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Lessons in liquidity

The impact of the global financial crisis has been so far reaching that even as signs of recovery though gradual emerge, the world is still looking to formulate frameworks and legislation to avoid repeating the same mistakes.

This is true especially in liquidity management. In response to the crisis, liquidity risk and its management have become more complex, leading to an array of preventive measures being discussed, drawn up and executed worldwide. These new regulations are a form of endorsement for the intricacies of the Islamic banking system, according to Eiger Trading Advisors. Their report asserts that Sukuk should provide a concrete answer to the missing link, that is, a global Islamic interbank market and the liquidity management it represents. The reality of the Sukuk market however, still leaves a lot to be desired.

Chris Oulton of Prime Rate Capital Management, concurs that the Islamic financial market has been awaiting the development of an overnight money market instrument. Oulton emphasizes the need for short-term cash to be invested in a Shariah compliant way, and traces the pros and cons of Commodity Murabahah, various Sukuk, and other developments, including the firm's Islamic Liquidity Fund.

Feedback from our readers on the issues of liquidity management and the role of the International Islamic Liquidity Management Corporation, featured in our Forum section, gives us more food for thought.

Other parties which could facilitate in the issues of liquidity and its management are of course the regulators. The Securities & Exchange Commission of Pakistan outlines the role of the regulator to ensure, through effective enforcement, that duties of Islamic financial institutions are exercised to the fullest. A regulator's role of course goes beyond enforcer to facilitator of the performance and growth of the industry as a whole. The various facets of that role are detailed in the report.

In terms of performance and growth, Turkey takes the spotlight this week. Having weathered a crisis of its own in 2001, and as a result of a series of measures taken in response, Turkey overcame the 2008 global financial crisis relatively better than most countries. The performance of Turkish banks last year and prospects for this year are outlined in a report by Bank Asya. Kuveyt Türk in its report assesses the Turkish Islamic finance space, and participation banking in particular, to see if the market there is saturated or still has room for more growth.

There certainly is ample room for growth in the Islamic finance markets in Russia. The Russian Mufti Council in its report brings us through the latest developments in that space, in particular the impending strategy report by the central bank to facilitate Islamic finance.

In fact, the phenomenal growth of Islamic finance need only be harnessed, a fact Bank Sarasin & Co would surely agree with. We cover Bank Sarasin's latest offerings in our IFN reports, along with QIB's financial standing, and the increase in potential M&A activities in Malaysia.

Bank AlJazira's US$267 million Sukuk is featured in our Termsheet, as is Dr Waleed AbdelMohsen Al-Wohaib, CEO of International Islamic Trade Finance Corporation in Meet the Head.

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MOVES

- **Central Bank of Turkey** appoints **Erdem Basci** as the 21st governor
- **Bank Negara Malaysia** reappoints **Dr Zeti Akhtar Aziz** as governor for another five-year term

AFRICA

Supporting bank funding

SUDAN: Central Bank of Sudan and the Islamic Development Bank have launched a microfinance project contributing US$14 million each.

The project is aimed at supporting Sudan's banks in providing larger funding and boosting economic development.

AMERICAS

Boost for Islamic finance

BERMUDA: The cabinet has expressed its support for a 2010 PwC report regarding opportunities for Bermuda in the Islamic finance securities, investment funds, re-insurance, Takaful and re-Takaful sectors.

The report mentioned that the present financial sector framework offers the same advantages for Islamic financial products and institutions as it does for conventional products.

It also explained that there are no major legislative impediments to launch Islamic financial products in the island.

ASIA

Hedging rules soon

INDONESIA: The central bank, Bank Indonesia (BI) and the National Shariah Council, are putting together hedging rules for the Islamic banking industry, expected to be issued by the end of this year.

Halim Alamsyah, deputy governor of BI said the rules have been formulated but have not been incorporated into the central bank's regulation framework. The country's Islamic banking industry will also need to meet several conditions in order to carry out hedging.

BI is also in discussions with the National Shariah Council on the country's rules for Tawarruq. However, the rules will not vary greatly from the present Tawarruq rules in other countries.

Meanwhile, the central bank will increase socialization efforts and introduce new regulations for the development of Islamic banking products and assets.

The central bank is also planning to ease the capital requirement for Islamic banking units which have plans to spin off to become fully fledged Islamic banks.

For this purpose, these Islamic units are allowed to deposit an initial capital of IDR500 billion (US$58 million) in installments over 10 years. The capital reduction incentive will become effective from this year through to 2023.

New Islamic equity fund

MALAYSIA: Investment management firm MAAKL Mutual has launched an Islamic equity small-cap fund, MAAKL-HDBS Shariah Progress Equity Fund to allow investors to invest in local Shariah compliant growth companies.

The equity fund, managed by Hwang-DBS Management, has an approved size of 600

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million units with an initial offer price of RM0.25 (8.30 US cents).

The fund comes with a minimum initial investment of RM1,000 (US$331) while the minimum additional investment is RM100 (US$33) and is available from the 20th April through to the 10th May.

Slight climb in profit

MALAYSIA: Bank Kerjasama Rakyat Malaysia's profit before tax and Zakat ended on the 31st March increased by 9.10% to RM444.50 million (US$147 million), due to a rise in financing income.

Gross income rose 16.10% to RM1.30 billion (US$430 million), while net income after profit distribution to depositors grew 1.30% to RM847.70 million (US$281 million), following growth in quality financing, deposits and improvement in asset quality.

Income from financing hit RM1.08 billion (US$358 million) compared with RM974.10 million (US$323 million), with 91.60% of the income coming from consumer banking, and 8.40% from commercial banking.

Assets climbed 21.60% to RM64.56 billion (US$21 billion), while return on assets stood at 3%.

Islamic REIT on hold

MALAYSIA: Axis REIT Management has postponed the listing of the world's largest Shariah compliant real estate investment trust (REIT) by a month, following the destruction of buildings in its portfolio due to the recent earthquake in Japan.

The earthquake has caused severe damage to two Japanese properties valued at JPY1.80 billion (US$21.80 million) which will be removed from the REIT's initial asset composition.

The removal will cause a reduction in the targeted amount from the listing, which was initially aimed at RM2.10 billion (US$696 million).

Selling 30% stake

MALAYSIA: Khazanah Nasional is planning to sell its 30% stake in Bank Muamalat Malaysia to Bank Islam Malaysia within this year.

Azman Mokhtar, managing director at Khazanah Nasional explained that Khazanah's stake in Bank Muamalat is a non-core holding.

The sale will help pave the way for a merger between Bank Muamalat and Bank Islam, in which Bank Islam will become a key shareholder.

Sukuk plan approved

MALAYSIA: The Securities Commission of Malaysia has approved Ranhill Power's planned Sukuk Musharakah issuance of up to RM800 million (US$267 million) in nominal value.

The Sukuk would have a tenor of up to 15 years and be issued in two tranches, according to Maybank Investment Bank, the lead arranger, principal advisor and lead manager on behalf of Ranhill.

The first RM300 million (US$100 million) Sukuk tranche will be guaranteed by Maybank Islamic, while the second RM500 million (US$167 million) will be guaranteed by Danajamin Nasional. Both tranches were assigned the rating of 'AAAIS(bg)' and 'AAAIS(fg)' respectively by Malaysian Rating Corporation.

Ranhill Power's parent, Ranhill, will use the proceeds from the Sukuk issuance to finance in full the redemption of US$220 million guaranteed notes, and to fund the finance service reserve account requirement, first guarantee fees payable and expenses in relation to the introduction of the Sukuk.

The funds will also be on-lent to Ranhill for reimbursement of advances made by Ranhill to Ranhill Engineers and Constructors to complete the construction of the Senai-Desaru Expressway.

Healthy profits

PAKISTAN: The Meezan Islamic Fund reported a net income of PKR898 million (US$10.64 million) for the nine months ended the 31st March 2011, providing a 34% return.

During the period, the fund's earnings per unit amounted to PKR10.25 (12.15 US cents) while net assets as at the 31st March grew to PKR4.38 billion (US$51.92 million).

Meezan Islamic Income Fund earned a net income of PKR222 million (US$2.63 million) in the same period, translating into an earnings per unit of PKR4.06 (5 US cents). The fund's net assets reached PKR2.74 billion (US$32.48 million) as at the 31st March.

The Meezan Cash Fund (MCF) and the Meezan Sovereign Fund (MSF) recorded a net income of PKR469 million (US$5.56 million) and PKR548 million (US$6.50 million) respectively in the nine months to the 31st March.

MCF provided an annualized return of 10.76% in the period under review and net assets amounted to PKR6.38 billion (US$75.63 million). MSF returned an annualized 11.15% while its net assets reached PKR9.49 billion (US$112.49 million).

In the same period, the Meezan Capital Protected Fund-I reported net income of PKR75 million (US$889,047) and earnings per unit of PKR5.97 (7 US cents). Its net assets as at the 31st March was PKR709 million (US$8.40 million).

Financing infrastructure

INDIA: The National Committee on Islamic Banking has urged the chief minister of Bihar, Nitish Kumar to participate in the benefits of Islamic finance for the state's infrastructure development.

H Abdur Raqeem, convener of the committee advised the chief minister to take advantage of the liquidity in the Gulf nations, citing Kerala and Maharashtra as states which have attracted Islamic investments from the Gulf.

Bahrain based Islamic investment bank Gulf Finance House is investing US$10 billion in Maharashtra to set up an integrated economic development zone near Mumbai, and the Keralan state government has initiated an Islamic non-banking financial company along with private investors for infrastructure development.

Islamic finance education hub

MALAYSIA: Malaysia is expected to emerge as a global cluster for Islamic finance and banking education within three to five years with the establishment of the Association for Islamic Finance Advancement (AIFA).

AIFA will be the main accreditation body for Islamic finance programs globally and will

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ensure the quality, industry relevance and global recognition of Islamic finance education and its related areas.

The target is to have 55,000 local students and 28,000 foreign students by 2020 in Islamic finance and business education in order to reach the global top three position.

The International Islamic University Malaysia has been entrusted to lead an initiative to develop and position Malaysia into one of the world's leading Islamic finance education hubs through AIFA, which received RM3.17 million (US$1.05 million) from the government.

Sukuk rebound

MALAYSIA: The ringgit-denominated Sukuk market saw significant interest in the first quarter of 2011, with the Securities Commission of Malaysia approving five Sukuk issuances amounting to RM7.77 billion (US$2.59 billion).

This is a huge contrast to the two approved during the same period last year, which amounted to only RM590 million (US$196 million).

US$5.90 million financing

MALAYSIA: Maybank Islamic has entered into a financial facility agreement with media conglomerate Utusan Melayu (Malaysia) to provide RM17.63 million (US$5.9 million) via Commodity Murabahah term financing-i.

The financing will be used to purchase press equipment and additional printing machines.

The funds will also be used to finance the infrastucture, mechanical, electrical and utilities work costs for Utusan's printing plants in the states of Johor and Terengganu.

Sukuk holding limit upped

PAKISTAN: The central bank, State Bank of Pakistan has increased the maximum holding limit of all Sukuk Ijarah for Islamic banks and conventional banks with Islamic banking divisions from 25% to 35% of the issue.

The decision was taken to avoid over concentration and excess liquidity among the banks, and to allow the government to meet its increasing borrowing needs in the long-term.

However for conventional banks which do not have Islamic banking branches, the holding limit will remain at 25%.

Preventing collapse

AFGHANISTAN: Kabul Bank, which provides Shariah compliant financing via its Islamic banking department, will be split into separate "good" and "bad" banks in a bid to save it from collapse.

Abdul Qadir Fitrat, governor of Da Afghanistan Bank, the central bank, said the "good bank" will hold customer deposits while the "bad bank" will attempt to recoup money lost from bad debts which were given out against banking regulations.

The debt will be reclaimed and given to the central bank to repay loans it issued to Kabul Bank.

The ministry of finance will also take ownership of Kabul Bank for three months before selling it. In September 2010, the central bank took over Kabul Bank following investigations into suspected financial irregularities.

First Sukuk tranche

MALAYSIA: Local telecommunication firm Telekom Malaysia has issued a RM150 million (US$50 million) Islamic commercial paper (ICP).

The Islamic paper was the first Sukuk tranche, issued under the proposed ICP program and Islamic medium-term notes valued at RM2 billion (US$668 million).

Steady growth

PAKISTAN: Total assets of the Islamic banking industry increased by 30% to PKR477 billion (US$5.7 billion) in 2010, said the central bank, State Bank of Pakistan.

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Non-performing finances for Islamic banks grew 38.20% to PKR13.80 billion (US$164 million), while investments rose 96% to PKR158 billion (US$1.90 billion), following the issuance of a PKR89 billion (US$1.10 billion) Sukuk Ijarah last year.

Financing climbed 18% to PKR180 billion (US$2.10 billion), due to a seasonal uptake in credit.

However, Islamic banks' profitability remained considerably lower than the industry average. The return on assets and return on equities stood at 60 basis points and 5.20%, respectively last year, significantly lower than the industry average of 1% and 9.80%.

In the fourth quarter of 2010, Islamic banks' share of net investment and financing rose from 4.50% to 6.20%. Investment and financing activity posted a 49.80% growth, following a seasonal uptake in credit.

The central bank said the largest share of Islamic financing went to the textile sector with a 22% growth, followed by 17% for individuals and 7% to chemical and pharmaceutical industries.

US$50 million investment

KAZAKHSTAN: Private equity fund manager CapAsia via its Islamic Infrastructure Fund (IIF) has entered into an agreement to provide US$50 million in equity capital to Kazakhstan's Central Asian Power and Energy Company (Capec).

Dr Johan Bastin, CEO of CapAsia, said the investment marks the company's first venture into the Central Asian region. Proceeds of the IIF's equity investment will be used to support Capec's heat and power generation and distribution facilities.

Financing for laptops

PAKISTAN: Meezan Bank and New Horizon have launched a new financing product, Laptop Ease, that will enable Meezan Bank's customers to purchase only Hewlett-Packard laptops, via installments.

The financing product comes with repayment periods ranging from three to 24 months.

Customers will not be charged any profit for the three or six month installment plan.

Leading Islamic markets

MALAYSIA: Bursa Malaysia, the country's bourse should look at merging with stock exchange operators from the OIC and take the lead as an Islamic finance capital market, said Rushdi Siddiqui, global head of Islamic finance and OIC countries at Thomson Reuters.

Stock exchanges in countries such as Pakistan, Kazakhstan, Turkey, Egypt, Nigeria, the UAE and Saudi Arabia could be the ideal internalization partners for Bursa as they are early, emerging or established Islamic finance hubs.

A linkage to Bursa would allow the stock exchanges to compress the learning curve related to products and regulations, added Rushdi.

He said Bursa could eventually become the equivalent of the London Stock Exchange (LSE), putting it on firmer footing in the future to approach the LSE for a merger.

EUROPE

Foreign alliances

TURKEY: Albaraka Türk is discussing with two banks to establish strategic partnerships in Albania as well as Bosnia and Herzegovina.

Albaraka seeks to enter into these collaborations through the Islamic Development Bank, which has an 8% stake in the bank.

GLOBAL

Adherence to Basel III

GLOBAL: The Union of Arab Banks has issued a circular urging the Islamic banking industry to adhere to Basel III in an effort to follow international standards and rules regarding transparency and capital adequacy.

It also recommended that Shariah supervisors of Islamic banks be elected by shareholders to separate the board of directors from its Shariah council and promote transparency in the performance of the religious authority.

The union said the regulatory system for Islamic banks should also implement new and stricter monitoring mechanisms, while the industry as a whole should focus on introducing quality and innovative products and services.

New suitors emerge

GLOBAL: Carlyle Group and TPG Capital are reportedly in talks to launch a joint bid to buy Abu Dhabi Commercial Bank's (ADCB) 25% stake in Malaysia's RHB Capital.

Carlyle and TPG, both private global investment firms, have engaged an investment bank to advise them on the potential offer. ADCB's interest in RHB Capital is valued at US$1.5 billion.

Reports have also named DBS Group and the Australia and New Zealand Banking Group as parties possibly interested in the Malaysian bank, which owns RHB Islamic Bank.

(See IFN Report on page 12)

Paving the way to recovery

GLOBAL: The Islamic finance sector is gradually building momentum across the world and may lead the re-emergence of the global financial industry from the recent economic crisis, said Richard Thomas, CEO of Gatehouse Bank.

However, Thomas said the industry needs a level playing field to achieve its potential in helping the world economy, as it has been difficult to compete with conventional banks which have been underpricing risk through excessively cheap debt.

He also added that competition between Islamic and conventional banks has to be fair in the context of pricing and taxation.

MIDDLE EAST

Profit leaps 105%

QATAR: Al Khalij Commercial Bank's net profit for the first quarter ended on the 31st March has risen by 105% to QAR119 million (US$33 million).

Net operating income increased 40% to QAR231 million (US$63 million), while total shareholder equity reached QAR5.13 billion (US$1.40 billion).

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Financial investments increased 23% to QAR8.68 billion (US$2.40 billion), while customer deposits climbed 24% to QAR9.28 billion (US$2.60 billion).

Sensational win for Nakheel

UAE: The Dubai World Tribunal has ruled that Nakheel can recover up to AED192 million (US$52.20 million) it paid in advance for cancelled construction contracts hit by the Middle East property crash.

Nakheel received advance payment guarantees from contractors Nurol and Al Shafar General Contracting. The two contractors then asked the tribunal for a restraining order against Nakheel from cashing in the guarantees which were issued by local banks.

The tribunal's rulings are not subject to appeal.

First non-insurance IPO

UAE: Emirates Islamic Bank, National Bank of Abu Dhabi, Abu Dhabi Commercial Bank and First Gulf Bank have been mandated to manage Eshraq's initial public offering scheduled for the 1st May, in what will be the first non-insurance IPO in the UAE in two years.

Eshraq, a property developer, is planning to raise AED825 million (US$224.60 million) by offering 55% of its capital, with shares initially priced at AED1 (27 US cents), said Dr Sulaiman al Dhalaan, its managing director. The company has AED1 billion (US$272 million) in capital.

However, investors will be allowed to pay only 25% for the shares initially, and the balance when construction benchmarks are met, said Dr Sulaiman.

The company plans to start construction of two towers at its Marina Rise project, a residential and office tower development on Reem Island near Abu Dhabi in five weeks. It is also developing a project in Abu Dhabi and a residential apartment development in Dubai.

Shares trading comeback

UAE: Islamic mortgage provider Tamweel will resume trading its shares on the Dubai Financial Market this week.

Tamweel said it has applied to the Securities Commodities Authority for the resumption of trading of its shares.

The firm stopped trading its shares in November 2008, following the UAE government's announcement to merge Tamweel with Amlak Finance, which did not materialize.

US$10 billion debt restructure

UAE: Dubai Group is in the early stages of discussing with creditors to restructure its US$10 billion of liabilities, up from the previously announced US$6 billion.

The liabilities include US$6 billion of bank debt and US$4 billion owed to other investors.

Dubai Group had in January set up two creditor committees to speed up the restructuring. The firm also has an outstanding US$1.5 billion Murabahah Islamic financing facility due in August.

Revised mortgage policy

UAE: Emirates Islamic Bank has revised its home mortgage policy to enable more customers to own houses.

The bank will now offer a reduced mortgage financing rate of 5.45%, introduce new market segments and extend payment installments for employees based on their salary.

Phenomenal profit

SAUDI ARABIA: Bank AlJazira has reported a preliminary first quarter 2011 net profit of SAR62 million (US$16.54 million), 377% higher than in the same period in 2010.

The bank said the increase in profit was due to higher income from its Murabahah revenues, banking charges and commissions as well as a decrease in operating expenses.

Total operating income however declined 10% year-on-year to SAR276 million (US$73.61 million) while net special commission income rose 9% to SAR183 million (US$48.81 million).

Hit by provisions

UAE: United Arab Bank reported a net profit of AED61 million (US$16.61 million) for the first quarter of 2011, 6.80% lower than the previous corresponding period last year due to higher provisions.

The bank booked AED20 million (US$5.44 million) in provisions in the first quarter of this year against AED10 million (US$2.72 million) in first three months of 2010.

Total operating income however rose 10% year-on-year to AED125 million (US$34.03 million).

Murabahah note

UAE: Abu Dhabi Islamic Bank has launched its capital protected Soft Commodity Note which will allow investors to obtain profits based on the price performance of three commodities, cotton, corn and sugar.

The Murabahah based note will enable investors to obtain a maximum upside return of up to 18% over two years with an annual payout.

The minimum subscription is US$30,000, based on a first come first served basis and is available until the 19th May.

Smaller profit

UAE: Finance House recorded a net profit of AED29.30 million (US$7.98 million) for the first quarter of 2011, lower than AED32.10 million (US$8.70 million) in the same period last year.

Customer deposits went up 30% to AED1.59 billion (US$433 million), while total assets climbed 33% to AED3.22 billion (US$877 million).

However, total operating income stood at AED52.70 million (US$14.35 million), marginally lower than AED53 million (US$14.40 million) in 2010.

Optimistic results

UAE: Sharjah Islamic Bank reported a 3.70% year-on-year increase in its first quarter net profit to AED70 million (US$19.06 million).

Total assets rose 2.80% to AED17.10 billion (US$4.66 billion) as net customer receivables increased 6.30% to AED10.30 billion (US$2.80 billion) and customer deposits grew 7.30% to AED11.10 billion (US$3.02 billion).

Oversubscribed by 400%

BAHRAIN: The Central Bank of Bahrain's monthly issue of Sukuk Al-Ijara was oversubscribed by 400%.

The BHD10 million (US$27 million) issuance received subscriptions worth BHD40 million (US$106 million).

The expected return on the issuance that began on the 21st April 2011 and matures on the 20th October 2011 is 1.35%.

Profit slides 26.90%

KUWAIT: Kuwait Finance House's net profit dropped by 26.90% to KWD22.60 million (US$82 million) in the first quarter compared to KWD30.90 million (US$112 million) in the same period last year.

The drop follows an increase in precautionary provisions, despite an increase in assets, deposits and revenue.

Assets climbed 9% to KWD12.80 billion (US$47 billion), while deposits rose 15% to KWD8.20 billion (US$30 billion). Shareholders' equity also increased 4% to KWD1.26 billion (US$4.60 billion).

Fund launch called off

UAE: Ajman Bank has cancelled its plan to launch a real estate fund, citing difficult market conditions.

Profit up 27%

UAE: National Bank of Abu Dhabi posted a 27% increase in net profits for the first quarter ended on the 31st March to AED927 million (US$252 million).

Operating income went up 6.20% to AED1.88 billion (US$512 million), while net income from Islamic financing contracts for the quarter rose 11.20% to AED1.37 billion (US$373 million).

However, non-interest income fell 5.60% to AED503 million (US$137 million).

Double financing

IRAN: The International Islamic Trade Finance Corporation (ITFC), an affiliate of the Islamic Development Bank, has agreed to provide US$70 million in financing to two Iranian firms.

The firms, Behshahr Industrial Development Company and Barez Tire and Rubber Manufacturing Company, will each receive US$35 million from the ITFC.

Profit distribution

UAE: Tamweel Sukuk has announced a periodic profit distribution of AED12 million (US$3.30 million) for its AED1.1 billion (US$300 million) trust certificates due 2013 from the 21st April through to the 20th July 2011.

The distribution is based on a three-month EIBOR 2.06%.

Slight increase in profit

QATAR: Masraf Al Rayan posted an 8.67% increase in its first quarter net profit to QAR328 million (US$90 million).

Total assets rose 49.70% to QAR42.20 billion (US$12 billion), while financing activities went up 29.10% to QAR26.50 billion (US$7.30 billion).

Customer deposits grew 56.50% to QAR33.70 billion (US$9.30 billion), while total shareholder equity climbed 20.60% to QAR7.45 billion (US$2.10 billion).

Significant profit increase

QATAR: Qatar First Investment Bank reported a 15-fold increase in its net income to US$22.80 million in 2010.

Total income almost doubled to US$170.67 million, while non-banking revenue more than doubled to US$34.48 million.

Aircraft leasing

BAHRAIN: Islamic investment bank Capital Management House, in partnership with Novus Aviation Services and Muzun Partner, has acquired a Boeing 777-200ER airliner

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from Emirates Airlines through a leasing agreement.

Under the deal, the aircraft will be leased back to Emirates Airlines for a six year-term.

The lease agreement will be managed by Geneva based Novus Aviation Services, an aircraft sourcing, trading and leasing services provider.

Financing collaboration

SAUDI ARABIA: Alinma Bank has signed an agreement with Deutsche Gulf Finance to strengthen joint real estate financing.

The deal will increase private home ownership through long-term Islamic financing solutions.

Deutsche Gulf Finance is a joint venture Shariah compliant home financing company which is 40% owned by Deutsche Bank, and 60% by Saudi investors.

Bringing back interest

SAUDI ARABIA: The proposed revision in Saudi Arabia's mortgage financing law is expected to spark renewed interest in the property market, according to Nick MacLean, managing director of CB Richard Ellis (Middle East), a real estate advisory firm.

MacLean added that the changes will have a significant impact on Saudi Arabia's residential market, as it will encourage home ownership and boost property development.

Solid asset growth

SYRIA: Al Baraka Bank Syria's total assets ended on the 31st December 2010 increased by 103% to US$108 million.

Total deposits, including unrestricted investment accounts reached US$58 million, while finance and investment portfolio amounted to US$55 million.

Investments through Wakalah and Mudarabah touched US$32 million.

Possible Sukuk cancellation

YEMEN: Yemen is likely to cancel a YER25 billion (US$116 million) Sukuk issuance said Kamal Al-Rabie, director of Islamic Sukuk at the Central Bank of Yemen.

Kamal added the decision will be taken if local banks do not have sufficient liquidity, following cash withdrawal by customers during the recent political crisis.

The central bank also postponed the issuance of a one-year Islamic bill to the 1st May.

The two Islamic bonds were part of a one-year YER100 billion (US$465 million) Sukuk introduction program to fix the country's deficit.

US$120 million Sukuk

JORDAN: Al-Rajhi Cement Holding has issued a seven-year JOD85 million (US$120 million) Sukuk on behalf of its Jordanian unit, Al-Rajhi Cement–Jordan.

According to Capital Investments, the manager and arranger of the Sukuk, the Sukuk was subscribed by Islamic and commercial banks.

The Islamic banks were Islamic International Arab Bank and Arab Islamic Bank.

Profit soars

KUWAIT: Shariah compliant ALAFCO Aviation Lease and Finance Company's net profit for the first half of its financial year, which ended on the 31st March 2011, has risen five times to KWD25.40 million (US$92 million).

Total revenue jumped 39% to KWD25.90 million (US$94 million) while total assets increased 25% to KWD574.30 million (US$2.08 billion).

Shareholders' equity climbed 22% to KWD121.70 million (US$442 million).

Profit down

UAE: First Gulf Bank recorded a 4.80% drop in its first quarter net profit to AED875 million (US$238 million).

Core banking revenues rose 8% to AED1.58 billion (US$430 million), while Islamic financing income went up 10% to AED1.14 billion (US$310 million).

Provisions dropped 7% to AED459 million (US$125 million).

Enhancing security

UAE: Emirates NBD, in partnership with Visa and Mastercard, has launched DoubleSecure, a service designed to boost the security of Emirates NBD credit and debit cards.

The service enables Emirates NBD cardholders to use a personal password to protect online transactions.

Gradual recovery

UAE: Mashreqbank expects its retail non-performing loans and financing to improve this year after bad debt peaked in 2010, said Douglas Beckett, its head of retail banking.

He added that the improvement is seen despite continued challenges expected this year in Dubai's retail banking sector.

The region's banking sector had been impacted by the recent global financial crisis, leading to tightened financing conditions and rising provisions which effected banks' profitability.

ASIA

Exploring opportunities

MALAYSIA: Great Eastern Takaful will start offering Takaful products in Indonesia in the third quarter and expects to launch its business in Singapore next year.

According to Mohamad Salihuddin Ahmad, its CEO, the company will initially offer its products through an Islamic window and start a distribution channel to focus on Java and Sumatra.

The Takaful operator also seeks to tap Middle Eastern wealth in Singapore, starting from the first quarter of 2012, through customers from its subsidiary, Bank of Singapore, and its parent, OCBC Bank.

Protection system

MALAYSIA: The Malaysia Deposit Insurance Corporation (PIDM) will continue to focus on developing infrastructure to effectively administer the Takaful and Insurance Benefits Protection System (TIPS), which includes building risk assessment and monitoring activities.

Better known as Perbadanan Insurans Deposit Malaysia, PIDM provides protection for Takaful certificate and insurance policy owners against loss of eligible Takaful or insurance benefits should a Takaful or insurer member fail, based on the coverage and limits provided by TIPS. TIPS was implemented on the 31st December last year as part of the government's initiative to enhance financial consumer protection.

According to Jean Pierre Sabourin, CEO of PIDM, protection is provided automatically, no application is required, and there is no charge to Takaful certificate and insurance policy owners.

Based on the current limit and scope of coverage, over 95% of all policy owners will be protected, added Sabourin.

Positive growth

MALAYSIA: Malaysia's Takaful industry is making similar growth progress as the Islamic banking and capital market sectors, according to the central bank, Bank Negara Malaysia's 2010 Financial Stability Report.

The industry experienced a compound average growth rate of 27% growth in terms of net contributions between 2005 to 2010, with Family Takaful driving the growth at 28% to dominate more than 80% of last year's total Takaful market.

In the same year, aggregate excess income over outgo for the Life and Family Takaful industry climbed 12.10% to RM14.10 billion (US$4.70 billion), while General Takaful operating profits increased 3.50% to RM2.20 billion (US$734 million).

MIDDLE EAST

Premiums to stabilize at 20%

UAE: Noor Takaful is projecting for its gross premium income to rise by 20% to reach more than AED200 million (US$54 million) this year, after nearly doubling it in 2010.

Parvaiz Siddiq, its CEO said growth should stabilize to that level this year, adding that the competitive landscape remains challenging, with nine companies providing Takaful, and over 50 firms providing conventional insurance.

However, he added that there would not be much takeover activity in the industry in the near future as companies are small firms with limited capitalization, and consolidation would be difficult.

Meanwhile, the Takaful operator has signed an agreement with the consulate general of Kuwait in Dubai to provide medical Takaful coverage for 750 Kuwaiti students in UAE universities.

Focus on Takaful

UAE: Local insurers should focus on the Takaful sector for more growth opportunities, as it is one of the areas that the UAE can emerge as the leader, according to a Business Monitor International report.

The report added that local insurance firms are unable to compete globally with multinational firms, as they have limited access to resources.

Distributor partnership

UAE: Takaful Emarat has announced its partnership with Reliance Asset Management (Malaysia) (RAMMy), the Islamic asset management arm of Reliance Capital Asset Management India, to offer Shariah compliant products to the Takaful operator's clients in the UAE.

As part of the collaboration, Takaful Emarat will offer three Shariah compliant funds managed by RAMMy, including WSF Reliance Global Shariah Growth Fund, Reliance India Shariah Growth Fund, and the proposed Shariah Equity Growth Fund investing into China and India.

Slide in profit

QATAR: Al Khaleej Takaful Insurance & Reinsurance Company recorded a 10% fall in its first quarter net profit to QAR44.01 million (US$12 million), as total expenses grew faster than income.

Total investment and other income fell 4% to QAR54.88 million (US$15 million) as compared to total expenses, which climbed by 30% to QAR10.87million (US$3 million).

General and administrative costs grew 1% to QAR7.77million (US$2.10 million) with a QAR2.42 million (US$665,000) deficit from its Takaful operations.

As for income, Wakalah rose 19% to QAR15.44 million (US$4.2 million), rental climbed by 12% to QAR1.83 million (US$503,000), other income by 30% to QAR100, 000 (US$27,457) and QAR21.33 million (US$5.90 million) realized gains from sale of fixed assets.

ASIA

Solid closure

MALAYSIA: RAM Rating Services has assigned the final short- and long-term ratings of 'P1' and 'AAA' to Telekom Malaysia's proposed Islamic commercial papers and Islamic medium-term notes with a total combined limit of RM2 billion (US$665 million).

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

Steady ground

MALAYSIA: RAM Rating Services has reaffirmed the 'AAA' rating of Hijrah Pertama's RM2.93 billion (US$798 million) Islamic stapled income securities (ISIS) with a stable outlook.

The firm is established by Telekom Malaysia (TM) as a special purpose vehicle to refinance borrowings taken on to complete the privatization of Celcom Axiata.

The rating is based on the ISIS structural features and parties involved with the transaction, TM and Hijrah Pertama.

MIDDLE EAST

Position sustained

QATAR: Capital Intelligence has affirmed Qatar Islamic Bank's long-term and short-term foreign currency ratings at 'A' and 'A2' respectively.

The ratings are based on the bank's intrinsic financial strength.

Improved standing

UAE: Standard & Poor's Ratings Services (S&P) has upgraded its long-term counterparty credit rating to 'BBB+' from 'BBB' on Sharjah Islamic Bank.

The upgrade is based on the bank's strong financials, improved liquidity and funding profile. S&P has also affirmed the 'A-2' short-term counterparty credit rating. The outlook is stable.

Triple affirmation

UAE: Fitch Ratings has affirmed Tourism Development and Investment Company's (TDIC) long-term issuer default rating (IDR) and senior unsecured rating at 'AA'. It has also affirmed TDIC's short-term IDR at 'F1+'. The long-term IDR carries a stable outlook.

The affirmation affects both TDIC Finance's global medium-term note program with US$1 billion of outstanding notes and TDIC Sukuk's Islamic bond program with US$1 billion of outstanding trust certificates.

The moves were based on TDIC's ties to Abu Dhabi.

Banking on its strengths

UAE: Fitch Ratings has affirmed Union National Bank's long-term issuer default rating (IDR) at 'A+' with a stable outlook, short-term IDR at 'F1', individual rating at 'C', support rating at '1', support rating floor at 'A+' and senior unsecured debt at 'A+'.

The IDRs and support rating are based on the UAE authorities' support, while the individual rating reflects the bank's satisfactory capital adequacy and liquidity.

MOVES

CENTRAL BANK OF TURKEY

TURKEY: Central Bank of Turkey has appointed Erdem Basci as its new governor, replacing Durmuş Yılmaz.

Erdem was previously its deputy governor.

BANK NEGARA MALAYSIA

MALAYSIA: The central bank, Bank Negara Malaysia has reappointed Dr Zeti Akhtar Aziz as its governor for a five-year term, effective the 1st May.

Qatar Islamic Bank first quarter results send mixed signals

The strength of Qatar Islamic Bank's (QIB) financial results for the first quarter ended the 31st March 2011 belies some questionable short-term trends, the main issue being a shrinking financing portfolio.

In the first quarter the bank, which is 9% owned by the Qatar Investment Authority, posted a 6.90% year-on-year growth in net profit to QAR320.81 million (US$88.08 million), mainly due to higher income from financing and investing. Financing activities grew marginally on a year-on-year basis to QAR24.74 billion (US$6.79 billion) in the first quarter of this year from QAR24.01 billion (US$6.59 billion). However, the portfolio shrank 15.70% from December 2010's balance of QAR29.35 billion (US$8.06 billion).

"The dramatic decline in financing is difficult to explain, although it could only be temporary," Raj Madha, an analyst at Rasmala Investment Bank (Rasmala) told Islamic Finance *news*.

Following the slowdown in financing and due to increasingly unclear guidance from QIB's management, Rasmala has lowered its 2011 net profit forecast for QIB to QAR1.38 billion (US$378.89 million) from QAR1.58 billion (US$433.80 million) previously. Its forecast of 18% for QIB's financing growth this year may also be in for a downgrade.

Meanwhile, the bank also reported 25.04% less net commission and fee income to QAR59 million (US$16.19 million) in the first quarter of 2011 from the previous corresponding period last year. This was however, offset by higher income from investing activities, which surged over 1,000% to QAR124.29 million (US$34.13 million) in the first quarter from the same period in 2010.

However, there was an increase in impairment losses, amounting to QAR28 million (US$7.69 million) for receivables from financing activities in the first quarter this year compared to none in the same period last year. Impairment losses on financial investments rose 23.46% year-on-year to QAR21 million (US$5.77 million) in the three months to March 2011.

Another of QIB's balance sheet item showing a downtrend is its customer deposits, which have fallen 42.73% to QAR5.83 billion (US$1.60 billion) on a year-on-year basis and 33.22% from December 2010. Madha believes that QIB has likely been willing to give up the higher cost of holding customer deposits due to sufficient liquidity in Qatar's banking system. The decrease in deposits is also in line with those seen in other banks in Qatar.

The decline in deposits however contributed to QIB's cash and cash equivalents reversing almost 60% from December 2010 to QAR5.24 billion (US$1.44 billion) in March 2011. The bank's cash flows were also disrupted by hefty purchases of financial investments, amounting to QAR9.95 billion (US$2.73 billion) in the first quarter, compared to QAR1.83 billion (US$502.44 million) in the full year to December 2010 and QAR2.09 billion (US$573.83 million) in the three months to March 2010.

Islamic Finance *news* understands that QIB's buying spree on financial investments was contributed by a higher-than-expected take up of Sukuk issued by the Qatar Central Bank (QCB). In January, QCB issued QAR50 billion (US$13.73 billion) in bonds and Sukuk to local banks in an effort to spur lending and financing.

According to QIB's financial statements, investments in unquoted debt instruments, which would include the QCB bond and Sukuk issuance, amounted to QAR11 billion (US$3.02 billion) in the first quarter compared to QAR2.14 billion (US$587.56 million) in December 2010.

One possible reason for QIB's high subscription of QCB's Sukuk may be the central bank's ruling for conventional banks to shut down their Islamic windows by the end of this year. QIB could have stepped in to pick up the excess liquidity provided by the QCB's issue of debt papers.

A Dubai based analyst commented that the increase in QIB's investments and the resultant depletion of cash is not an issue as it has not negatively impacted the bank's bottom line. It should also be noted that QIB remains in a healthy capital position with QAR10.31 billion (US$2.83 billion) in equity in the first quarter compared to QAR9.15 billion (US$2.51 billion) in December last year. However, the perceived manipulation by the government of QIB's balance sheet could be cause for concern, added the analyst.

In the long term, QIB's outlook appears intact, especially as it is expected to be a key beneficiary of the abolition of Islamic banking windows in Qatar. However the bank has to assure the market that its first quarter results are not a signal of troubling trends ahead.

Malaysia emerges as banking M&A hotspot

The Malaysian banking scene is heating up with merger and acquisition (M&A) opportunities. Although the industry is expected to see mergers between local banks, global names are also in the fray, opening up the M&A space to cross border deals. While the market will agree consolidation is needed in the industry, especially in Islamic banking, a point to ponder is the strategic fit of some parties which have emerged as suitors of certain takeover targets.

Take for example the 25% block of shares in Malaysia's RHB Capital owned by Abu Dhabi Commercial Bank (ADCB) which is reportedly being eyed by private investment firms Carlyle Group (Carlyle) and TPG Capital (TPG).

ADCB offers Shariah compliant banking via its Islamic banking unit, ADCB Meethaq, while RHB Capital owns RHB Islamic Bank. As at December 2010, Islamic banking income contributed 78% to RHB Capital's net operating income of RM1.08 billion (US$361 million).

Carlyle and TPG are said to be in talks to launch a joint bid to buy the equity stake in RHB Capital, valued at US$1.5 billion. In separate responses to Islamic Finance *news*, both were unable to comment on the matter.

Although an alliance between Carlyle and TPG could prove formidable, their equity participation in RHB Capital hinges on the long-term intentions of the two private investment firms and whether Bank Negara Malaysia (BNM) the central bank, would see synergistic benefits from Carlye and TPG's entry.

According to its website, Carlyle counts financial services as among sectors it is an expert in. The company's potential entry into RHB Capital could spin off a new growth phase for the Malaysian banking group, which is the country's fourth largest in terms of assets. However for all of Carlyle's expertise and global reach, it is questionable whether

continued...

BNM would allow such a deal to materialize.

Firstly, it is an open secret that the Malaysian regulator prefers fully fledged banks as partners or investors in local financial institutions. This is based on the premise that the partner or investor can provide long-term growth opportunities for the local entity. With its main business in fund management and known for flipping assets to achieve capital gain, Carlyle strikes out on both counts here.

Furthermore, despite setting up Carlyle Global Financial Services Partners, a business focused on investing in management buyouts, growth capital opportunities and strategic minority investments in the financial services sector, the firm still does not present itself as a good fit to RHB Capital. While it is currently invested in eight banking or financial services companies, according to its portfolio, its oldest financial services investment only dates back to December 2007. Its longest term investment in its entire current investment portfolio was in 2000, into a piece of California real estate.

Of the eight financial institutions Carlyle is invested in, six comprise buyouts with only two, Korea's FN Stars, a boutique financial services firm and Repco Home Finance, a home financing company in India, classified as growth investments. What does bode well for Carlyle in a potential equity tie-up with RHB Capital is its strong brand name and perceived ability to hire financial experts to help manage the banking group. Carlyle also has a 9.35% shareholder in Mubadala, an investment arm of the Abu Dhabi government. A tie-up with Carlyle could help RHB Capital, especially through RHB Islamic Bank, to penetrate the Middle East market, an opportunity which ADCB has since made little headway.

Meanwhile, TPG, Carlyle's rumored partner for a joint bid in RHB Capital, could make a stronger case for approval from BNM. According to its website, TPG's goal is to "help management teams build long-term value." However, it is unclear whether an earlier investment TPG made into the CIMB banking group will upset this balance, based on Malaysian banking regulations. In 2008, TPG invested US$150 million in CIMB Group Holdings via a two-year senior unsecured bonds and 50 million warrants. The bonds matured on the 15th April this year and the warrants give TPG the right to purchase shares of CIMB at any time until 2013. To date, there have been no announcements regarding TPG's shareholding in CIMB Group Holdings.

Moving to local M&A opportunities, Khazanah Nasional, the Malaysian sovereign wealth fund, is reportedly looking to divest its 30% interest in Bank Muamalat, a fully fledged local Islamic bank. Bank Islam Malaysia has been named as a keen buyer of the stake. Though still unconfirmed, Bank Islam's acquisition of Bank Muamalat would likely lead to a merger of the two banks as per Malaysian banking laws. Such a merger would play out in Bank Islam's favor, expanding its balance sheet and boosting its overseas expansion plans.

As at December 2010, Bank Islam's total assets amounted to RM30 billion (US$10 billion), while Bank Muamalat's stood at RM15.89 billion (US$5.31 billion). A merger of the two banks would also put it a stone's throw away, in terms of asset size, from Maybank Islamic, the Shariah compliant arm of the country's largest bank, Malayan Banking. As at December 2010, Maybank Islamic's total assets was RM47.51 billion (US$15.88 billion).

Meanwhile, another M&A that may spill over into the Islamic banking space is the takeover of EON Capital (EONCap) by Hong Leong Bank (HLBB), a deal which has been in the pipeline for over one year. Following a shareholder dispute, the Malaysian High Court is to announce its decision on the 28th April on whether the takeover is legal. EONCap and HLBB each have licensed Islamic banks, with net income from Islamic banking contributing to 14.26% and 8.42% respectively to net income as at December 2010. China Construction Bank Corporation is also said to be interested in acquiring a stake in EONCap.

With Malaysian banks on firm financial footing and taking the lead in Islamic banking, this will not be the last the market hears of M&A activities. The key however, is finding strategic partners that can take the local banks to the next growth phase.

Bank Sarasin to grow Islamic finance business

Bank Sarasin & Co, a Swiss private bank, sees Islamic financial planning as an important growth area of wealth management and will explore further product offerings as it builds up its Shariah compliant business.

Set up in November 2009, Bank Sarasin's Islamic wealth management unit aims to provide investors the full spectrum of Islamic private banking services, offering a tailored service for Shariah compliant forward planning tools, processes and products. It is also planning to recruit more employees at its Dubai and Singapore offices to expand its Shariah compliant services.

"We are the only Swiss private bank with a complete in-house Islamic private banking offering. This covers solutions such as estate or succession planning where we have three different types of trusts, Murabahah based cash management tools, Islamic structured products targeting enhanced returns with and without capital protection, and asset management," said Fares Mourad, head of Islamic finance at Bank Sarasin in a response to Islamic Finance *news*.

The bank is also looking at increasing take up of its Islamic repurchase agreements and Murabahah financing facilities. In May last year, its Dubai subsidiary Bank Sarasin-Alpen (ME) provided a US$120 million Murabahah facility to Noor Islamic Bank.

Although based in Basel, Bank Sarasin's Islamic finance department has focused its sales efforts on the Middle East, in particular the GCC. Around 10% of its Middle East clients' assets are invested in Shariah compliant products. According to Fares, demand for the bank's Shariah compliant wealth management services has been concentrated on capital protected products offering "decent" returns.

"Bank Sarasin is convinced that Islamic finance is an important growth area of wealth management. The Islamic wealth management industry remains one of the fastest growing sectors in the Middle East and during 2010 sparked high interest outside the region," said Fares.

He added however, the Islamic financial planning sector remains largely neglected by the Islamic banking and finance industry.

Nonetheless he added, the bank will continue monitoring market developments and evolve following market requirements, exploring all options available under Shariah law.

Egypt: The New Segment of Islamic Banking

By Abu Bakr Abdel Rahman

The first modern experiment with Islamic banking was undertaken in Egypt undercover, without projecting an Islamic image, for fear of being seen as a manifestation of Islamic fundamentalism which was anathema to the political regime. The pioneering effort, led by Ahmad El Najjar, took the form of a savings bank based on profit sharing in the Egyptian town of Mit Ghamr in l963. This experiment lasted until l967, by which time there were nine such banks in the country.

These banks, which neither charged nor paid interest, invested mostly by engaging in trade and industry, directly or in partnership with others, and shared the profits with their depositors. Thus, they functioned essentially as saving investment institutions rather than as commercial banks. The Nasir Social Bank, established in Egypt in l97l, was declared an interest free commercial bank, although its charter made no reference to Islam or Shariah.

So what is preventing Egypt from becoming one of the most important financial centers of this industry and the pioneer that it once was, especially that it has the potential to do so considering its professional competencies and human capacity in addition to genuine economic diversity?

There is no doubt that the funds of this industry that pour into Egypt, as a result of its encouragement towards investment through enacting laws, facilitating procedures and creating supportive institutions, would contribute to solving many of the country's financial and social problems, most notably, unemployment.

Furthermore, it would provide microfinance, leading to an improvement in the level of income per capita. In addition, the nature of Islamic investment means that it accepts high risks; therefore, large amounts of capital would be available to Egypt to invest in technology and micro-industries that are in need of this kind of investment, helping to accommodate technology and reduce the flight of human capital to developed countries.

Will the decision makers in Egypt take the opportunities that this industry offers, and the Egyptian economy is in dire need of, into account? I certainly hope so, especially after the rise of Islamism currents significantly in all sectors of the country's ideas and beliefs, particularly the Salafist currents which emerged, clearly calls for the establishment of stock exchange in an Islamic system, after the success of Islamic banks globally. This is a new Islamic segment in Egypt banking environment.

Islamic banking system is based on risk sharing (profit and loss sharing), owning and handling physical goods, trading and host of other activities. Islamic banking transactions are based on the commercial relationship which existed between the Prophet Muhammad and his first wife Haddija — Mudarabah (profit sharing) contracts.

Commencement of Islamic banking

In the late 1960s experiments on Islamic banking were carried out in Egypt. In 1974 the OIC member countries approved the establishment of the Islamic Development Bank (IDB) with its headquarters in Jeddah, Saudi Arabia.

The IDB commenced operation as a multinational Islamic bank in 1975/1976, at the beginning of Islamic banking in the world. The IDB was then mandated to assist OIC member countries to establish and operate Islamic banks.

As at the end of 2005, there were about 270 Islamic financial institutions worldwide. Their total assets were around US$300 billion and the number of Islamic banks and assets grew at 15% per annum.

Some multinational banks have opened Islamic banking windows. Iran, Pakistan and Sudan are the only countries operating on 100% Islamic banking.

Factors of production

Classical economics:

1. Land — rent
2. Labour — wages and salary
3. Capital — profit
4. Entrepreneur — profit

Islamic economics:

1. Land — rent
2. Labour — wages and salary
3. Capital — profit
4. Entrepreneur and money — profit

Savings and investment accounts are of a Mudarabah agreement. They operate on a profit basis and not on interest. Their modes of financing are asset-based.

Islamic banks' modes of financing

- Mudarabah — profit sharing
- Murabahah — cost plus mark — sales on deferred payment basis
- Musharakah — joint venture partnership based on capital contribution and profit sharing
- Istisnah — deferred delivery sale contract, applicable to work in progress financing for capital projects
- Ijarah — operation and finance/lease purchase
- Tawarruq — short term/cash facility
- Private-equity investment — diminishing and permanent partnership
- Sukuk Salam — short-term Islamic securities: three, six, and 12 months
- Sukuk Ijarah — medium to long-term Islamic securities up to five years

All these modes of financing are available to microfinance enterprises.

Lending/financing criteria

- Character
- Capital/capacity
- Capability
- Collateral
- Connection
- Limited business advisory service

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Egypt: The New Segment of Islamic Banking (continued)

Borrowed funds

- Loans or financing facilities
- Bank overdraft
- Leasing agreements
- Medium to long-term finance, and such

Financing plan for microfinance enterprises

(i) Medium to long-term sources of funds to march such financing needs;
(i) Owners' equity to constitute at least 50% of required fund; and
(ii) Loan capital usually not more than 50% of total investment.

The scope and significance of microfinance entities

Microfinance as the name suggests are financial services that poor people desire and are willing to pay for. The term also refers to the practice of sustainable delivering of those services. More broadly, it refers to a movement that envisions a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.

The importance of microfinance cannot be over emphasized as it evolved as a need-base policy and program to cater to the far neglected target groups (women, poor rural, deprived and so on). Development organizations and policy makers have included access to credit for poor people as a major aspect of many poverty alleviation activities as it creates economic and social development from below. It has been argued that once the poor have access to income there will be trickle-up effect of development as opposed to the trickle-down effect.

Microfinance is significant in national development as it enables the poor to increase their income level. It enables the poor to have access to financial services which were exclusively available to the upper and middle income population. Microfinance is the most effective intervention for economic empowerment of the poor.

The number of microfinance institutions as at June 2005 was 38 in the Gambia. There are mainly 20 microfinance practitioners/ direct lenders, 10 microfinance intermediaries, seven facilitators, two microfinance network institutions, various clients/beneficiaries and one regulator/supervisor, according to a study on the national strategic framework for microfinance.

Islamic banking and microfinance

Islamic banking institutions are in operation ranging from pure Islamic banks to smaller Shariah banking units in conventional banks and investment houses. As one of the fastest growing segments of financial services market in the Islamic world, for the past five years, these institutions have attracted a lot of attention.

Moreover the guiding principles of Islamic finance have drawn curiosity from Muslims and non-Muslims alike as they try to understand how a system that prohibits the receipt and payment of interest became so widespread.

Islamic financial practices are founded on the core belief that money is not an earning asset of itself; there is more to the system's underlying tenets. Shariah emphasizes ethical, moral, social and religious factors to promote equality and fairness for the good of society as a whole.

The following basic instruments of Islamic financing can successfully be applicable to the microfinance program:

Mudarabah model (trustee financing)

In a Mudarabah based transaction the microfinance program and the micro-enterprise are partners. With the program, the microfinance invests the money while the micro-entrepreneur invests the labor. The micro-entrepreneur is rewarded for his or her work and shares in the profit, the program only shares profit. The profit sharing rates are pre-determined, but the profit is unknown. In effect, the microfinance program takes "equity" in the micro-enterprise.

Murabahah model (cost plus markup)

The Murabahah contract is similar to trade finance in the context of working capital loans and to leasing in the context of fixed capital loans. Under such contract the microfinance program literally buys goods and resells them to the micro-enterprises for the cost of goods plus markup for administrative costs. The borrower often pays for goods in equal installments.

Musharakah (joint venture partnership)

Musharakah is an equity participation contract in which the bank is always the only provider of funds. The distinguishing features of this type of contract are the nature of the business activity and the duration of the gestation period for the business. Two or more partners contribute to the capital and expertise of an investment. Profits and losses are shared accordingly to the amounts of capital invested.

Ijarah wal Iqtina (leasing)

This a contract under which the Islamic bank provides building or other assets to the clients against an agreed rental together with a unilateral undertaking by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee. The undertaking or the promise does not become an integral part of the lease contract to make it conditional. The rental as well as the purchase price is fixed in such manner that the bank gets back its principal sum along with the profit over the period of lease.

Social role of Islamic banking

Eradication of poverty, socio-economic justice and equitable distribution of income are among the primary goals of Islam and should be unyielding features of an Islamic economic system. The philosophical basis of Islamic financial system lies in Adl (social justice) and Ihsan (benevolence).

The implication of these concepts is taking care of those who cannot be taken care of by the market, who cannot play with economic forces or do not have access to economic means to enable them to exploit the economic opportunities around.

The social role of Islamic financial sectors is to provide finance to the poor so as to increase their income and wealth.

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Participation Banks in Turkey: Is There Still Ample Room to go Further?

By Ahmet Bicer

Turkey entered the new millennium with serious economic problems and failed to prevent a catastrophic crisis in 2001 with GDP contracting by 9.4%. The crisis initially and mostly affected the Turkish banking sector and caused a financial nightmare in the beginning of 2001 followed by a considerable asset quality deterioration in the sector.

As a result of this depressive crisis, almost 20 banks were nationalized by the regulator until the end of that year. After a rehabilitation period to repair balance sheets and improve asset quality through the next two years, the financial system had a significant growth and depth until the global financial crisis in October 2008. Throughout this escalation stage, many foreign large financial groups invested in the Turkish banking sector and purchased control shares with relatively higher prices.

The Turkish banking sector was least affected by the global financial crisis compared to international banks which were subject to high losses due to ongoing turmoil. In this period, though there was a heavy slowdown of the national economy in 2009, Turkish banks stood intact and safe, and kept higher profitability, and strong capital base by bearing its robust infrastructure, and especially successful risk management and internal audit systems. It seems that the Turkish banking sector will continue to flourish in next decade in parallel with the Turkish national economic growth, which was 8.9% in 2010.

The Turkish banking sector—from adolescence to adulthood

It seems that Turkish banks significantly increased loans during the past decade, just after cleaning up their deteriorated balance sheets in 2001. Although the majority of bank loans portfolio came from the corporate segment, personal loans also made a significant contribution to credit increase with rapid penetration of banking services into retail segment. Besides the expansion in loans, Turkish banks also witnessed a considerable growth in the deposits on their balance sheets in this period.

In the past decade, all significant indicators like growth in asset, loan and deposit sizes; ratios of capital adequacy ratio (CAR), non-performing loans (NPL), return on equity (ROE) and return on average (ROA) for the past decade shone quiet bright. Between 2002 and 2010, the sector enjoyed a crucial growth in assets, loans and deposits at a compound annual growth rate (CAGR) of 19%, 25% and 19% respectively. The sector had an extraordinary capitalization for the same period reaching to its peak in 2003 with 31% CAR, the ratio remained on a relatively higher level of 19% in 2010. On the other hand, NPL ratio decreased dramatically from 11.50% in 2003 to 3.66% in 2010. The return on average assets (ROAA) ratio fluctuated between around 3% between 2004 and 2010, while return on average equity (ROAE) increased from 15.76% to 20.12% during the same period.

The previous decade was a transformation and rapid growth era for Turkish banks, in contrast to the next decade which is estimated to be the era of maturity and consolidation. Considering the country's population of 75 million and its demographic structure, positive trend of national economy, per capita deposit and per capita loan figures, it can be argued that the banking industry has great potential.

On the other hand, it seems that a few years in near future will not be so easy for Turkish banks to expand loans and deposits as it was in the past decade, just because the central bank takes some measures in order to contain the risks towards price stability and financial stability, and in this context, increases reserve requirements for deposits and sets a certain limit (25%) for annual credit growth for the banking sector. Due to these restrictions, it is expected that the banks will concentrate more on costumer loyalty especially in retail and small and medium sized enterprises (SMEs) segments and relatively low cost services like internet banking, phone banking, ATM banking to reach cost efficiency and generate more service fee and commission for themselves.

I think that the factors below are key drivers for the Turkish banking sector's sustainable growth in the foreseeable future.

- Due to very good performance of the national economy in 2010, budget realization, and ongoing developments on the similar level in this year, most analysts and market players expect an upgrade in Turkish sovereign debt rating to investment grade. That means a low risk of default, and more foreign capital flow into the country which will make capital cost lower for Turkish banks.
- Thanks to recent improvements in the economy and stability against the global crisis, Turkey has been a well known attractive destination not only for traders, but also for international financial institutions. In this context, it can be strongly argued that Istanbul, where the continents meet, is on track to become a center for global finance to bind the financial regions, such as Eurasia, the GCC and the Middle East.
- Turkey, and especially its banking sector, has a highly developed technological infrastructure, liberal legal environment, and well educated human resources.

Participation banking sector — from childhood to adolescence

Participation banks are interest free banks in Turkey which operate in accordance with Islamic banking principles, that is they are not allowed to practice interest related services and products. Indeed, participation banks were regulated by a governmental decree from 1984 in which the first bank was established, until 2000 in which they involved the supervision of the Banking Regulation and Supervision Agency.

By the enactment of the current Banking Act in 2005, they have been fully integrated with the rest of the banking system and also deposits at participation banks were insured by the state owned Savings Deposits Insurance Fund, which meant that deposits collected by participation banks were covered by the same insurance scheme with the depository banks. With this law, their names were also changed from "special finance houses" to "participation banks" and this simple change led participation banks promote themselves more effectively in the domestic and global markets.

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Participation Banks in Turkey: Is There Still Ample Room to go Further? (continued)

Today, there are four participation banks in Turkey — Kuveyt Türk Katılım Bankası, Bank Asya, Turkiye Finans and Albaraka Turk. These participation banks have passed a critical test over the present global turmoil. They also registered very good records in the previous decade in total asset size, financing and deposit volumes and domestic penetration. Participation banks increased their assets from US$1.8 billion in 2002 to US$28 billion in 2010, at a CAGR of 33% compared to the sector average of 19% for the same period. They also increased their financing volume and deposits by CAGR of 35% and 31% respectively; in comparison with ratios of 25% and 19% of the sector between the years 2002-2010. As a result of these exponential growth rates, they increased their combined market share in assets from 2.1% in 2002 to 4.3% in 2010.

Some may claim that the main reason for this rapid growth was low base that participation banks had at the beginning of the period, in 2002. This argument might be true to some extent, but it would be unfair to bind all success to low base effect. I think, this admirable success in the last decade essentially came with some other factors such as increasing demand for interest free products and services, financing based growth (real banking) instead of investment on government debt securities (their financing to deposit ratio was 93%, while this ratio was 82% for the conventional banks in 2010), concentration on local idle savings of relatively more conservative population, expanding domestic presence and reaching more new customers, more impressive promotion activities, warmer and more positive relations with costumers especially with SMEs and finally, positive regulatory developments.

This upward trend is expected to continue, at least in the near future, and the participation banking sector, by an optimistic possibility, will reach 10% market share from the current 4.3% in five to seven years. In order to achieve this goal, besides above mentioned drivers for the Turkish banking sector, participation banks have some further advantages that can be listed as follows:

- Research indicates that the Turkish population is increasingly becoming conservative, at the same time this part of society has been getting rich gradually. In the end, I may claim that these sociological changes will be supporting demand for Islamic banking services and products.
- Related regulations and legislation have been more liberalized than before, although there has never been positive discrimination for participation banks. Moreover, it is seen that regulators of the integrated banking system will be more open-minded and positive to develop participation banking in the future, especially to attract more investment and capital from GCC funds.
- Due to the system itself, where participation banks are forbidden to invest on interest based treasury bonds, they had to allocate credits by means of Islamic modes of finance like Murabahah and Musharakah in order to grow and make profit. To this end, they had to be close to the costumers, particularly SMEs, unlike most conventional banks. Moreover, interest sensitive costumers do not have much alternative, as stated before there are only four participation banks in Turkey. Taking these two factors into consideration, it can be claimed that they have had relatively higher costumer loyalty than many conventional banks.
- Turkey's foreign trade policy to raise trade volume with MENA countries has been managed successfully so far. As a result of these attempts, there has been a remarkable increase in total trade volume with Muslim countries around Turkey in recent years. Most Islamic banks operating in these countries generally prefer to work with an Islamic counterpart in Turkey to mediate these transactions, and this type of cooperation opportunities support growth of the participation banks.

Participation banks' future plans

In my opinion, participation banks will have the following items on their agenda:

- **Local penetration**: The participation banks are expected to have plans for further expansion into relatively under-penetrated regions in Turkey.
- **Providing long-term financial resources**: It is known that all participation banks are working on Sukuk issuances in order to extend their funding maturity. For more effective liquidity management the maturity of Sukuk or similar products should be more than three years.
- **Development of new products**: In recent years, participation banks have introduced some new Shariah complaint products and services to the market such as syndication loans, Sukuk, Islamic exchange traded funds (ETFs), revenue indexed securities, pay-pass credit cards, city cards, and such. In the future, they will have to go beyond developing these products by issuing a participation index to be listed on the Istanbul Stock Exchange, securities based on rental certificates, and more.
- **Specialization on investment banking and project finance**
- **Developing the SME and retail banking sectors**
- **Strengthening presence in the SME sector**
- **More investment on human resources and high technology**
- **Expansion of foreign presence in order to reach new markets for higher profitability**

Conclusion

Although there is no precise figure about the potential volume of participation banking in Turkey, it seems that participation banks will keep increasing their market share, at least relying on more conservative depositor base. Although the participation banking sector has expanded faster than the Turkish banking system in recent years, and past figures of the sector indicate stable growth, the baseline is very low and the participation banks are still relatively small. To sum up, interest free banking in Turkey is a niche area and there is still ample room to go further in order to achieve sufficient penetration and market shares as much as in countries with advanced Islamic banking market shares such as Saudi Arabia, Kuwait and Malaysia.

In this article, all ratios are calculated according to Turkish Lira based figures.

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Performance of Turkish Banks in 2010 and Prospects for 2011

By Levent Sadik Kucukdaban

Overall, 2010 was a successful year for the Turkish banking sector. Banks were well capitalized, primarily deposit funded, highly liquid and profitable.

Both participation (Islamic) banks and conventional banks were not affected by the global credit crunch, moreover they became stronger and provided more support to the real sector. Healthy growth brought foreign investors and the government's decisive acts will maintain financial stability.

If we examine the last 10 years in Turkish banking, it is obvious that the sector recorded significant progress over this period. Turkish banks even coped with the global financial turmoil of September 2008 without government assistance and managed to keep up profitability. However this success story is nothing but a result of learned lessons.

The country's financial system experienced its own crisis in 2001. In order to cope with the crisis successfully and to ease the negative effect, restructuring programs were implemented.

> "Turkish banks even coped with the global financial turmoil of September 2008 without government assistance and managed to keep up profitability"

To understand today's performance, it is better to review history. A series of measures were adopted but the restructuring process can be summarized with the following leading steps:

- The Saving Deposits Insurance Fund transferred resources to reinforce the financial structure of some banks.
- Capital structures of state owned banks deteriorated because of the inefficient usage of resources and management weaknesses. In this respect operational restructuring was made and these banks were reinforced through mergers between each other.
- Crisis hit the private banks due to the provisioning for non-performing loans and the sudden limiting in the loan supplies to the market by state banks. So private banks' equity capital strengthened.
- Legislative measures were also required for a successful restructuring. The Banking Regulation and Supervision agency (BRSA) implemented measures which were in compliance with international regulations and accounting standards.
- Because of the financial distress, many companies and groups reduced their activities and some faced insolvency problems. This situation led to the increase of non-performing loans. A program was introduced to support companies which were able to survive if their debt was restructured.

Thanks to these actions, and as a result of favorable domestic and international economic situation, both participation and conventional banks showed rapid growth performance between 2002 and 2008. Recession was noted at the first quarter of 2009. However, it did not take much to see noticeable recovery. The climate turned to growth in the second quarter of 2009.

Turkish banks kept the positive trend which started in the second quarter of 2009 and they did a good job in 2010. The operational environment was favorable. Loan impairment ratios are showing a decreasing trend. The Turkish population regained confidence in the system and loan demand is running up.

Naturally, banks would not miss this opportunity. Turkish banks branch network expanded and employment rates kept growing. The total number of personnel increased 3.79% and reached 191,180. With 5% expansion, the number of branches was 10,066 by the end of the fourth quarter in 2010.

Meanwhile 11 foreign branches opened. Ten of these were opened by state own banks in various countries and one of was opened by Al Baraka Turk in northern Iraq.

Total assets of the sector were more than US$650 million and noted 20.8% increase compared to the fourth quarter of 2010. Participation banks' assets grew 28.9%, higher than the market average. Assets quality ratios were promising and show strength considering the high levels of reserves for impairment loans. Please see the Table 1 below for key indicators.

Table 1

Year end 2010	Participation banks	Turkish banking average
Operating ROAE	18.5	21.6
Cost/ Income	53.0	45
Loan impairement charges/ Pre-impairement profits	29.4	19
Loan / deposits	97.2	88.5
Loan / assets	74	53.1
NPL Ratio	3.5	3.7
Retail loans / total loans	14.1	32.3
Off- balance sheet loans / total loans	67	30.6
CAR	15.1	19
Equity / Assets	12.6	13.4

Source : Banking Regulation and Supervision Agency (BRSA)

Total loans grew 33.9% and reached US$343 million. Previously loans were representing the one third of the balance sheet. Today the loans' portion is 52.2%. Banks' appetite in extending new loans makes market more competitive which is the benefit of the customers.

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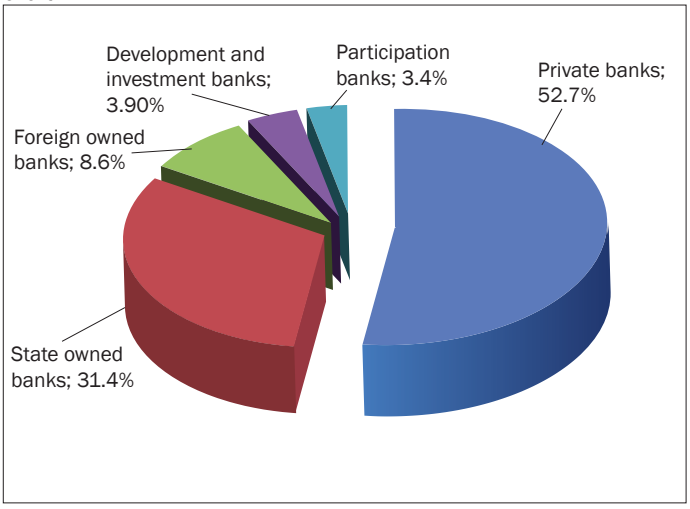
Performance of Turkish Banks in 2010 and Prospects for 2011 (continued)

Loan growth is expected to remain strong in 2011. According to the experts, if loan growth becomes more than GDP growth, and a considerable amount of the loans are routed to non-productive investments, some concerns may rise. In this respect, Ali Babacan, the deputy prime minister of Turkey who is responsible for the economy said recently if the credit volumes do not show any slowdown, and increases to 35% to 40%, then authorities will take additional measures.

The main reason behind the authorities' prudent approach is that a credit boom may trigger the current account deficit and cause asset quality problems as well. The government is projecting 4% to 5% growth target and 20% to 25% growths in loans. It is obvious that authorities are decisive and they even can take measures in bank basis in order to keep growth rate at the healthy levels to guarantee financial stability.

Sector average for deposits growth rate is 16.5%. On the other hand participation banks' deposits increased by 20%. Turkish banks are mostly deposit funded. As you can see in Table 1, the loans / deposit ratio is 88.5% for market average. Even if the loans growth rate is higher than deposits for the time being, we can expect strong deposit collection in 2011 thanks to new branch openings.

Chart 1



In terms of net income, Turkish banking recorded positive figures in 2010. Despite the narrowing margins and the increasing competition, the sector generated approximately US$14.5 million profit with an increase of 8.7% compared to 2009.

On the other hand, 21 banks out of 49 could not increase their profit due to the margin squeeze. While participation banks, state owned banks and private banks increased their profit, development banks, investment banks and foreign owned banks could not generate more profit compared. Please see Chart 1 for distribution of net income between the banks.

A 91% increase in new syndication facilities demonstrated the appetite by foreign investors to Turkish banks. The total volume of new syndication facilities is US$14.1 million in 2010. Two of the participations banks launched their Murabahah syndication deals.

The leading participation bank — Bank Asya raised US$255 million equivalent dual currency (euro and US dollar) and Al Baraka Turk raised US$240 million equivalent dual currency (euro and US dollar). Both deals had one year maturity and received strong demand from international lenders. In addition to these facilities, in terms of Islamic deals Kuveyt Turk Participation Bank issued a three year Sukuk bond for US$100 million. In this way, Turkey had been introduced a popular Islamic instrument.

Participation banks' market share

Participation banking is a term to define interest free banking in Turkey. These institutions are working under the Islamic banking principles but they are subject to same regulator — BRSA (Banking Regulation and Supervision Agency).

Today there are 49 banks in Turkey. This includes 13 development and investment banks, 32 depository banks as well as four participation banks namely Bank Asya, Turkiye Finans, Kuveyt Turk and Al Baraka Turk. Three of these are the subsidiaries of leading Islamic banks in Kuwait, Bahrain and Saudi Arabia.

On the other hand Bank Asya (Asya Katılım Bankası) is the only wholly Turkish owned participation bank which is also the leading institution, in terms of assets, deposits, loans and net profit. As you can see in Table 2 below, participation banking is developing gradually.

Table 2

%	2010	2009	2008	2007
Total assets	4.3	4	3.5	3.3
Loans	6	6.1	4.9	5.2
Deposits	5.4	5.2	4.2	4.2
Equity	4.1	4	4.3	3.1
Net profit	3.4	3.5	4.8	3.5

Source : BRSA

Turkish banks are not exposed to complex securities as their peers in developed markets, they did not see any funding stress throughout the year. At the same time, international investors' appetite for Turkish risk is increasing.

This situation brought economic growth, high credit demand and improving asset quality. In other words, after a successful 2010, the next year looks likely to bring more development both for participation and conventional banks..

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Islamic Liquidity and Secondary Markets

By Eldred Buck

Liquidity is defined as the ability of a bank to fund increases in its assets and to meet its obligations as they come due, without incurring unacceptable losses.

The raison d'être of a bank in an economy is in the role of maturity transformation of its short-term deposits, which appear on the right hand side of its balance sheet, into long-term loans, which appear on the left hand side of the balance sheet and to make a return for shareholders.

Therefore any mismatch of this maturity transformation between assets and liabilities makes banks inherently vulnerable to liquidity risk — since banks by the very activity of 'banking' are able to leverage their assets in proportion to the liabilities, within regulated ratios of their capital, which completes the liability side of the balance sheet.

Furthermore, liquidity risk is driven from both an institution-specific or non-systemic perspective, as well as from the market as a whole, that is, from systemic factors.

Management of this liquidity risk ensures a bank's ability to meet its cash flow obligations, which are by their very nature, uncertain, since they are affected both by external events and other agents' actions. Thus liquidity risk management is of paramount importance because, as was recently demonstrated in the financial crisis of 2008, a liquidity shortfall at a single institution can have huge system wide repercussions.

It is significant that the recent crisis was unique in that severe financial problems emerged simultaneously in many different countries as a result of the increased interconnectedness of the global economy. In short, a run on a bank affects everyone.

The developments in global banking in the past two decades have increased the complexity of liquidity risk and its management enormously. The recent swathe of legislation from regulators and lawmakers around the globe, have been designed primarily to reel in many of the excesses of the conventional banking system.

The global story of macro trends meet financial innovation, increased leverage, the changing forms of maturity transformation and the growth of the shadow banking system, the misplaced reliance on sophisticated maths and hard-wired pro-cyclicality of ratings, triggers, margins and haircuts are all now being addressed.

In doing so, these new regulations have, to a large extent, been an implicit endorsement of the probity of Islamic banking. This should therefore represent a green light for Islamic banking, but there remain two key issues; quality and quantity.

> "Liquidity is not just a function of the size of a market, but also the marketability of the instruments"

Liquidity is not just a function of the size of a market, but also the marketability of the instruments — in other words the quality, because it is quality that gives a secondary market its lifeblood.

As Islamic finance moves towards becoming a major part of the global interconnected financial system, and markets across jurisdictions inevitably become ever more interlinked, the issue of liquidity management becomes ever more pressing.

It has often times been repeated that the lack of a global Islamic interbank market and the concomitant liquidity management facility that this represents, has accordingly hamstrung the systemic development of Islamic finance.

Simplistically speaking, for a conventional bank, liquidity is managed through both access to interbank markets on the liability side of the balance sheet and is matched to the access of high quality, marketable securities, such as government debt and repurchase agreements on the asset side. Since the asset side of the balance sheet is the side responsible for a bank's earnings, loan and asset quality are absolutely critical.

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Quality

Date	Islamic bonds	International Sukuk	Domestic
2003	4,282.00	1,350.00	2,932.00
2004	5,738.00	1,917.00	3,821.00
2005	7,594.00	2,521.00	5,073.00
2006	16,863.00	10,155.00	6,708.00
2007	31,002.00	15,904.00	15,098.00
2008	14,127.00	5,108.00	9,019.00
2009	20,151.00	8,390.00	11,761.00
2010	17,075.00	5,411.00	11,664.00
2011	4,553.00	500.00	4,053.00

Islamic Liquidity and Secondary Markets (continued)

If liquidity cannot be so readily managed in an interbank market, then what other tools and products exist? The answer offered is that it should be in Sukuk. However the reality is still some way behind where it needs to be.

The emergence of the Sukuk market from a total issuance of just US$4.28 billion in 2003 to US$17 billion in 2010 was fuelled by a desire of issuers to diversify their funding sources as much as by the availability of Islamic and conventional money looking for investment alternatives for their surplus liquidity. The expectation too was that demand from Islamic investors would be driven by balance sheet requirements.

"If liquidity cannot be so readily managed in an interbank market, then what other tools and products exist? The answer offered is that it should be in Sukuk"

The reality is that up to 2008, it is estimated that 80% of Sukuk were held by non-Islamic investors. This has since fallen to around 60%, still a good proportion, but very concerning given the fall in gross issuance.

The market, as we all know faltered in 2007 through to 2009 and Sukuk proved to be no less and no more liquid than some of the more exotic, though highly rated conventional bonds. What has happened since though is a cause for concern.

In the course of the restructuring and refinancing of Dubai International Group and others, Sukuk holders quickly learnt that their bonds were asset-based rather than asset-backed, with no security ring-fence to protect them.

Sukuk ratings

Ratings	US$ (million)
S&P/Moody's	500
MARC	879
RAM	507
Unrated	20,716

Table of issuance in US$ million

The realization that this might apply to other Sukuk has been a harsh lesson for some investors and has accounted for a lack of liquidity in this product.

Looking ahead, greater reliance on the corporate credit story will need to prevail, and here we can identify a marker for part of the problem. The investors are looking for quality.
Notwithstanding the issue of the work-out of the problems with the Sukuk market, going forward what needs to be done to establish an efficient secondary market?

Of the US$22.5 billion equivalent issued in the first quarter of 2011, over 90% of Sukuk were not rated by anyone. One issue was rated by both Standard & Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's) and one issue was rated by Malaysian Rating Corporation (MARC) and RAM (RAM Rating Services).

Liquidity of any product relies on an active group of market makers, inevitably the lead arrangers, willing to support not only the issuance of the instrument, but also a commitment to make a market in it throughout its life.

Perhaps the Sukuk market, though developing fast in certain jurisdictions, still lacks some of the track record and inherent 'distance travelled' that the conventional bond market has.

Furthermore of the 110 Sukuk that were issued in the first quarter of 2011, less than one third (29) show secondary market bid and ask prices which would be described as very wide for corresponding conventional maturities.

A great deal of this price inefficiency must be down to the fact that unless a security is individually researched, then without some form of rating, institutional investors and market makers simply do not have the baseline information with which to make an investment decision and to trade Sukuk in the secondary market.

"Without some form of rating, institutional investors and market makers simply do not have the baseline information with which to make an investment decision"

Looking forward, there is no doubt that the huge infrastructure spending programs of Saudi Arabia, Qatar and Malaysia, estimated at over US$1 trillion over the next 10 years should give an immense boost to the Sukuk market through increased issuance, and provided the misunderstandings concerning Sukuk structures have now been ironed out, the future of the Sukuk market both in terms of issuance and liquidity is sure to be both an interesting, and exciting market to be in.

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Islamic Liquidity Management

By Chris Oulton

The Islamic finance market is estimated by Moody's Investor Services to be worth approximately US$1 trillion in total in 2010. Of this, about US$800 billion is held by the 500 largest Islamic banks, according to Standard & Poor's Report 2010, and CIMB reported in April 2010 that US$67 billion is invested in Islamic investment management.

If we look just at the banking industry, liquidity is estimated to be between 30% and 40%, which means there is about US$300 billion in short-term liquidity which ideally needs to be managed in compliance with Shariah principles. Of course the key issue which then faces the financial markets is that earning interest or 'riba' which is not permitted under Shariah law. Ideally therefore an alternative is needed for short-term cash to be invested in a Shariah compliant way.

> "What has been missing is a highly rated financial instrument able to provide instant access and daily liquidity to the Islamic market"

Short-term Islamic investments

The deployment of Commodity Murabahah currently provides a significant part of that solution; estimates of Islamic financial institutions' (IFIs) treasury investments that utilize Commodity Murabahah range up to 70%.

This involves the purchase and sale of halal commodities (such as platinum group and base metals), via commodity brokers where the profit is earned by the difference between the acquisition cost of the metal and its subsequent sale price (that is, the mark-up) on deferred payment terms.

There are however significant issues with using this technique for very short-term cash. It entails significant credit exposure to the sale counterparty in the future, often requiring the support of bank letters of credit, and it provides an illiquid contract which entails 'break costs' or other forms of accommodation if it needs to be renegotiated because the cash is needed sooner than anticipated. Restricting Commodity Murabahah to very short maturities, particularly overnight, is both very costly and administratively burdensome.

Other alternatives might be using longer dated Sukuk or Wakalah, both of which may have structural drawbacks or costs associated with early termination. Recently there has been talk of an I'aadat Al Shira'a (IS) structure from the International Islamic Financial Market and other initiatives involving the use of repurchase agreements using Shariah compliant securities and the establishment of a market in global bills by the International Islamic Liquidity Management Corporation.

Otherwise investors can leave the money in the bank and pay away the interest earnings to charity or in extreme need invest in central bank accounts or government securities, which may or may not be ultimately Shariah compliant.

In the Middle Eastern local market, there are some other alternatives as local banks have offered products in local currency, which have relied on the currency link to the US dollar holding firm. What has been missing is a highly rated financial instrument able to provide instant access and daily liquidity to the Islamic market.

Options for the future

There have been numerous attempts to fill this gap and Prime Rate Capital Management has constructed such an instrument which it is anticipated will satisfy the requirements of a conventional liquidity product for the Islamic market.

The product is The Islamic Liquidity Fund — an Irish based 'Qualifying Investor Fund', due to be listed on the Irish Stock Exchange and hoping to attract an 'AAA' rating at the launch.

The fund performs daily Commodity Murabahah transactions such that the entire net asset value (NAV) of the fund is traded everyday. In this way 100% of the fund is available for redemptions everyday.

The fund purchases halal commodity from an established commodity house and then on-sells on deferred payment terms to a Murabahah counterparty that may not on-sell to any commodity house supplying the same commodities to the fund.

In this way the fund employs a multiple counterparty transaction structure meeting the latest standards in Shariah compliance.

The key priorities of the fund are security and liquidity. While the fund only trades in Commodity Murabahah, the underlying risk of the repayment of principal is ensured by the sale of the commodity at a profit and the existence of cash collateral held by an escrow agent to secure that payment.

The liquidity of the investment is assured by the fact that the entire NAV is traded everyday ensuring that at the start of each trading day the fund is 100% liquid.

Another feature of the fund is that it is very easy for investors to use. Rather than trading in products, investors merely subscribe for and redeem units in the fund. If an investor has an unchanged cash balance on a day, he has nothing to do. Units will be automatically re-invested on a daily basis. If his cash requirement increases, then he merely redeems the required amount of units, and likewise if he has further cash to invest, he simply subscribes for additional units. This can all be done by phone or fax on the day. The fund has been reviewed by four Islamic scholars who have signed a fatwa declaring the fund to be Shariah compliant.

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Islamic Liquidity Management (continued)

Lastly the profit rate is likely to be comparable to returns associated with conventional short dated deposits with highly rated banks.

The major benefits for investors are the convenience and flexibility of the product. Since 100% is traded daily, investment amounts large and small can be accommodated and marginal adjustments to account balances in uneven amounts are all catered for.

> "The Islamic financial market has for some time been awaiting the development of an overnight money market instrument"

It removes the need for bilateral documentation, individual counterparty price discovery and negotiation and expensive break costs when contracts are broken, and of course it frees up counterparty credit lines for other more interesting investments.

The fund has a low annual management fee and charges no performance fees, no front-end or redemption fees, with fund expenses charged directly to the fund. The total expense ratio is expected to be around 0.28% per annum (assuming assets under management of US$5 billion).

It is anticipated that it will appeal to institutions, including banks, corporates, asset managers, family offices and insurers who have frictional and other short-term cash which otherwise goes uninvested, or which currently earns no profit rate.

This might be cash held within another Islamic financial product or structure such as a property fund or equity product. Investors will typically be those that are already comfortable with and utilizing Commodity Murabahah as a matter of routine.

Conclusion

The Islamic financial market has for some time been awaiting the development of an overnight money market instrument. The Islamic Liquidity Fund has been developed as a solution. Structured as a fund, it is simple to use, offers instant liquidity through same day dealing and settlement, and provides returns commensurate with a 'AAA' rated product.

The views expressed in this article represent those of the author and not necessarily Prime Rate Capital Management.

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Current State of Development of Islamic Finance in Russia

By Roustam Vakhitov and Madina Kalimullina

Islamic finance in Russia is a relatively new phenomenon. However, there is a significant interest in this area from both the business community and consumers.

The first Islamic finance products are being brought to the market and well received. Although at present Russia is only at the initial stages of development of this industry, the prospects of investing in this sector seem to be promising for both domestic and foreign investors.

> "Although Russia has a significant percentage of Muslim population (about 10% to15%), there is no developed industry of Islamic finance up until present"

Overview

Although Russia has a significant percentage of Muslim population (about 10% to15%), there is no developed industry of Islamic finance up until present.

At the same time the rapid development of the halal food industry inspires positive expectations in respect of the development of Islamic financial services. The interest to this area grew during the financial downturn as Islamic finance markets were accessible for companies seeking for investments roughly one year longer than conventional markets.

The idea of profit sharing is also appealing, especially in times of uncertainty.

In 2009, the Russian bank VTB Capital positioned itself as a center of expertise and facilitator of Islamic finance projects. It further announced that it was working on a number of Sukuk transactions, which are expected to be brought to market in 2011.

The Islamic finance products offered at present are not sophisticated. These are payment cards and Murabahah and Ijarah financing opportunities. These products are rather simple in development and implementation, do not require significant initial investments and have wide potential client base.

Musharakah (partnership) is permitted under Russian law as well, although it is mainly used by businesses and not within retail products. At the macro level, there are significant projects as well.

Tatarstan, a region with a predominantly Muslim population, appears to be a frontrunner in welcoming foreign investors making Shariah compliant investments. The Tatarstan International Investment Company established last year was specifically developed as a vehicle for accommodating investments into infrastructure projects in Tatarstan. The Islamic Development Bank took a part in this project.

Earlier this year it was announced that there will be an issuance of sovereign Tatarstani Sukuk, supported by large Malaysian financial group AmanahRaya, which is presently quite visible in the Russian market.

The basis for further growth of Islamic finance among the corporate sector is expected to be the growing industry of halal products and services. Annual fairs of halal products and services in Moscow and Kazan gather more than 100 companies and several thousand attendants.

To comply with the growing demand of knowledge in Islamic finance, Moscow Business School, MIRBIS launched a short-term course in Islamic finance in cooperation with the Russian Mufti Council, which was followed by more than 50 graduates predominantly from commercial and financial sectors.

To facilitate dissemination of knowledge, the Russian Association of Experts in Islamic Finance and Russian Mufti Council issued translations into the Russian language of the AAOIFI standards on Murabahah, Sukuk, Takaful and Ijarah. It is expected that the first Takaful company will start its operations in Russia.

Islamic finance products in Russia

Between 2009 and 2010, the Russian Muftis Council undertook sociological research through mainly Islamic and ethnic Muslim nationalities websites and portals. About 2000 people responded to the questionnaire, where 97% of them were Muslims — 75% male and 25% female.

There were 40% who were residents in Moscow, and approximately 80% of respondents indicated that they would be interested to become a client of an Islamic bank. Considering that the Muslim population in Russia is between 15 and 20 million, it appears that Islamic banks may have quite a good client base.

Although at present Russian legislation contains some restrictions for banks involved in commodities trading, there are already Islamic windows of certain banks operating in Russia under Shariah standards.

International financial center in Moscow and strategy for the banking sector

On the 24th December 2010, the Association of Russian Regional Banks conducted a meeting to discuss Islamic finance opportunities. The association unites over 450 members, including banks, non-banking financial institutions and organizations related to the financial industry. The topic of discussion was on delivering proposals for the Strategy of Development of the Banking Industry in Russia until 2015. The strategy is being prepared by the Central Bank of the Russian Federation.

It was concluded that in general there are no obstacles for executing transactions in accordance with Shariah principles even under the

continued...

Current State of Development of Islamic Finance in Russia (continued)

current tax and legal environment. However, in the regulated banking sector there may be restrictions for Islamic finance transactions based on the regulations and bylaws.

The major obstacle is that Russian banks in general may not be involved in buy-sell transactions with commodities, what is required for some Islamic finance transactions, for example Murabahah (sale on credit). It must be noted that the Russian banks are explicitly allowed to participate in lease transactions, often used in Islamic lease securitization (Sukuk Ijarah).

The general conclusion was that the restrictions are not prohibitive and still allow open 'Islamic windows', that is, units of the banks operating under Shariah compliant procedures, even under the current environment.

The participants also noted the opportunity to run Shariah compliant transactions under regulations available for non-banking financial institutions, for example microcredit financial institutions and mutual credit unions.

The central bank was asked to include in the Strategy of Development of the Banking Industry in Russia, provisions to facilitate further development of the Islamic finance industry that will help Moscow become a regional financial center, as envisaged by the government and financial authorities.

There are similar discussions within the group for developing Moscow as an international financial center.

Conclusion

Despite the widespread misperception on the need for comprehensive reform of tax legislation of a country to accommodate the Islamic finance industry, many opportunities including Sukuk (securitization) structures are possible under the current Russian tax and legal environment. Where an investor intends to run a project in Russia in accordance with Shariah principles, in most cases appropriate solutions should be available.

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Roustam Vakhitov specializes in international taxation. He teaches tax aspects of Islamic finance at the Moscow international higher business school MIRBIS.

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Madina Kalimullina is one of the initiators of the creation of Russian Expert Association in Islamic Finance. She is the coordinator of educational programs on Islamic finance in Russian states and private universities.

Regulatory Issues in Pakistan's Islamic Finance Industry

By Bilal Rasul

"Are not Islamic financial institutions (IFIs) just conventional banks incognito?" is the usual response of the average depositor in Pakistan, when queried about the option of investing or depositing in IFIs.

A realization comes to mind that such a mindset of the general public is the direct outcome of the inability of IFIs to nurture a conviction among the investing public. However, it is likely a consequence of the insecurity of the depositor which emanates from the unappealing history of investment scams experienced by the 'not-so-shy but now wary' Pakistani depositor.

As an Islamic finance propagator it requires minimal effort to influence the common investor to switch from conventional to Islamic finance, for example an argument. At worst, an IFI might just be a conventional bank, but the benefit of doubt must be given to a system which is trying to evolve, or 'convert'.

However, the problem at the country wide scale needs to be addressed quite differently, that is, through the frontline and market regulators such as the industry associations, and the money market and capital market regulatory agencies.

> "It is paradoxical that a country with a huge Muslim population, and probably one of the biggest markets for Islamic finance, has not shown the results in a more magnanimous manner"

It is paradoxical that a country with a huge Muslim population, and probably one of the biggest markets for Islamic finance, has not shown the results in a more magnanimous manner. The Islamic banking and finance industry in Pakistan is worth approximately PKR300 billion (US$3.5 million) in assets. It accounts for 5% of the banking industry in Pakistan.

By all standards, this is not characteristic of the vigor that the Pakistanis harbor for Islam and its tenets. It is indicative of the fact that there is a hiatus between the aspirations of the Pakistani investor and perception of the prevailing Islamic financial system. The preceding should not be misconstrued as low appeal for return on investment because just as any counterpart investor in other parts of the world, the Pakistani investor is an ardent investor too.

The anomaly, therefore, lies in the marketing of Islamic finance. The 2008-2009 financial crisis saw the collapse of the interest based financial system. Here was the opportune time for Islamic finance to launch itself as the ultimate economic and financial system, especially, in Pakistan.

But during this brief window of opportunity the landscape of the Pakistani Islamic financial market remained notably unchanged probably because the incidence of default and financial instability in the IFIs was significantly avoided due to the nature of the products manifested in limited debt leverage; risk and profit sharing; and financial transactions backed by real assets coupled with restrictions on derivative-like products. Nevertheless, the strength of the IFIs could have been projected with considerably more fanfare.

In the current banking and investment environment people are generally more secure in investing with the conventional commercial banks as they offer relatively lower risk and moderate rewards. The mainstay of these banks has been the strong and effective regulatory framework overseeing these financial institutions.

Inference can, therefore, be drawn that financial and economic systems require sound and prudent standards that provide the consistency the investor requires. It seems that the IFIs just might be missing this type of consistency when it comes to their regulation.

Harmonization and standardization

Of the regulatory issues, harmonization and standardization of all Islamic financial Shariah thought, is critical. Scholars and researchers of Islamic finance are persistently endeavoring to create Islamic financial products that are equitable and attractive.

However, due to the diverse ethnicity in the country there are multiple interpretations given to the nature of Islamic financial transactions. The discord in transactional issues presented by the varied interpretations of the schools of thought deprives this system from attaining a level of credibility that can be boasted by the Islamic finance doctrine.

This pluralism also exasperates the role of the regulators in arriving at a consensus in the transactional disputes. In the short run, the national financial Shariah or religious boards (for commercial banks, Mudarabah and Takaful) need to amalgamate and play the lead role for standard setting rather than rely on self regulation by the IFIs through their respective Shariah boards.

A step in this direction has already been taken by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, for example, the Mudarabah, as well as the commercial banks, use standardized written contracts while financing or borrowing, which mandate the possession and ownership of real assets. This is a fundamental source of credibility of the transactions and provides the disclosure and transparency for investors.

This concept is now being adopted by the more advanced and forward looking IFIs in other countries like Malaysia, Singapore and the UAE. In the long run, the solution lies in adherence to the standards, guiding principles and fatwas offered by the credible international Islamic financial regulatory agencies such as the Islamic Financial Services Board (IFSB), the AAOIFI and the OIC Fiqh Academy.

The adoption of the Islamic Financial Accounting Standards (IFAS) issued by AAOIFI has already been initiated. The IFIs have, to date, adopted IFAS 1 (Murabahah) and IFAS 2 (Ijarah). The process requires transforming years of practiced conventional accounting to Shariah based accounting which entails technical and accounting complexities

continued...

Regulatory Issues in Pakistan's Islamic Finance Industry (continued)

that make it a rather gradual progression. In the meantime, the IFIs will have to suffer the allegations of mimicry.

Mimicry

In the context of Islamic financial jargon "mimicry" is known as the process of engineering financial products by IFIs to make them appear distinct by branding with the slogan of Islam (in the pursuit of capturing markets) but in essence may have the nature of conventional financial products. The public at large is quick to denounce mimicked conventional products and deem them as haram.

> "Pakistanis are typically slow to accept innovative ideas and adaptations which have impeded the rate of growth of the Islamic financial industry"

While it may not be totally incorrect to give such a verdict, it is a verity that the Islamic and conventional products have a 'fine line' between them which may not be noticed by the untrained eye. For example, the finance lease vis-á-vis the operating lease (Ijarah), in which the latter is quite different from the former, may appear as a mimicked product. Is mimicry an option or is it forced upon the IFIs? This question can be better understood in the backdrop of the established banking and finance industry in which the IFIs have just been delivered and are in the process of evolving.

Pakistanis are typically slow to accept innovative ideas and adaptations which have impeded the rate of growth of the Islamic financial industry. This has been compounded by the large spreads available to the conventional banking institutions generated through their current account (interest free) deposits giving them a huge advantage for adjusting margins and offering discounts leaving the IFIs well behind to forage the already thin markets.

In order to survive the cutthroat business environment the IFIs become natural victims of mimicry followed by a low level of confidence in these institutions. To counter mimicry, the regulator has to intervene and strike the balance between developing the Islamic financial market and observing Shariah compliance — suggestively, a less rigid view has to be taken in the enforcement of IFIs in order to promote Islamic finance.

Shariah compliance/certification

Attaining 'Shariah compliant' status is a precursor for each IFI. Currently, the Shariah boards of the IFIs confirm the status through an internal mechanism which may or may not be reliable due to 'conflict of interest'.

According to regulatory obligations Shariah oversight is mandatory. As a consequence, IFIs employ less experienced Shariah scholars since only a limited number of professionals are available in the market that are usually attached with more than one IFI concurrently.

It is emphasized, once again, the transition to Islamic finance is highly sophisticated — a balance has to be maintained in order for IFIs to realize adequate yields, on the one hand, and remain within the boundaries of the Holy Quran and Sunnah, on the other, which cannot be done without quality Shariah supervision.

Proclaiming Shariah compliance of an IFI through certification is the domain of the regulator. A comprehensive regulatory framework is required to be introduced that not only tests the Shariah advisors for fitness and propriety but also lays down the basic parameters for Shariah compliance, that is, the adoption of AAOIFI's IFAS.

In order to meet the demand for Shariah advisors the regulators have to encourage the development of educational institutions that offer programs and syllabi for Islamic financial technical skills. INCEIF (International Centre for education in Islamic Finance) in Malaysia is an example that has designed an outstanding course, namely; CIFA (Chartered Islamic Financial Analyst) which prepares the student for a specialized course in Islamic finance. The Institute of Capital Markets and the National Institute of Banking and Finance are national institutions which can further enhance Shariah expertise.

Role of the regulator

For the IFIs to become the principal financial intermediaries, the regulators must ensure through effective enforcement that the fiduciary duty of IFIs is exercised. Aggressive promotional efforts need to be undertaken to overcome the 'wariness' and a comfort level has to be created for the investing public.

> "The Institute of Capital Markets and the National Institute of Banking and Finance are national institutions which can further enhance Shariah expertise"

While awareness creation may not be the primary issue in the 'up-market' stratum, what is required are measures to incentivize the IFIs at an industry wide level for example, providing corporate tax relief to IFIs; capital gains tax exemptions on Shariah compliant securities; withholding tax exemptions on dividends of Shariah complaint companies, and more. These incentives require the patronage of the government for furthering the case of the IFIs. Policies for encouraging IFIs to exploit microcredit and agro-financing avenues may just be the answer for jumpstarting the non-banking IFIs.

**Disclaimer: The views in this article are personal views and do not represent those of the Securities & Exchange Commission of Pakistan.*

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Bilal Rasul is responsible for heading the Islamic finance initiative for the capital market in Pakistan.

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?

Liquidity management is an enormous challenge for Islamic banks as they cannot hold conventional treasury bills or hold interest bearing deposits with central banks. Inter-bank Murabahah deposits were used as a substitute, but these are more expensive to set up and are subject to counterparty risk.

The establishment of the International Islamic Liquidity Management Corporation is a welcome development, and hopefully it will promote and sponsor research into finding liquidity solutions which are acceptable from a Shariah perspective. A starting point is to establish criteria under which existing and future Islamic liquid instruments can be assessed from a Shariah perspective.

Too many of the existing instruments are Islamic in name only, and lack substance. One possible question to be addressed is — does the liquid instrument involve risk sharing, and if so, what risks are being shared? A second question is — how far do liquidity requirements contribute to risk sharing between Islamic banks and depositors in a meaningful sense.

There is also the issue of whether it is acceptable for conventional banks offering Islamic financial products to use their aggregate liquidity holdings to safeguard their Shariah compliant operations. Such practices are dubious and amount to unfair competition.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

Liquidity in the financial markets has a number of factors and is strongly related to the number of issues, variety in the maturity dates, issue size, pricing, and willingness of market participants to actively trade.

To date, the main challenges in the market are associated with each of these. Issues are typically small compared to their conventional counterparts which results in certain types of investors shying away from them. Funds for example, generally use two types of limit when investing. They will never invest in more than a predetermined percentage in an issue, but also never invest less than a predetermined amount which, in case of sovereign wealth funds for example, can be a significant amount.

Besides the size of the issue, most issues are relatively short dated with an average tenor of around five years and are generously priced compared to a similar risk profile for conventional issues. As a result, many investors will buy and subsequently hold their investment to maturity.

Longer dated, benchmark size issues with competitive pricing will go a long way to enhancing liquidity in the market. In addition, there are currently only a limited number of issuers and expanding this range would be highly beneficial.

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

I think we should also be looking at Shariah based hedging instruments as well as an International Islamic Commodity Exchange to facilitate liquidity.

DAUD VICARY ABDULLAH: Managing director, DVA Consulting, Malaysia

Next Forum Question

Does the Islamic finance industry need to innovate more to encourage further growth? Which sectors would require more attention than others?

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, 9th May 2011.

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

Name: Dr Waleed AbdelMohsen Al-Wohaib

Position: CEO

Company: International Islamic Trade Finance Corporation

Based: Jeddah, Saudi Arabia

Age: 54

Nationality: Kuwaiti

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

I was appointed deputy minister of commerce and industry in 1993. I have been the secretary general of Kuwait's manpower and government restructuring program since 1995. My passion and belief that Islamic finance is the main tool of development and economic integration among the Islamic countries led me to join the International Islamic Trade Finance Corporation (ITFC) as CEO in 2007.

What does your role involve?

The ITFC is the culmination of a 30-year pioneering commitment by the Islamic Development Bank (IDB) to develop and expand intra-trade among OIC member countries. I have to ensure ITFC's adherence to high standards of performance in order to achieve its objectives.

We execute trade finance operations in member countries which have developmental impact on their economies. We also carry out activities and events in the areas of trade promotion, facilitation and capacity building for the expansion of trade. Furthermore, we have launched an initiative jointly with the World Trade Organization, United Nations Development Programme and other international organizations regarding Aid for Trade Road Map for countries covered by the United Nations special program for Central Asian economies. My role here is to oversee and ensure that all these initiatives and processes hit the mark in the most efficient manner.

What is your greatest achievement to date?

The greatest achievement is that ITFC has successfully approved, since its first operations in 2008, more than US$8 billion for OIC member countries despite the challenges of the worst world financial crisis. Going forward, ITFC also crossed a major milestone last year with the completion of its strategy map and is now poised to implement the same through the development of initiatives under various themes.

Which of your products / services deliver the best results?

We have a wide range of innovative products, customized to serve different segments of our target market. A few examples of the products are direct financing, line of financing, two-step Murabahah financing, and structure trade finance. Additionally, our trade promotion function focuses on trade facilitation, capacity building and development of strategic commodities in OIC member countries.

What are the strengths of your business?

The strength of an organization stems from three main factors — people, products and customers. We have a highly qualified team of dedicated employees. We also have a high level of customer satisfaction. Despite the recent financial crisis, ITFC was still able to retain all the existing customers and add several new ones to our portfolio in 2010.

In addition, ITFC provides tailor made Islamic financing products to cater for customer needs. Our unique strength is that we are supported by all OIC member countries and the IDB.

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

We have over 30 years of experience in trade finance and trade cooperation and promotion, and have strong technical expertise in structuring trade finance operations as originator and arranger.

We are dedicated to providing access to funds by filling the market gaps in trade finance in countries with no or little access to international markets. We are a financier of record through our strong presence, leverage and strategic partnership with many international, regional and local financial institutions and banks.

We play the role of a catalyst in the enhancement of intra-trade through a variety of programs to develop capacities of member countries. We have an international geographic presence, and focus on long-term relationships with our customers.

What are the obstacles faced in running your business today?

The major obstacle faced by us was the global financial meltdown that nearly decimated the world economy in 2008. The timing of the crisis was most unfortunate for us as it began at the same time as ITFC's launch of operations. It created challenges in the market and caused a steep decline in the LIBOR rate, which in turn forced us to exert tremendous efforts to reach the pre-crisis level of performance. Fortunately, due to the Islamic nature of our financing we have been relatively less affected by the crisis.

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

Islamic finance is cutting its way to become a leading solution for banking, as it is gaining more popularity and respect internationally. I also see ITFC as being recognized as the provider of trade solutions for OIC member countries' needs. We will continue to enhance trade to improve lives in our member countries.

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

I would like to see Islamic finance gain a wider international and geographic recognition.

SUMMARY OF TERMS & CONDITIONS

Bank AlJazira SAR1 billion Sukuk due 2021 callable with step-up in 2016

SAR1 billion (US$267 million)

29th March 2011

Obligor/Issuer	Bank AlJazira
Tenor	10 years, callable in year five with a step-up in margin after year five
Return	Six months SIBOR + 170 bps with a step-up to 550bps if not called on or after year five
Payment dates	Semi-annual in March and September
Maturity date	29th March 2021
Main lead managers	HSBC Saudi Arabia, JP Morgan Saudi Arabia
Bookrunners	HSBC Saudi Arabia, JP Morgan Saudi Arabia
Legal advisors	Clifford Chance and Al-Jadaan and Partners Law Firm for the issuer Law Office of Mohammed A Al-Sheikh in association with Latham and Watkins for the lead managers
Sukukholders' agent	SABB Securities
Governing law	Saudi Arabia
Shariah advisor	HSBC Saudi Arabia Amanah Shari'ah Committee
Structure	Hybrid Mudarabah and Murabahah

The Q&A was conducted with Debashis Dey (partner, head of Capital Markets Middle East) and Alex Roussos (senior associate) of Clifford Chance:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   The hybrid Mudarabah and Murabahah structure was employed as it was considered as offering the optimal Shariah sanctioned structure for risk allocation for investors. Investors' exposure to the Sukuk is split 49:51 between the issuer's credit risk and the issuer's business portfolio, respectively; 49% of the proceeds of the offering of the Sukuk have been (and will be) applied towards profit generating Murabahah arrangements entered into by the issuer, and the remaining 51% of the Sukuk proceeds are invested in assets constituting the issuer's business (and, consequently, linked to the returns generated from such assets). In the initial structuring stages of the transaction an additional Musharakah structure was contemplated. However, this was not implemented as it was deemed to add unnecessary complexity to the transaction and not suited to the issuer's business model.

2. **What will this capital be used for?**
   The proceeds of the Sukuk offering will be used by the issuer for strengthening its capital base as the Sukuk will comprise Tier II capital for current Saudi Arabian regulatory purposes; and to grow its banking and finance activities.

3. **What were the challenges faced and how were they resolved?**
   The main challenges faced by the working group were (i) constructing an innovative Sukuk structure appropriate for the issuer's Shariah compliant business model (as the Sukuk is the first issued by a fully Shariah compliant Bank in Saudi Arabia) and (ii) determining the Saudi regulatory capital treatment of the Sukuk, which was crucial given that the intention was for the Sukuk proceeds to be used to strengthen the issuer's capital base. With regard to (i), the solution, agreed after extensive discussion among the working parties, was to implement the hybrid Islamic structure described above. In respect of (ii), the issuer engaged in various discussions and meetings with SAMA in order to obtain from SAMA confirmation of the recognition of the Sukuk as Tier II capital under the current Saudi regulatory regime.

4. **Geographically speaking, where did the investors come from?**
   The offering of the Sukuk was restricted to, and subscribed entirely by, sophisticated investors (as described in Article 10 of the Offers of Securities Regulations issued by the Board of the Saudi Capital Market Authority (pursuant to its Resolution number 2-11-2004, dated 20/8/1425H (corresponding to 4/10/2004G), as amended), tax resident in Saudi Arabia.

5. **Was this deal rated? If not, explain why.**
   The deal was unrated. The offering was a private placement to specific sophisticated investors and, in view of the credit rating of the issuer ('A3'- Moody's Investors Service/'A'- Fitch Ratings), it was not considered necessary to obtain a separate credit rating for the Sukuk.

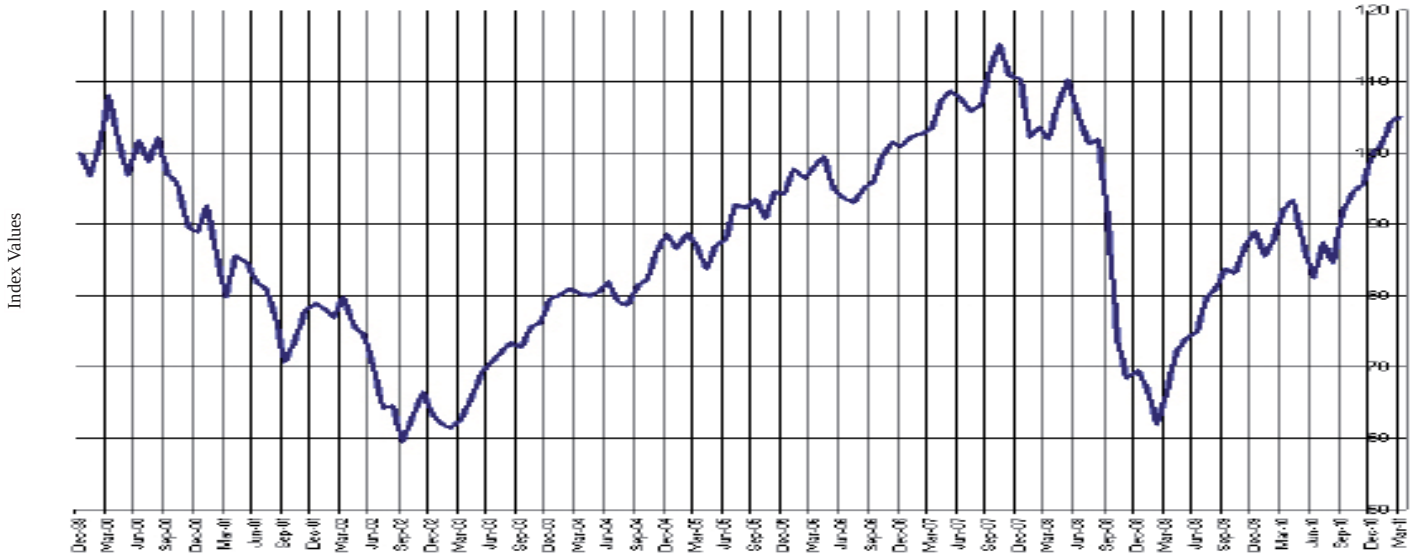
Deal tracker

Keeping you abreast of the world's upcoming Shariah compliant deals
Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Westport Malaysia	RM2 billion	Sukuk Musharakah
Ranhill Power	RM800 million	Sukuk Musharakah
Tamweel	TBA	Sukuk
Mazaya Qatar	TBA	Sukuk
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
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

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

Top 10 Islamic Funds by Key Performance Statistics



Annualized returns for ALL funds (as of the 26th April 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Taurus Ethical B	Taurus Asset Management	51.92	India
2	Shariah Benchmark Exchange Traded Scheme (Shariah BeES)	Benchmark Asset Management Company	37.41	India
3	ETFS Physical Silver	ETFS Metal Securities	27.56	Jersey
4	Kagiso Islamic Equity	Kagiso Asset Management	26.35	South Africa
5	Public Islamic Select Enterprises	Public Mutual	20.31	Malaysia
6	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	20.26	Malaysia
7	ETFS Physical Gold	ETFS Metal Securities	19.78	Jersey
8	ETFS Physical PM Basket	ETFS Metal Securities	19.66	Jersey
9	ETFS Physical Palladium	ETFS Metal Securities	18.50	Jersey
10	Atlas Islamic Stock	Atlas Asset Management	16.88	Pakistan
	** Eurekahedge Islamic Fund Index*		2.77	

Annualized Standard Deviation for ALL funds (as of the 26th April 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	iHilal Sharia Compliant Global Equity Opp (A)	iHilal Financial Services	0.00	Cayman Islands
2	RHB Islamic Income Plus 1	RHB Investment Management	0.11	Malaysia
3	Public Islamic Money Market	Public Mutual	0.16	Malaysia
4	PB Islamic Cash Management	Public Mutual	0.17	Malaysia
5	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.19	Malaysia
6	RHB Cash Management - Institutional	RHB Investment Management	0.24	Malaysia
7	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.24	Saudi Arabia
8	Kenanga Islamic Money Market	Kenanga Investors	0.24	Malaysia
9	PB Islamic Cash Plus	Public Mutual	0.28	Malaysia
10	CIMB Islamic Deposit	CIMB-Principal Asset Management	0.30	Malaysia
	** Eurekahedge Islamic Fund Index*		9.05	

EUREKAHEDGE

Contact Eurekahedge

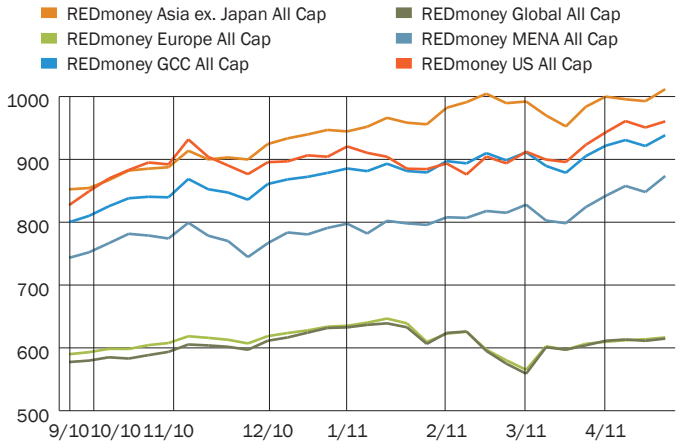
To list your fund or update your fund information: islamicfunds@eurekahedge.com

For further details on Eurekahedge: information@eurekahedge.com

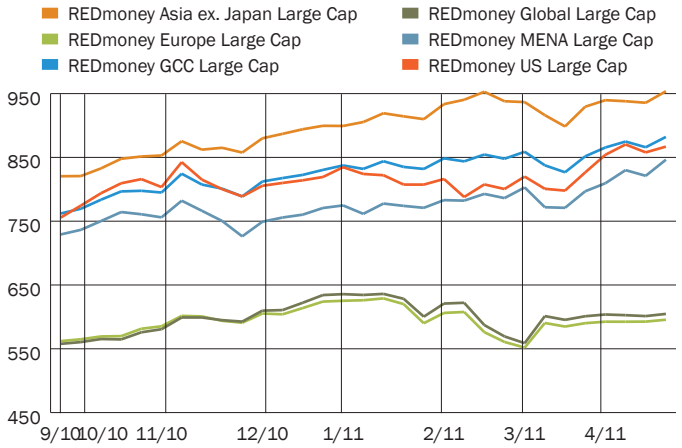
Tel: +65 6212 0900

EUREKAHEDGE

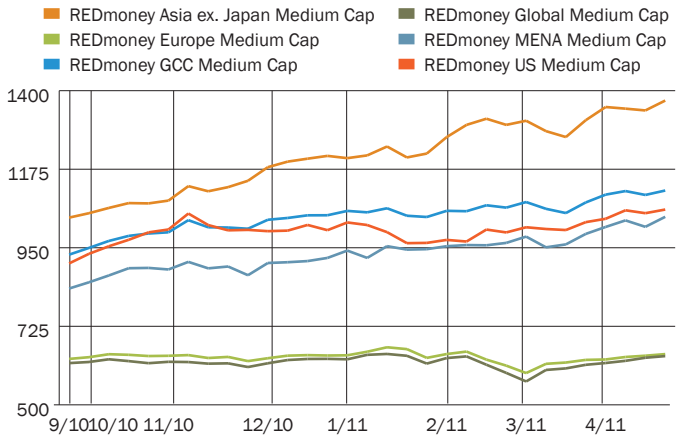
REDmoney GLOBAL SHARIAH INDEX SERIES (All Cap) *6 Months*



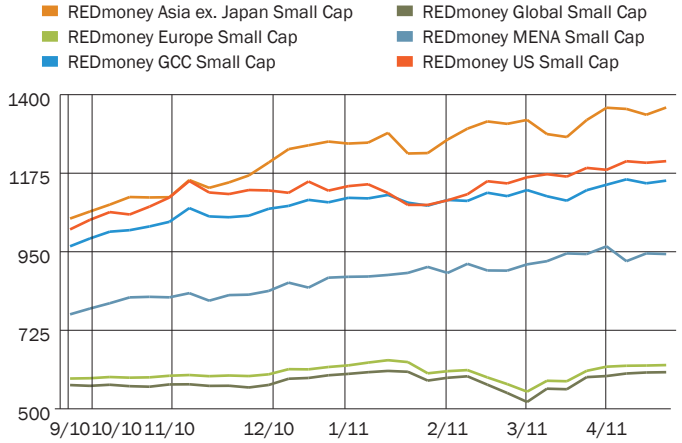
REDmoney GLOBAL SHARIAH INDEX SERIES (Large Cap) *6 Months*



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



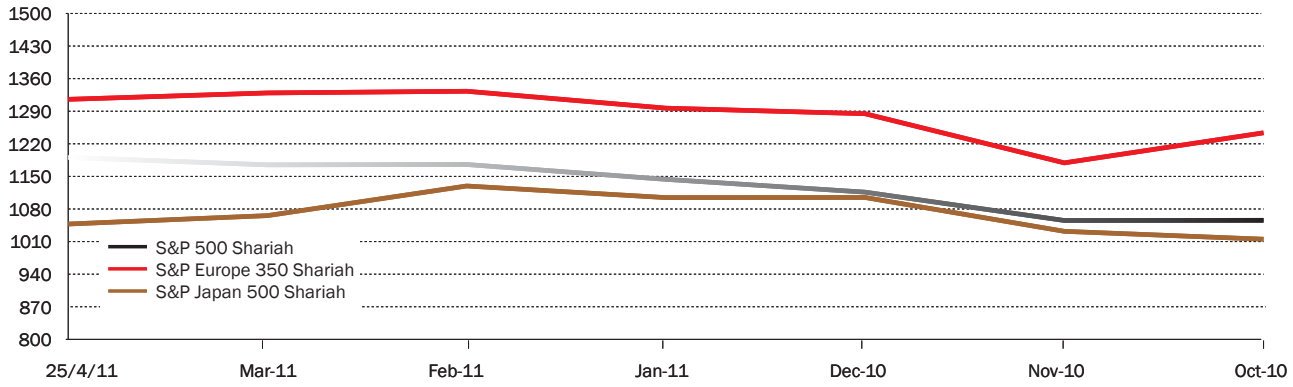
REDmoney GLOBAL SHARIAH INDEX SERIES (Small Cap) *6 Months*



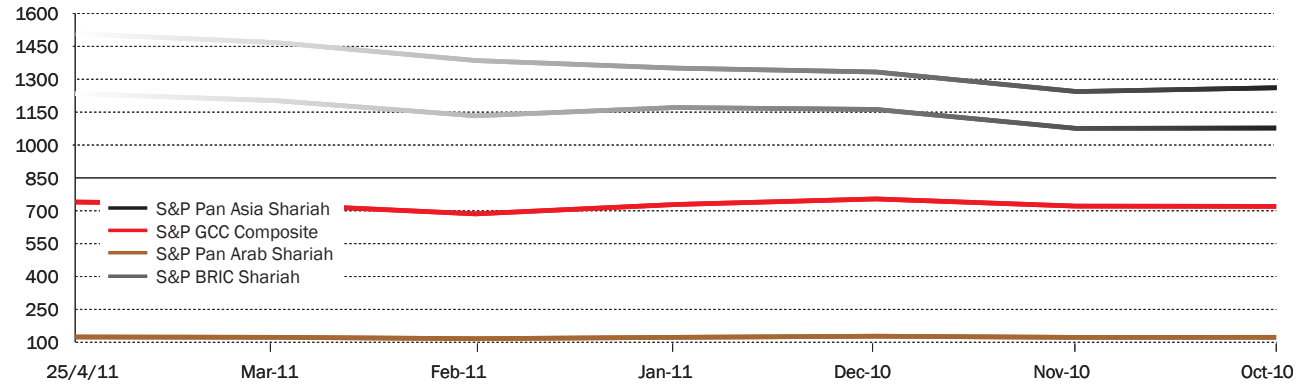
INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US Large Cap	953.66	1.72	4.24	14.68	6.04	4.23	38.69
REDmoney Europe Large Cap	846.37	5.30	3.74	9.19	9.24	3.72	41.66
REDmoney Global Large Cap	882.12	2.49	2.78	12.24	5.34	7.49	46.26
REDmoney MENA Large Cap	595.53	0.81	-5.04	4.72	-4.26	8.30	32.10
REDmoney GCC Large Cap	604.68	0.59	-4.88	7.46	-4.32	12.28	39.14
REDmoney Asia ex. Japan Large Cap	866.88	2.44	1.38	9.86	3.86	12.39	61.66

INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US All Cap	1,011.76	1.67	5.35	16.93	7.12	5.37	44.81
REDmoney MENA All Cap	616.59	1.44	-4.08	2.72	-2.70	2.49	24.87
REDmoney GCC All Cap	614.77	1.67	-4.00	4.56	-2.39	5.35	29.79
REDmoney Europe All Cap	873.52	5.32	3.97	10.31	9.51	5.69	47.35
REDmoney Global All Cap	938.50	2.61	3.16	13.26	5.86	9.03	54.68
REDmoney Asia ex. Japan All Cap	960.51	2.87	1.44	10.42	4.36	13.64	75.11

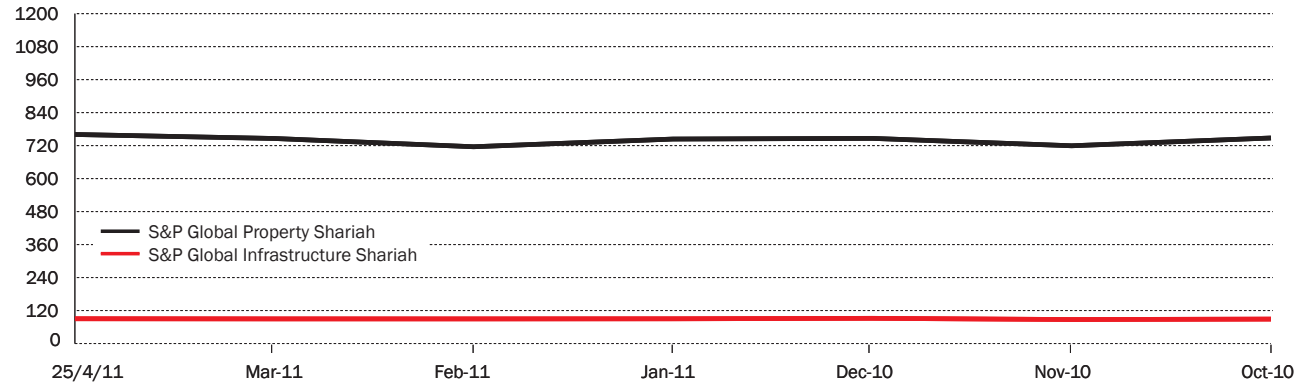
S&P Shariah Indices Price Index Levels



Index Code	Index Name	25-Apr-11	Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10
SPSHX	S&P 500 Shariah	1190.738	1174.819	1175.593	1143.662	1116.185	1055.305	1055.737
SPSHEU	S&P Europe 350 Shariah	1315.522	1329.256	1332.904	1296.598	1284.601	1179.078	1243.62
SPSHJU	S&P Japan 500 Shariah	1047.689	1065.75	1129.41	1104.465	1104.726	1032.02	1015.125



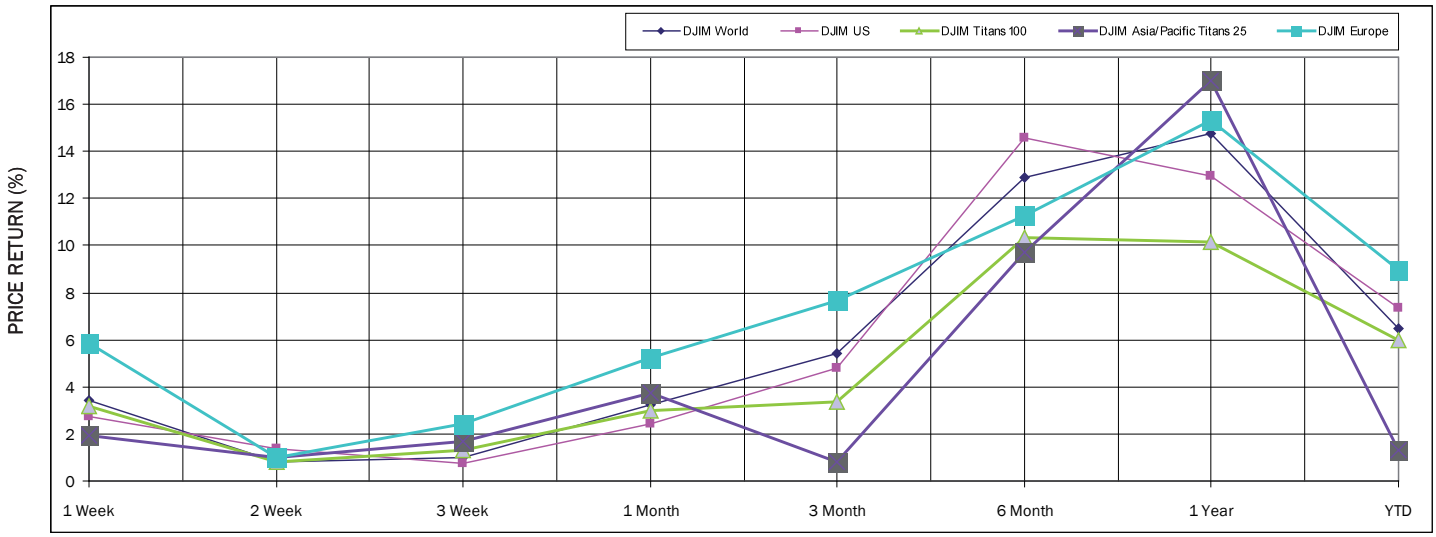
Index Code	Index Name	25-Apr-11	Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10
SPSHAS	S&P Pan Asia Shariah	1234.324	1202.539	1133.3	1170.956	1162.323	1075.868	1077.471
SPSHG	S&P GCC Composite Shariah	739.838	728.296	685.834	728.593	753.965	721.171	720.021
SPSHPA	S&P Pan Arab Shariah	124.187	122.631	116.293	122.54	127.698	122.361	122.657
SPSHBR	S&P BRIC Shariah	1513.032	1472.686	1390.791	1356.222	1338.497	1249.391	1266.724



Index Code	Index Name	5-Apr-11	Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10
SPSHGU	S&P Global Property Shariah	760.341	745.793	715.72	743.73	746.209	719.266	747.598
SPSHIF	S&P Global Infrastructure Shariah	90.129	89.633	89.602	89.978	91.68	87.253	88.875

Data as of the 25th April 2011

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	3.4	0.82	1.02	3.26	5.44	12.89	14.77	6.49
DJIM US	2.73	1.35	0.74	2.41	4.8	14.6	12.96	7.35
DJIM Titans 100	3.2	0.83	1.3	2.99	3.35	10.32	10.14	5.95
DJIM Asia/Pacific Titans 25	1.94	1.02	1.66	3.72	0.81	9.71	17.03	1.28
DJIM Europe	5.86	1	2.4	5.25	7.68	11.3	15.34	8.99

*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	2518	18701.62	14698.69	5.84	1.17	434.77	0.007663	2.9579	0.000052
DJIM US	581	7646.97	7242.33	12.47	3.62	434.77	0.145099	6.0032	0.002003
DJIM Titans 100	100	7638.75	6848.54	68.49	46.88	431.39	12.646974	6.2989	0.184667
DJIM Asia/Pacific Titans 25	25	1199.35	826.5	33.06	29.27	89.92	12.646974	10.8799	1.530184
DJIM Europe	267	3642.31	2924.65	10.95	2.57	158.91	0.27167	5.4335	0.009289
DJIM GCC	111	193.84	84	0.76	0.3	9.56	0.014322	11.3821	0.017051
DJIM MENA	160	382.93	110.01	0.69	0.16	15.17	0.007663	13.7926	0.006965
DJIM ASEAN	239	512.1	200.43	0.84	0.16	17.8	0.002169	8.8794	0.001082

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

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Dow Jones Indexes
A CME Group Company

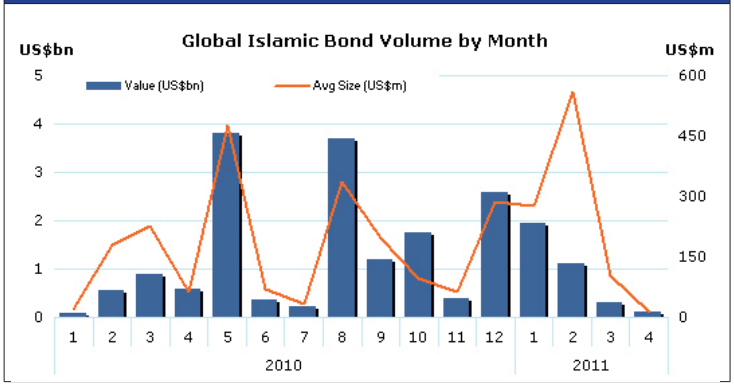
TOP 30 ISSUERS OF ISLAMIC BONDS *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	10.5	HSBC, Samba Capital
2	Cagamas	Malaysia	Sukuk	Domestic market private placement; Domestic market public issue	1,445,000,000	17	8.1	AmInvestment Bank, RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank, Standard Chartered, Cagamas
3	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	7.5	CIMB Group, Maybank Investment Bank
4	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275,000,000	2	7.2	Maybank Investment Bank
5	1Malaysia Sukuk Global Bhd	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	7.0	HSBC, Barclays Capital, CIMB Group
6	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market private placement	1,089,000,000	1	6.1	OCBC, DBS, CIMB Group
7	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985,000,000	1	5.6	HSBC, RHB Capital, CIMB Group
8	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	884,000,000	1	5.0	HSBC, CIMB Group
9	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	792,000,000	2	4.5	CIMB Group, Citigroup
10	Qatar Islamic Bank	Qatar	Sukuk Ijarah, Sukuk Murabahah	Euro market public issue	750,000,000	1	4.2	HSBC, Credit Suisse, QInvest
10	Abu Dhabi Islamic Bank	United Arab Emirates	Sukuk Musharakah	Euro market public issue	750,000,000	1	4.2	Standard Chartered, HSBC, Barclays Capital
12	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	1	2.8	Standard Chartered, HSBC, CIMB Group, Citigroup
12	Emaar Sukuk	United Arab Emirates	Sukuk	Euro market public issue	500,000,000	1	2.8	Standard Chartered, HSBC, RBS
14	Government of Ras Al Khaimah	United Arab Emirates	Sukuk	Euro market public issue	393,000,000	1	2.2	RBS, Citigroup
15	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361,000,000	1	2.0	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
16	National Bank of Abu Dhabi	United Arab Emirates	Sukuk Murabahah	Foreign market public issue	312,000,000	2	1.8	HSBC, Maybank Investment Bank, RBS
17	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.7	CIMB Group
18	Konsortium Lebuhraya Utara-Timur	Malaysia	Sukuk Musharakah	Domestic market public issue	280,000,000	13	1.6	CIMB Group
19	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267,000,000	1	1.5	JPMorgan, HSBC
20	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	240,000,000	2	1.4	Standard Chartered, Bank Muamalat Malaysia
21	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195,000,000	1	1.1	HSBC, CIMB Group
22	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.0	AmInvestment Bank
23	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	1.0	CIMB Group
24	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	1	0.9	RHB Capital, Maybank Investment Bank
25	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	163,000,000	2	0.9	OCBC, Public Bank, Affin Investment Bank
26	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	0.9	CIMB Group, AmInvestment Bank, Maybank Investment Bank
27	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	1	0.9	Lembaga Tabung Haji, RHB Capital, CIMB Group
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	CIMB Islamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	83,000,000	1	0.5	CIMB Group
	Total				**17,763,000,000**	**97**	**100**	

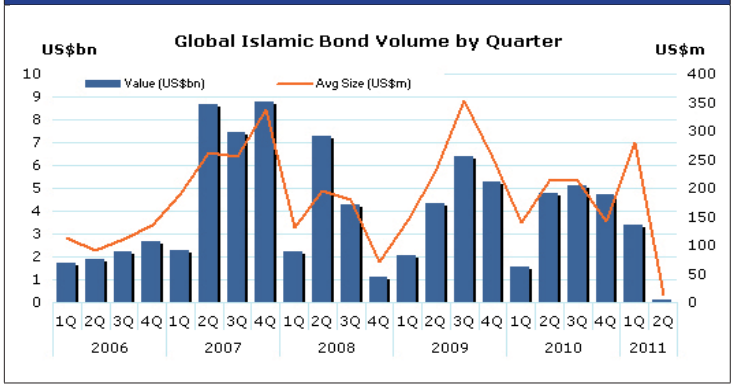
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
29th Mar 2011	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267,000,000	JPMorgan, HSBC
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
28th Jan 2011	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361,000,000	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 Chartered, HSBC, RBS
25th Jan 2011	Pengurusan Air SPV	Malaysia	Murabahah	Domestic market private placement	884,000,000	HSBC, CIMB Group
10th Jan 2011	Padiberas Nasional	Malaysia	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 Musarakah	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, HSBC, Barclays Capital
20th Oct 2010	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	Standard Chartered Bank, 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 SAQ	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

GLOBAL ISLAMIC BOND VOLUME BY MONTH



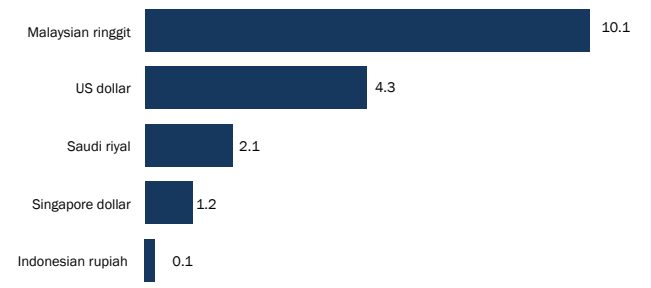
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



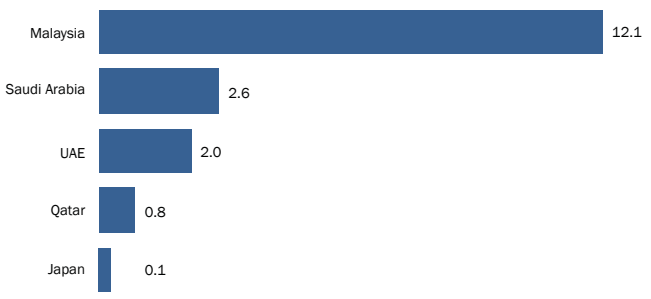
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB Group	4,332,000,000	45	24.4
2	HSBC	3,435,000,000	15	19.3
3	Maybank Investment Bank	2,422,000,000	21	13.6
4	AmInvestment Bank	1,054,000,000	11	5.9
5	Samba Capital	933,000,000	1	5.3
6	Citigroup	767,000,000	5	4.3
7	Standard Chartered Bank	685,000,000	7	3.9
8	Barclays Capital	667,000,000	2	3.8
9	RHB Capital	658,000,000	6	3.7
10	RBS	522,000,000	4	2.9
11	OCBC	424,000,000	3	2.4
12	DBS	363,000,000	1	2.0
13	QInvest LLC	250,000,000	1	1.4
13	Credit Suisse	250,000,000	1	1.4
15	Bank Muamalat Malaysia	168,000,000	3	1.0
16	KFH	150,000,000	2	0.8
17	JPMorgan	133,000,000	1	0.8
18	Lembaga Tabung Haji	131,000,000	3	0.7
19	Al-Rajhi Banking & Investment Corp	122,000,000	2	0.7
20	Affin Investment Bank	74,000,000	2	0.4
21	Public Bank	44,000,000	1	0.3
22	Kenanga Investment Bank	33,000,000	1	0.2
23	Mitsubishi UFJ Financial Group	25,000,000	3	0.1
24	Malaysian Industrial Development Finance	19,000,000	4	0.1
25	Trimegah Securities	18,000,000	1	0.1
25	Bank Mandiri (Persero)	18,000,000	1	0.1
25	(Persero) Danareksa	18,000,000	1	0.1
28	Cagamas	15,000,000	7	0.1
29	EON Bank	12,000,000	1	0.1
30	Indo Premier Securities	11,000,000	1	0.1
	Total	**17,763,000,000**	**97**	**100**

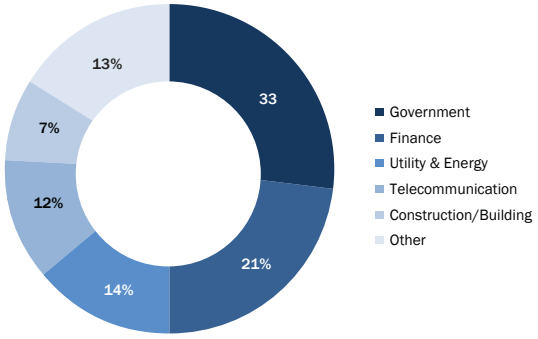
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



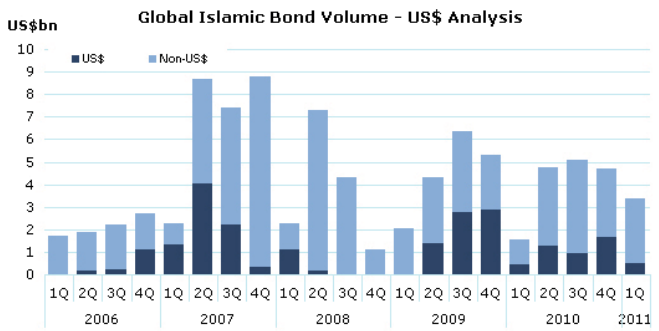
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



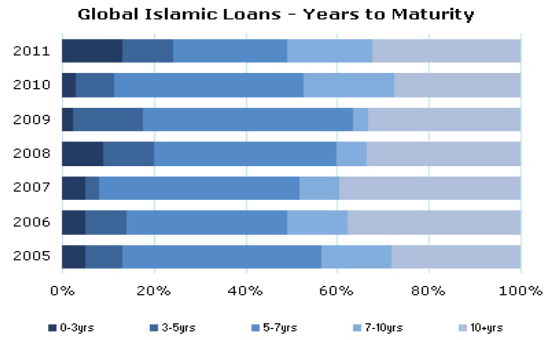
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



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



ALL DATA AS OF THE 25th APRIL 2011

SUKUK MANAGERS (12 months) APR 2010 – APR 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	27,621,178,650	118	60.2
2	CIMB	6,306,306,358	97	13.7
3	Malayan Banking	3,202,207,843	114	7.0
4	HSBC Banking Group	1,973,156,368	27	4.3
5	RHB Banking Group	1,048,496,650	24	2.3
6	Malaysian Industrial Development Finance	822,145,587	192	1.8
7	AMMB Holdings	677,757,346	61	1.5
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	Indonesia (Government)	172,097,265	6	0.4
15	EON Capital	167,833,963	54	0.4
16	OSK Holdings	162,189,420	19	0.4
17	RBS	159,113,250	2	0.3
18	Affin Holdings	158,108,445	14	0.3
19	Nomura	150,000,000	1	0.3
20	Samba Financial Group	133,333,333	1	0.3

SUKUK MANAGERS (3 months) JAN 2011 - APR 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	5,657,377,650	25	55.9
2	CIMB	1,356,395,589	19	13.4
3	HSBC Banking Group	978,399,795	7	9.7
4	Malayan Banking	411,692,914	11	4.1
5	RHB Banking Group	344,367,085	6	3.4
6	Standard Chartered Bank	208,308,245	2	2.1
7	AMMB Holdings	175,218,710	16	1.7
8	Indonesia (Government)	166,566,315	4	1.6
9	Malaysian Industrial Development Finance	161,114,238	41	1.6
10	OSK Holdings	70,146,363	7	0.7
11	OCBC Bank	61,449,189	3	0.6
12	Ciptadana Sekuritas	41,641,579	1	0.4
13=	Andalan Artha Advisindo Sekuritas	41,641,579	1	0.4
13=	Trimegah Securities	41,641,579	1	0.4
13=	Citigroup	41,641,579	1	0.4
13=	Danareksa Sekuritas	41,641,579	1	0.4
13=	Kresna Graha Sekurindo	41,641,579	1	0.4
13=	Sucorinvest Central Gani	41,641,579	1	0.4
13=	Mega Capital Indonesia	41,641,579	1	0.4
13=	Reliance Securities	41,641,579	1	0.4
13=	Bank Permata	41,641,579	1	0.4

SUKUK ISSUERS (12 months) APR 2010 – APR 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	24,982,135,850	101	48.9
2	Malaysia (Government)	3,257,968,300	17	6.4
3	Perusahaan Penerbit SBSN Indonesia	2,203,840,470	7	4.3
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	Govco Holdings	983,928,000	2	1.9
10	Bank Indonesia	891,903,659	15	1.7
11=	ADIB Sukuk	750,000,000	1	1.5
11=	Qatar Islamic Bank	750,000,000	1	1.5
13	Cantral Bank of Bahrain	530,454,000	1	1.0
14=	IDB Trust Services	500,000,000	1	1.0
14=	Emaar Sukuk	500,000,000	1	1.0
16	ESSO Malaysia	406,077,360	11	0.8
17	RAK Capital	400,000,000	1	0.8
18	BMA International Sukuk	397,851,900	14	0.8
19	Padiberas Nasional	364,357,251	4	0.7
20	Aman Sukuk	360,773,600	6	0.7

SUKUK ISSUERS (3 months) JAN 2011 - APR 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	5,657,377,650	25	47.2
2	Perusahaan Penerbit SBSN Indonesia	1,194,342,475	4	10.0
3	Govco Holdings	983,928,000	2	8.2
4	Pengurusan Air SPV	884,231,100	3	7.4
5	Pakistan, Islamic Republic of (Government)	555,696,307	1	4.6
6	Cantral Bank of Bahrain	530,454,000	1	4.4
7	Emaar Sukuk	500,000,000	1	4.2
8	Aman Sukuk	360,773,600	6	3.0
9	Maybank Islamic	330,557,000	1	2.8
10	BMA International Sukuk	175,037,020	6	1.5
11	CIMB Islamic	83,486,500	1	0.7
12	Perbadanan Kemajuan Negeri Selangor	62,797,590	3	0.5
13	KNM Capital	59,196,780	5	0.5
14	Telekom Malaysia	50,091,900	1	0.4
15	Bank Indonesia	46,549,460	3	0.4
16	TSH Sukuk Ijarah	42,744,160	3	0.4
17	Goodway Integrated Industries	39,438,440	9	0.3
18	Hubline	36,402,830	3	0.3
10	Bank Pembangunan Malaysia	33,055,700	1	0.3
20=	Toyota Capital Malaysia	32,797,600	1	0.3

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

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ALL DATA AS OF THE 25th APRIL 2011

LOAN MANDATED LEAD ARRANGERS (12 Months) APR 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	16.9
2=	Credit Agricole CIB	675,997,446	4,064,828,226	3	8.5
2=	Samba	675,997,446	4,064,828,226	3	8.5
4	HSBC	644,583,333	4,237,000,000	4	8.1
5	National Commercial Bank	631,193,862	3,975,221,058	3	7.9
6	Abu Dhabi Islamic Bank	561,678,136	745,179,136	3	7.0
7	Arab Bank	544,583,333	3,937,000,000	3	6.8
8	Saudi Hollandi Bank	499,583,333	3,712,000,000	2	6.2
9	Citigroup	307,853,550	307,853,550	2	3.9
10	WestLB	295,000,000	475,000,000	4	3.7
11	Standard Chartered Bank	196,548,146	739,859,250	3	2.5
12	Al Hilal Bank	183,500,999	367,001,999	1	2.3
13=	Noor Islamic Bank	159,548,146	554,859,250	2	2.0
13=	Arab Banking Corporation	159,548,146	554,859,250	2	2.0
15=	Saudi Investment Bank	119,083,333	1,429,000,000	1	1.5
15=	Islamic Develop-ment Bank	119,083,333	1,429,000,000	1	1.5
15=	Riyad Bank	119,083,333	1,429,000,000	1	1.5
15=	Bank Al-Jazira	119,083,333	1,429,000,000	1	1.5
15=	Al Rajhi Banking & Investment	119,083,333	1,429,000,000	1	1.5
20=	Masraf Al Rayan	100,000,000	300,000,000	1	1.3
20=	Royal Bank of Scotland	100,000,000	300,000,000	1	1.3
22	National Bank of Abu Dhabi	76,214,813	304,859,250	1	1.0
23=	BNP Paribas	45,000,000	225,000,000	1	0.6
23=	Gulf International Bank	45,000,000	225,000,000	1	0.6
25=	Abu Dhabi Commercial Bank	37,000,000	185,000,000	1	0.5
25=	Deutsche Bank	37,000,000	185,000,000	1	0.5
25=	Mubadala GE Capital	37,000,000	185,000,000	1	0.5
25=	Development Bank of Singapore	37,000,000	185,000,000	1	0.5

LOAN BOOKRUNNERS (12 Months) APR 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	40.0
2	Abu Dhabi Islamic Bank	378,177,137	378,177,137	2	13.7
3	WestLB	325,000,000	475,000,000	4	11.8
4	Citigroup	307,853,550	307,853,550	2	11.2
5	Standard Chartered Bank	168,714,813	489,859,250	2	6.1
6	Deutsche Bank	92,500,000	185,000,000	1	3.4
7=	Arab Banking Corporation	76,214,813	304,859,250	1	2.8
7=	National Bank of Abu Dhabi	76,214,813	304,859,250	1	2.8
7=	Noor Islamic Bank	76,214,813	304,859,250	1	2.8
10=	HSBC	75,000,000	225,000,000	1	2.7
10=	BNP Paribas	75,000,000	225,000,000	1	2.7

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

	Borrower	Country	Islamic Loan Amount (US$)
1	Marafiq	Saudi Arabia	2,283,000,000
2	Jubail 2	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	Bank Asya	Turkey	304,859,250
8	Qatari Diar Real Estate	Qatar	300,000,000
9	Turkiye Finans	Turkey	294,853,550
10	Albaraka Turk	Turkey	250,000,000
11	Ras Al Khaiman Ceramics	UAE	225,000,000
12	GMMOS	UAE	185,000,000
13	Emirates Trading Agency	UAE	100,000,000
14	Gulf Finance House	Bahrain	100,000,000
15	Emirates National Factory for Plastic	UAE	68,067,959
16	Bukhatir	UAE	50,000,000
17	Adopen Plastik ve Insaat	Turkey	13,000,000

ALL DATA AS OF THE 25th APRIL 2011

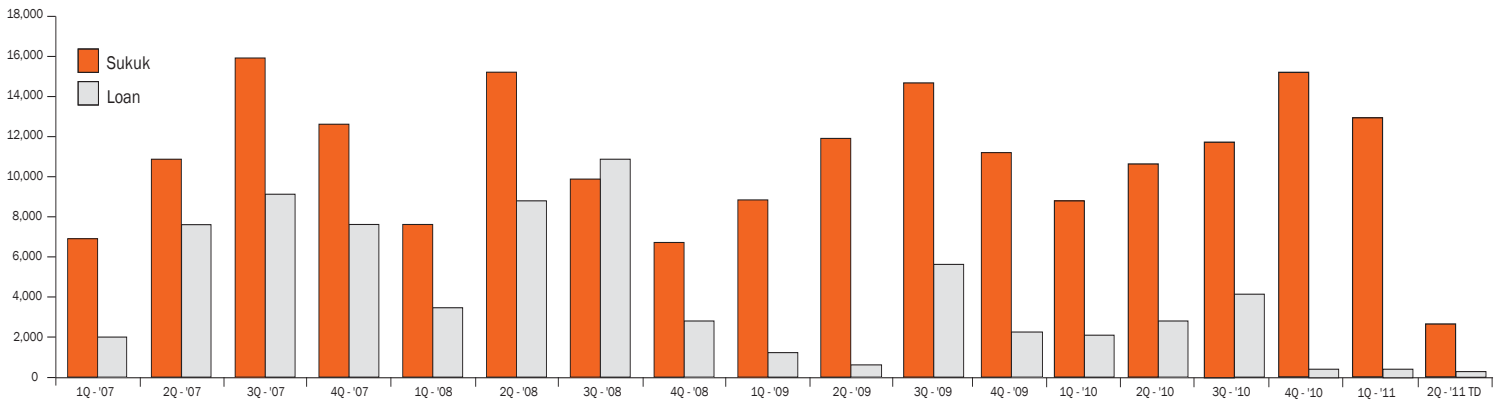
SUKUK BY COUNTRY	(12 Months)	APR 2010 – MAR 2011
Country	**Volume Issued**	**Volume Outstanding**
Malaysia	42,202,245,087	20,053,606,683
Indonesia	3,192,020,704	2,711,113,324
Eurobond	3,000,000,000	3,000,000,000
Pakistan	1,594,481,152	1,594,481,152
Bahrain	928,305,900	785,053,020
US	125,000,000	125,000,000
Singapore	74,243,950	74,243,950
Saudi Arabia	-	-
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	APR 2010 – MAR 2011
Country	**Volume (US$)**	**Market Share (%)**
Saudi Arabia	5,427,929,268	67.9
UAE	1,305,179,136	16.3
Turkey	862,712,800	10.8
Qatar	300,000,000	3.8
Bahrain	100,000,000	1.3

SUKUK BY INDUSTRY	(12 Months)	APR 2010 – MAR 2011
Industry	**Volume Issued**	**Volume Outstanding**
Other financial	35,629,668,398	14,894,357,071
Sovereign	6,274,807,111	5,793,899,731
Agency	2,373,255,740	2,309,489,690
Manufacturing	1,696,328,353	968,489,017
Banks	1,670,467,950	1,670,467,950
Telephone	1,393,029,300	1,393,029,300
Transportation	569,319,820	447,614,205
Energy company	470,503,495	32,771,280
Electric power	372,633,000	216,991,000
Consumer goods	364,357,251	364,357,251
Service company	301,926,375	252,032,634
Gas distribution	-	-

LOANS BY INDUSTRY	(12 Months)	APR 2010 – MAR 2011
Industry	**Volume (US$)**	**Market Share(%)**
Construction	2,608,000,000	32.6
Oil and gas	1,614,000,000	20.2
Retail & supermarkets	1,099,879,984	13.8
Financial services	999,712,800	12.5
Utilities	616,049,284	7.7
Manufacturing	367,001,999	4.6
Services	310,109,178	3.9
Real estate	300,000,000	3.8
Chemicals & plastics	81,067,959	1.0

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
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*
8th	IFN Roadshow Thailand	Bangkok	REDmoney *events*
30th	IFN Roadshow Brunei	Brunei	REDmoney *events*

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Company Index

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

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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.