 2011

LEADING LAWYERS 2011

Launched in 2011, the IFN Law Poll builds on the highly regarded IFN Leading Lawyers which was launched in 2008. Focusing on the law firms, rather than the individuals as with the Leading Lawyers, the IFN Law Poll provides an annual guide to which legal entities are recognized amongst their clients and peers as the best in certain categories

The purpose of this survey is to ascertain the individuals and the firms that are held in high regard in their respective fields within the Islamic finance industry. Survey participants were requested to take into account only those individuals they had, at some stage over the past 12 months, been directly involved with. Only those individuals with three or more votes will be named as a Leading Lawyer in each of these categories.

By participating in this survey, you are entitled to receive a FREE copy of the IFN Law Guide 2011 (July 2011) plus a 2 week full access to Islamic Finance *news* content – www.islamicfinancenews.com

Closing Date: Friday 29th April 2011

Contact Details			
Name		**Company**	
Business Email		**Phone**	

Categories	IFN Law Poll 2011	IFN Leading Lawyers 2011	
Asset & Fund Management	Law Firm :	Laywer name: Laywer name:	Law firm: Law firm:
Banking & Capital Markets	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Corporate & Commercial	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Cross Border	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Energy & Natural Resources	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Insolvency & Restructuring	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Litigation & Dispute Resolution	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Mergers & Acquisitions	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Offshore Finance	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Private Equity	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Project & Infrastructure Finance	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Real Estate & Property	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Structured Finance	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Takaful & ReTakaful	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Tax	Law firm :	Laywer name: Laywer name:	Law firm: Law firm:
Best Overall Law Firm	Law firm :		

Thank you for participating in the poll.

Results: The results will be announced on the 4th May issue in the IFN weekly newsletter and will be published in the IFN Legal Guide in July 2011.

Awards Ceremony: In recognition of the IFN Law Poll winners, an awards dinner ceremony will take place on the 7th July in London. This gala dinner will be held in conjunction with the IFN Europe Issuers and Investors Forum 2011 in the Grand Eastern Room, Andaz Hotel on Liverpoll Street. For more information, please contact **Geraldine Chan** at **geraldine.chan@redmoneygroup.com** or call +603 2162 7808.