Islamic Finance news

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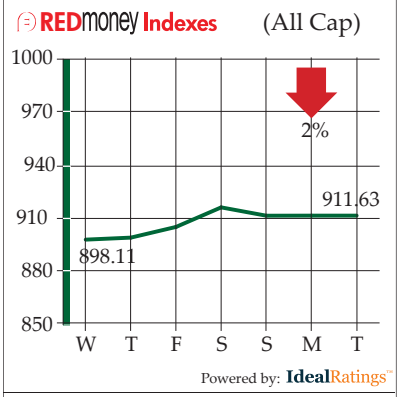
REDmoney publication

1st June 2011



Volume 8 Issue 21

www.islamicfinancenews.com

A Blessing in Disguise?

Cover Story

The Arab spring has brought political turmoil and economic uncertainty to MENA. The region has seen revolutions in Tunisia and Egypt; a civil war in Libya; major uprisings in Bahrain, Syria, and Yemen; and uprisings in Lebanon, Saudi Arabia, and Sudan. Yet while investor confidence has been shaken, the impact on the financial sector has not been catastrophic. Markets are buoyant, Sukuk is selling, and money is moving. Could the Jasmine revolution possibly be a *good* thing for the industry…?

The most significant region of unrest in terms of Islamic finance is of course Bahrain, where a State of Emergency was declared in March after violent political protests. Bahrain has the largest concentration of Islamic finance institutions in the world and is home to many significant bodies including AAOIFI and the Islamic International Rating Agency (IIRA). For an industry still recovering from the effects of the Middle East crisis in 2009, a threat to the Bahraini Islamic finance sector could have serious implications.

Negative impact

In March, Bahrain's offshore banks saw a 10% decline in assets to US$134.9 billion, their lowest level since 2005. The value of shares traded by the Bahrain Bourse in Q1 fell by 50% year-on-year to BHD22.11 million (US$58.66 million), and the exchange is rumored to have delayed the launch of its conventional trading platform in response to the crisis. Fitch cut the kingdom's ratings to 'BBB' and placed it on Negative Watch, while Standard & Poor's (S&P) also lowered it to 'BBB' from 'A-'. Purvi Harlalka, the director of Fitch's Middle East and Africa Sovereign Ratings Group, said that the changes reflect the "intensification of unrest, which…has created economic and political uncertainties which increase the risks to the sovereign's credit profile".

Islamic bankers and industry experts in Bahrain are tight-lipped, with most of the institutions and individuals approached by Islamic Finance *news* refusing to comment. There is no doubt that the current political turmoil has had repercussions on Bahrain's position as leader in Islamic finance. But does this extend to the wider market?

Investors wary

According to a recent survey, 50% of senior executives in the UAE see political unrest in the Middle East as the biggest threat to business conditions. Investors are demanding higher yields to hold the debt of countries hit by the unrest, with Bahrain reportedly delaying a US$1 billion Sukuk issuance until yields fall. Corporate activity is also stalling as companies wait for prices to improve; with corporates accounting for just 8% of this year's expected pipeline compared to 12% of Sukuk in 2010.

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A new dawn

Editor's Note

As we prepare to enter the second half of the year, the markets are looking forward to better prospects and new beginnings. We at Islamic Finance *news* are turning over a fresh page of our own, and it is with great pleasure we introduce you to our new look. In addition to our regular sections, there's now more content to provide you with a complete analysis of the Islamic finance industry.

Our cover story on the impact of the Middle East's unrest on the region's Shariah compliant financial industry...

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NEWS

Sudan's central bank approves **Abu Dhabi Islamic Bank** branch

RHB Capital charts 9.26% rise in first quarter net profit to US$125 million

Malaysian finance appoints **Maybank Investment Bank**, **CIMB Investment** and **HSBC Amanah Malaysia** as advisors for global Sukuk

The **IDB** provides US$285 million- worth of financing and grants for Bangladesh

Bank Syariah Mandiri's net profit for the first quarter of 2011 rises by 54.35% to US$15.75 million

Securities Commission of Malaysia releases updated list of 847 Shariah compliant counters

Perusahaan Listrik Negara to decide on US$2 billion funding for capital expenditure by June

BIMB Holdings turns down merger between **Bank Islam** and **Bank Muamalat**

Maybank eyes more Sukuk underwriting deals with purchase of **Kim Eng Holdings**

Glenmarie Properties inks agreement with **Bank Muamalat Malaysia** to develop home financing package

Malaysia still lacks Shariah financial planners, says deputy finance minister

HSBC Holdings contemplates bringing Islamic financial services down under

Affin Holdings records 20.9% lower pre-tax profit to reach US$47 million for the first quarter

Azerbaijan needs major regulation amendments, says auditing firm

Bank Muamalat Malaysia seeks to raise profits by 15 - 20% this year

Bank Negara Malaysia issues US$1.33 billion sovereign Sukuk

The Islamic Bank of Thailand prepares to implement government's debt refinancing scheme

UKIFS integrates into **TheCityUK**

JCCI chairman and president of Tatarstan discuss turning the Republic into center for Islamic finance

PwC urges Islamic banks to step up risk management

Over 50% of **Bank Muamalat Indonesia** to be sold

Middle East IPOs dip to lowest level in five years

Dubai World subsidiary, **Port & Free Zone World** considers refinancing options

Islamic finance industry unaffected by MENA's political crisis, says **Patton Boggs**

IDB negotiates with international and regional finance institutions to fund US$5 billion Jordanian railway project

The GCC may issue up to 20 Sukuk over the next six months, says **StanChart**

The World Bank recognizes Islamic finance as a priority area in its financial sector program

Dubai Sukuk falls most in six months due to investor concern on European debt crisis

Shariah standards important for Islamic finance growth, says **AAOIFI**

Iran's budget 2012 allows government bond and Sukuk issuances of up to US$32.99 billion

Axis secures US$1.2 billion Shariah compliant financing

Bahrain Islamic Bank to issue up to 75% of its paid up capital

Nakheel's Sukuk profit rate unchanged

Central Bank of Bahrain's US$31.83 million issue of monthly Sukuk Al-Salam oversubscribed by 483%

Qatar Central Bank rulings to impact banks' earnings

ADIB and **Khalifa Fund for Enterprise Development** sign MoU

HSBC Bank Middle East sells US$500 million five-year Sukuk

Saar Central signs agreement with **Al Baraka Islamic Bank** to offer Islamic home financing scheme

Oman's Islamic banking assets could grow to US$6 billion in five years, says **Ernst & Young**

MARC signs technical agreement with **IIRA**

SATORP Jubail refinery's Sukuk lead arrangers to seek **Capital Markets Authority** approval for US$995 million program

ISLAMIC INVESTOR

Mark Mobius recommends Islamic funds to the SRI industry

Pakistan's Islamic funds record solid growth

Public Mutual declares distributions for ten funds

ASM Investment's clients lean toward Shariah compliant services

Reliance Asset Management (Malaysia) is the investment manager for Reliance China-India Shariah Growth Fund

NEST Corporation selects **HSBC Life Amanah Pension Fund** as its Shariah fund

TAKAFUL

Takaful Malaysia plans to employ 1,900 further sales personnel

Faysal Bank, **Barkat Islamic** and **Pak Kuwait Takaful** sign MoU

Takaful Malaysia collaborates with **University of Malaya**

Amana Takaful launches **Amana Takaful Prosper**

Takaful Ikhlas seeks US$166 million in new buisness contributions by 2015

RATINGS

RAM downgrades **Syarikat SESCO's** US$198 million Bai Bithaman Ajil Islamic securities from 'AAA' to 'AA1'

RAM reaffirms 'AA1' rating of **Segari Energy Ventures**' US$303 million Sukuk Ijarah

RAM assigns 'A3' to **Bank Muamalat Malaysia**'s US$130 million proposed Sukuk program

Fitch downgrades **Kuwait International Bank** to 'D' from 'C/D'

S&P has revised **DP World**'s outlook from stable to positive

MOVES

Abdul Wahid Omar resigns as **Bursa Malaysia**'s non-executive director

A Blessing in Disguise?

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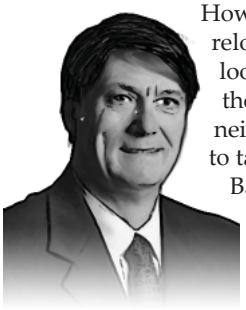

However, as expats relocate and investors look for alternatives, there is potential for neighboring players to take advantage of Bahrain's problems. The UAE is an obvious candidate, with investor confidence boosted by recent progress in debt restructuring from Dubai World, strong government support for financial institutions (see the recent bailout of Dubai Bank), high oil prices, and investment in infrastructure. The UAE is particularly well-placed to benefit from the uncertain future faced by other countries, and overall business confidence in the region is rising, with 57% of executives believing current conditions to be better than in 2010.

"No major impact"

John H Vogel (*photo top*), senior corporate and finance partner at international law firm Patton Boggs LLP, speaking at the Luxembourg Financial Forum last week, asserted that the Islamic finance industry has not suffered major setbacks due to the turmoil. "The range in Shariah finance is so broad regionally and in relation to products, that its annual growth rate of 15% is not in danger".

Dr Mohammad Farooq (*photo right*), the head of the Center for Islamic Finance at the Bahrain Institute of Banking and Finance (BIBF), believes that even Bahrain will emerge relatively unscathed: "There has not been any major withdrawal of business...and according to the Central Bank there has not been any major flight of capital. During the height of the turmoil some companies with main offices in neighboring countries temporarily moved their expats. However...most of those who went out of the country have returned."

Total domestic assets in Bahrain remained stable in Q1, at US$43.72 billion compared to US$44.15 billion the previous year. Total assets of Islamic retail and wholesale banks also held steady, at US$24.62 billion compared to US$24.5 billion in Q1 2011. The value of trade in Bahrain actually increased marginally to BHD15.15 million (US$10.19 million), up from BHD15.02 million (US$39.85 million) in 2010, suggesting that fears of capital flight are indeed unfounded.

Strength in Sukuk

Demand for Islamic paper also remains buoyant, with rising oil revenues and increased infrastructure spending in stable regions fuelling an upswing in corporate spending. Despite investor uncertainty in unstable countries, overall global Sukuk yields have fallen; and the spread between GCC Sukuk and Libor has tightened. Borrowing costs have been declining steadily, falling to 4.52% on the 18th May: the lowest since December 2005 according to the HSBC/Nasdaq Dubai GCC Dollar Sukuk Index.

In Q1 of this year around US$32.4 billion in Sukuk was issued, a positive start compared with just US$51.2 billion throughout the whole of 2010. Sharjah Islamic Bank's recent US$400 million Sukuk sale was nine times oversubscribed, indicating strong investor appetite. Saudi-based Islamic Development Bank last week issued a US$750 million Sukuk which saw a 53% take-up from the MENA region, and is considering the sale of another US$700 million.

Saudi Electricity Co last month announced plans to issue up to US$1.5 billion by early 2012, while Bahrain-based Al Baraka Banking Group announced in May that it has resumed plans to sell US$300 million in Islamic paper by September, previously shelved due to the political unrest. The Egyptian Central Bank has also approved a US$150 million Sukuk by Al Baraka Egypt, which is likely to go ahead by the end of 2011. Al Baraka Banking Group saw Q1 profits rise by 11% despite regional problems (although its Egyptian subsidiary suffered, with Q1 profits falling 43%).

Government aid

Prolific investment in public projects is driving demand for financing. Saudi Arabia has countered possible

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CLOSING BELL

CIMB, Maybank, in RHB Capital merger talks

MALAYSIA: CIMB Group Holdings and Malayan Banking have separately announced that they have received approval from Bank Negara Malaysia, the central bank, to commence negotiations with RHB Capital and its substantial shareholders for a possible merger of their businesses.

The banks said their approvals to commence discussions are valid for a period of three months from the 31st May 2011, adding further details on a possible merger will be announced in due course.

CIMB's announcement comes after it denied putting in a bid for a stake in RHB Capital, in May. Twenty five percent of RHB Capital is for sale by Abu Dhabi Commercial Bank.

First round bids for the stake, which is being advised by Goldman Sachs and Bank of America Merrill Lynch, were reportedly held on the 19th May.

Rights issue to repay Al Rajhi

SAUDI ARABIA: Jabal Omar's SAR350 million (US$93.33 million) bridge financing from Al Rajhi Bank will be partly repaid via a SAR9.3 billion (US$2.48 billion) rights issue.

The Saudi developer's shareholders on the 29th May approved a 38.4% capital increase which will be raised through the rights issue, to be offered from the 6th June through to the 15th June.

Eliminating overlap

KUWAIT: Investment firms will be required to have separate licenses for financing and investment businesses following the central bank's decision to eliminate regulatory overlap through the newly formed Capital Markets Authority.

IL&FS to raise funds

GLOBAL: IL&FS Financial Services (IL&FS) plans to raise funds for projects in India and abroad through its newly opened office in the Dubai International Financial Centre.

The office will offer investment banking services aimed at Indian and international customers in the MENA region.

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unrest through lavish public spending: including US$10.6 billion for real estate development and over US$93 billion in infrastructure projects including schools, hospitals, railways, and ports.

Qatar has also launched an extravagant spending program. The record 2011/12 budget includes 41% of public expenditure earmarked for public projects and infrastructure development, including the New Doha Port and the New Doha International Airport. The country plans to invest over US$125 billion in construction projects between 2011-2016 in preparation for the 2022 World Cup.

In a move designed to boost investor activity, the World Bank in April last month also announced the launch of the Arab Financing Facility for Infrastructure, in collaboration with the International Finance Corporation and the IDB. The fund is intended to encourage public-private partnerships and support investment following the recent political turmoil. It plans to raise up to US$1 billion for investment in infrastructure projects across the MENA region.

Wider implications

So the Gulf is looking strong, and Bahrain claims to be keeping its head above water. But what about the prospects for Islamic finance in less developed countries caught up in the revolutionary tide?

Well, the future looks surprisingly bright. Both Egypt and Tunisia are holding free elections this year, and the Muslim Brotherhood last week announced that if it wins it will launch Islamic finance in Egypt and issue Sukuk to tackle the deficit. In Tunisia Jalloul Ayed (*Photo*), the Minister of Finance, recently identified the development of Tunis as a capital for Islamic finance as one of his four focus areas to strengthen the economy.

Tunisia has undergone increasing economic liberalization over the last decade, and was ranked top in Africa in the World Economic Forum's 2011 Global Competitiveness Report. In April the fourth annual Africa Forum of Islamic Finance was held in Tunis, in an attempt to show solidarity with the country and contribute to its economic recovery.

Although the recent turmoil may have damaged investor confidence and subdued regional markets, leadership change and the spread of democracy could in the long-run considerably increase potential for Islamic finance in the region. With any luck this short-term unrest is the precursor to a more open, more stable, and more profitable Middle East.

A new dawn

Editor's Note

As we prepare to enter the second half of the year, the markets are looking forward to better prospects and new beginnings. We at Islamic Finance *news* are turning over a fresh page of our own, and it is with great pleasure that we introduce you to our new look. In addition to our regular sections, there's now more content to provide you with a complete analysis of the Islamic finance industry.

Our cover story on the impact of the Middle East's unrest on the region's Shariah compliant financial industry kicks off our revamped issue and questions whether the Arab spring has really threatened the region's financial sector or has instead acted as a catalyst for promising changes.

We now also have two new sections; Islamic Investor and Takaful news, dedicated to Islamic investing and the Shariah compliant insurance markets. This week, Islamic Investor takes a look at equity funds and highlights the opportunities asset managers can seize as the markets perform well against the volatility of the wider capital markets. We also bring you an article by law firm Conyers Dill & Pearman which discusses Bermuda's new guidelines on Islamic funds.

Takaful news this week considers the outlook for global Takaful, while a report from AM Best Europe looks back at the growth and challenges seen in the Middle East's Takaful market. Their article highlights that the main hurdles in the medium-term are to develop a distinct and innovative industry made up of financially stable companies, working within a clearly regulated framework.

Our Insider report discusses Al Baraka Banking Group's international strategy and global competitiveness.

We also bring you our regular feature articles, which include a report by the Qatar Financial & Business Academy which looks at the growing need for education in Islamic finance, and highlights the increasing interest in the industry, especially from the west. In other features; Sanlam Private Investments and Hum Securities discuss the essentials of Islamic stock broking and trading, while law firm Borden Ladner Gervais presents the prospects for the Islamic capital market in Canada.

Dow Jones Indexes write in their report that the Islamic finance industry has reached a tipping point, where product innovation is providing the industry with the impetus for further growth.

Our IFN Reports this week highlight the prospects for the Sukuk market in 2011 following a slow start to the year; developments at Bank Muamalat Indonesia and the International Islamic Liquidity Management Corporation's sluggish take off, despite the responsibility it has been tasked to shoulder.

We also have IFN Reports on the digitalization of Bangladesh's banking industry, developments in taxation in Australia and Canada, the progress of Takaful in Brunei, Afghanistan's draft guidelines for Islamic banking windows and the optimism for Islamic finance in a new Egypt.

AFRICA

ADIB to open Sudan branch

SUDAN: The Central Bank of Sudan has approved Abu Dhabi Islamic Bank's (ADIB) request to open a branch.

ADIB currently has more than US$400 million-worth of investments in Sudan, which it is targeting to double with the opening of its branch.

ASIA

Small progress in profit

MALAYSIA: RHB Capital's first quarter net profit, ended on the 31st March, increased by 9.26% to RM382.12 million (US$125 million).

The banking group attributed its improved financial performance to higher Islamic banking income, other operating income and lower allowance for impairment on loans, financing and other losses, partially offset by higher operating expenses.

Income from its Islamic banking business stood at RM91.2 million (US$30 million), due to higher net profit income, following a 6% financing growth to RM9.6 billion (US$3.14 billion) and higher net gains on revaluation of financial assets and derivatives.

Potential Sukuk advisors

MALAYSIA: The finance ministry is reportedly planning to appoint Maybank Investment Bank, CIMB Investment, Citigroup and HSBC Amanah Malaysia as advisors for its new 10-year global Islamic sovereign Sukuk, expected next month.

IDB to increase support

BANGLADESH: The Islamic Development Bank (IDB), which entered into agreements to provide US$285 million-worth of financing and grants to the Bangladeshi government, is expected to provide more financial support to the country to fund oil imports.

Mohammad Muqtadir Ali, the chairman of Bangladesh Petroleum Corporation (BPC), said the country needs US$8.57 billion to import 7.03 million tonnes of oil for the fiscal year ending the 30th June 2012. BPC is the country's sole state-run oil importer and distributor.

Of the US$285 million in financing and grants provided by the IDB, US$140 million will be used to finance a six kilometer multi-purpose bridge on the Padma river; while US$130 million will be channeled toward grants to reconstruct the economy of coastal areas battered by cyclone Sidr in 2007.

The IDB has already provided Bangladesh with US$1.09 billion-worth of funds in the current fiscal year ending the 30th June 2011.

Meanwhile, Dr Ahmad Mohamed Ali Al Madani, president of the IDB, said Islamic banking is expected to chart strong growth in Bangladesh, where there are now seven fully fledged Shariah compliant banks. He said the expansion of Islamic banking in the country is due to customers' preference for Shariah compliant banking while commercial banks expect to earn more from providing Islamic financial services.

Profit surges 54.35%

INDONESIA: Bank Syariah Mandiri's net profit for the first quarter of 2011 rose by 54.35% to IDR134.89 billion (US$15.75 million).

The improved financial performance is attributed to the growth in revenue and marginal income, which climbed 42.82% to IDR603.16 billion (US$70 million).

Financing climbed 53.48% to IDR27.09 trillion (US$3.16 billion). This increase led to a 52.33% surge in the bank's assets to IDR36.27 trillion (US$4.23 billion).

Updated Islamic securities list

MALAYSIA: The Securities Commission of Malaysia has issued an updated list of 847 Shariah compliant counters. The list constitutes 89% of the total 957 listed securities on Bursa Malaysia.

The list includes 24 newly classified Islamic securities and excludes five from the previous list.

The new stocks are: APFT, Asia Bioenergy Technologies, Asia Media Group, Benalec, Berjaya Food, Biolermech Holdings, Careplus Group, Century Software Holdings, Focus Lumber, Golden Plus Holdings, Ideal Jacobs (Malaysia) Corporation, K Seng Seng Corporation, Kluang Rubber Company (Malaysia), Land

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Merger speculation dismissed

UAE: Sheikh Ahmed Saeed al-Maktoum, the chairman of Noor Islamic Bank (NIB), has quashed rumors regarding the bank's plan to merge with another financial institution.

Sheikh Ahmed, who is also the chairman of Dubai's Supreme Fiscal committee which oversees the emirate's fiscal policies, said speculations of a merger were unfounded.

The Dubai government recently said it would consider merging Dubai Bank with another state-owned financial institution following its bailout, which sparked rumors that Noor Islamic Bank was a possible candidate.

Presently, the state government has stakes in six commercial banks in the UAE, including Dubai Islamic Bank, Emirates NBD, and Noor Islamic Bank.

In other news, Noor Islamic Bank is expecting to break even this year and record more than 25% in balance sheet growth, driven by corporate finance, structured deals, syndications and mortgages.

Hussain Al-Qemzi, CEO of NIB, said the bank posted a net profit of AED58 million (US$15.79 million) for the first quarter of 2011, with its operating income increasing to AED113 million (US$30.77 million).

The bank, which was launched in 2008, was affected by the financial crisis. Cautious efforts to assist its recovery have resulted in better shape, he said.

The bank's growth this year is projected to be boosted by financing to corporate businesses. It also sees a revival in the mortgage business, where it is an active player. However, Al-Qemzi said NIB will be very selective in expanding its home financing portfolio.

Meanwhile, he stated that there are no plans for expansion outside of the UAE, and the bank's international business will continue to focus on arranging Sukuk issuances, syndicated financing and Islamic financial advisory services.

The Central Bank of UAE's recent regulations on retail financing are unlikely to have a major impact on NIB, as its retail business is small. However, rules should help reduce the high debt levels of UAE residents.

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and General, ManagePay Systems, Maxwell International Holdings, MCLean Technologies, Pan Malaysia Industries, Petronas Chemicals Group, PJ Development Holdings, Smartag Solutions, Sungei Bagan Rubber, Tambun Indah Land and YTL E-Solutions.

The counters dropped were: AEON Company (Malaysia), Baswel Resources, Lingui Developments, M3 Technologies and Swee Joo.

Sukuk among options

INDONESIA: State electricity firm Perusahaan Listrik Negara (PLN) may issue global bonds, Sukuk or seek bank loans of between US$1.5-2 billion to finance the IDR62 trillion (US$7.24 billion) it needs for capital expenditure this year.

Dahlan Iskan, the president director, said the company's decision on funding will be announced at the end of next month.

PLN said Indonesia needs around IDR82 trillion (US$9.5 billion) to meet its target of generating 6,000 megawatts more of electricity to the power grid. PLN plans to provide IDR77.4 trillion (US$9.04 billion) of the financing with the remainder to come from private companies.

Board not keen on merger

MALAYSIA: BIMB Holdings has decided against a possible merger between its subsidiary, Bank Islam Malaysia, and Bank Muamalat Malaysia.

BIMB's directors did not provide a reason for the decision but are believed to have lost interest after a closer study of Bank Muamalat showed minimal synergies. Bank Muamalat is owned by DRB-HICOM, which is looking to reduce its 70% stake in the bank. DRB-HICOM was reportedly keen on merging Bank Muamalat with Bank Islam to create a mega Islamic bank.

Analysts said the combined assets of Bank Islam, at RM31 billion (US$10.18 billion) and Bank Muamalat, at RM15.9 billion (US$5.23 billion) would still be less than market leader Maybank Islamic Bank at RM59.6 billion (US$19.59 billion).

Maybank eyes Sukuk share

MALAYSIA: Malayan Banking (Maybank) is eyeing a bigger share of Sukuk underwriting following its purchase of Singapore based securities and investment banking group, Kim Eng Holdings.

Tengku Zafrul Tengku Abdul Aziz, CEO of Maybank Investment Bank, said Maybank will leverage Kim Eng's Singapore and Indonesia presence to improve its standing after falling to fourth from second for Sukuk sales this year.

The banking group has arranged 9% of the US$6.7 billion global Sukuk issuances so far this year.

Aziz said Maybank is also looking to capture a share of Sukuk issuances expected from Malaysia's US$44 billion infrastructure development plan.

Financing for house buyers

MALAYSIA: Glenmarie Properties, a subsidiary of DRB-HICOM, has signed an agreement with Bank Muamalat Malaysia to develop a home financing package called 'Glenmarie-Muamalat Home Ownership Made Easy'.

The financing package targets Glenmarie Gardens and Laman Glenmarie house buyers, and comes with tenure of up to 70 years or a maximum financing duration of 40 years.

More Islamic financial planners needed

MALAYSIA: The country still lacks Shariah financial planners despite being a global leader in the Islamic finance industry, said Donald Lim Siang Chai, the deputy finance minister.

Lim said the Islamic finance industry is a largely under-served market that represents an opportunity for Malaysia and requires specialized knowledge.

He added that the Malaysian Financial Planning Council is assuming a proactive role in the development of the urgently needed pool of highly skilled, knowledgeable and professional Shariah and conventional financial planners. "Distinctive human capital is required for the Islamic financial services industry to ensure Islamic financial planning professionals possess the right blend of technical knowledge and understanding of the Shariah," he said.

Looking into Australia

AUSTRALIA: HSBC Holdings is considering introducing Islamic financial

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Promising H2 for GCC Sukuk

GLOBAL: Recent Sukuk issuances in the GCC region point to a promising second half of 2011, as borrowers try to gain from attractive pricing and rising investor interest.

As at the 26th May, Sukuk issued were Sharjah Islamic Bank's US$400 million facility, Islamic Development Bank's US$750 million program and HSBC Bank Middle East's US$500 million offering. Other banks said to be interested in Sukuk sales are Al Baraka Bank, Qatar Islamic Bank, and Saudi Electricity Company.

The low number of Sukuk issuances from the region in the first quarter of 2011 has helped boost demand, with market watchers seeing the latest rush of activity as a signal of recovering investor interest in the Gulf, amid the MENA region's political instability.

Chavan Bhogaita, the head of the markets strategy department at the National Bank of Abu Dhabi said the recent issuances could mark the beginning of a resurgence the region's Sukuk market.

Bhogaita added that if demand continues to improve and the market stabilizes, there should be more issuances of Sukuk in the near future.

Analysts also said investor confidence has been boosted by the safe haven countries such as Qatar, Saudi Arabia and the UAE which have gained from the political unrest, in addition to the UAE's successful debt restructurings, particularly that of state-owned Dubai world.

The Islamic bond market experienced a drop in liquidity during 2010 which caused a lot of pent-up demand for Sukuk, according to Mahin Dissanayake, the director of Middle East institutions at Fitch Ratings.

He said investors now see good opportunities to invest and that the timing is right.

V Shankar, the global chief executive for non-US operations at Standard Chartered Bank, said the GCC could issue up to 20 Sukuk by the end of this year, as global demand for the Islamic bond market has made GCC bonds a necessary investment for fixed income investors.

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services in the country to tap its Islamic population, according to Paulo Maia, CEO of HSBC Bank Australia.

HSBC's interest follows measures to attract Islamic finance investment to Australia to cater to the 400,000 Muslim residents.

Lower pre-tax profit

MALAYSIA: Affin Holdings posted a 20.9% lower pre-tax profit of RM140.3 million (US$47 million) for the first quarter ended the 31st March 2011, compared with RM177.3 million (US$59 million) in the corresponding quarter last year.

The bank said the increase in net interest income and Islamic banking income was not enough to cushion the increase in both overhead expenses and allowance for loan impairment as well as the reduction in other operating income.

Change of laws needed

AZERBAIJAN: Major regulation amendments are needed for the future of Islamic banking in the country, according to Hikmet Allahverdiyez, the director of Moore Stephens Azerbaijan.

Allahverdiyez reportedly said the country does not have a single legislative

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More Sukuk for IDB

SAUDI ARABIA: The Islamic Development Bank (IDB) is planning to increase its US$3.5 billion Sukuk program to as much as US$8 billion and could issue US$600 million-worth more of Sukuk by the end of this year, according to Abdul Aziz Al-Hinai, its vice president.

Al-Hinai added the Sukuk issuance will be more than the total issuance in 2009 and 2010 combined, as investors become more confident.

The IDB is planning to extend the program to over US$5 billion, with the total size possibly reaching US$8 billion. So far, US$2.9 billion of its current Sukuk pipeline has been issued, with the rest to be sold by the 31st December.

Additionally, the IDB will consider other Sukuk forms, including Mudarabah Sukuk, for future issuances. The bank has issued four public and four private placement Sukuk Ijarah since the program began in 2005.

The Islamic bank recently issued a US$750 million five-year benchmark Sukuk under its current Sukuk program, which was dual listed on the London Stock Exchange and Bursa Malaysia. The Sukuk was priced at 35 basis points over mid-swaps and carries a profit rate of 2.35%.

The issuance saw participation from the Asian and MENA region as well as European and US offshore investors. In terms of allocation, the Sukuk distribution was well diversified with 53% allocated to MENA, 26% to Asia, 16% to Europe and 5% to the Americas.

The IDB allotted 48% of the Sukuk to central banks and government entities, 33% to banks, 15% to fund managers and 4% to retail investors.

BNP Paribas, Deutsche Bank, HSBC Holdings and Standard Chartered Bank were the joint lead managers and bookrunners, while law firm King & Spalding was the legal advisor.

Rizwan H Kanji, partner at King & Spalding's Dubai office, said the transaction was significant as it set a benchmark yield for IDB risk. The Sukuk is also expected to re-energize the Sukuk market following a period of relatively low issuances.

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document on Islamic banking; and current laws only allow Azerbaijani banks to provide a limited range of Shariah compliant retail products.

Eyeing higher profit

MALAYSIA: Bank Muamalat Malaysia is targeting a 15 – 20% increase in profits this year, spurred by its strong financial performance.

The focus remains on the retail industry with a particular eye on personal financing and the housing and car loan business.

Bank Muamalat recorded a pre-tax profit of RM143 million (US$58 million) for the 15-month period ended on the 31st March 2010.

Sovereign Sukuk issuance

MALAYSIA: Bank Negara Malaysia, the central bank, has issued a RM4 billion (US$1.33 billion) sovereign Sukuk. Its bid-to cover ratio was 1.91.

The Sukuk comes with an average yield of 3.71% and will mature in 2016.

Credit card refinancing

THAILAND: The Islamic Bank of Thailand is ready to implement the government's debt refinancing scheme for credit card holders.

The bank has received THB1 billion (US$33 million) to provide the refinancing facility, which comes with a repayment period of one to three years. The program is open to applicants with a debt amount not exceeding five times their salary.

EUROPE

Under one roof

UK: The CityUK has announced that the UK Islamic Finance Secretariat (UKIFS) (the first UK Islamic finance trade body) has been integrated into the independent body.

Under the structure of TheCityUK efforts will focus on safeguarding and further developing the UK's strengths in the Islamic finance industry, ensuring it not only remains a European hub, but also continues to be a contributor on the global stage.

The integration will see UKIFS' working group structures and member base absorbed into TheCityUK's operations, with members of TheCityUK board and executive appointed to the board of UKIFS.

Richard Thomas, CEO of Gatehouse Bank, has been appointed chair of the working groups.

TheCityUK is an independent organization promoting financial and related professional services in the UK.

Islamic finance talks

RUSSIA: The Jeddah Chamber of Commerce and Industry (JCCI), led by Sheikh Saleh Abdullah Kamel, has discussed with the president of Tatarstan the possibility of turning the republic into a center of Islamic finance in Russia.

Sheikh Saleh, who is also the founder and chairman of Al Baraka Banking Group, suggested the government consider opening a Shariah compliant bank in Tatarstan.

The JCCI, which sent a delegation to Tatarstan, was also presented with several halal industry development projects, including a technology investment fund, in which Sheikh Saleh will invest US$2 million of share capital.

GLOBAL

Islamic banks must be careful of risks

GLOBAL: Islamic banks should manage risks in the financial system ahead of any possible crisis or downturn.

Mohammad Faiz Azmi, the global Islamic finance leader at PwC, said while risk management cannot be ignored by any financial institution, Islamic banks in particular must establish risk management credibility in line with aspirations to become more widely accepted in the financial system.

A recent report by PwC on managing Islamic banking risks showed Shariah compliant banks' tendency to have a concentrated amount of cash and long-term assets, due to a shortage of Islamic money market instruments, creating significant liquidity gaps.

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Islamic banking is not illegal

NIGERIA: The ongoing controversy with regards to the proposed introduction of Islamic banking in the country is unnecessary as there is nothing illegal about it, said Sanusi Lamido Sanusi, the governor of the Central Bank of Nigeria.

The country's Bank and Other Financial Institutions Act (BOFIA), which is the primary legislation governing banking in Nigeria, is currently being amended to allow Islamic banking.

Sanusi added that Islamic banking does not promote the religion or any belief. Instead, it is another financial product designed to diversify and broaden the scope of banking services.

Sanusi added that: "There is nothing called Shariah banking. There is non-interest banking or Islamic banking, which is a universal financial product."

He was responding to a section of the banking industry that is against the country's Islamic banking policy on grounds that it is illegal, as it not only violates the provisions of the law requiring those interested in establishing such a bank to be Shariah compliant, but also undermines the secular nature of the country.

One of the critics who has come out to slam the central bank's decision is Eghes Eyieyien, CEO of consulting firm Pharez Nigera, who described the move as in-auspicious and insensitive as legislation for the industry has not been completed.

Eyieyien also argued that there is no provision in the BOFIA that approves the establishment of Shariah banking in the country, as it stipulates that no bank is allowed to register or incorporate a name which contains the words Islamic or Shariah, unless they have obtained written approval from the governor.

He added that BOFIA already made provisions for non-interest banking in Nigeria, although it does not specify Shariah compliance. Interest-free banks are classified under the Act as profit and loss-sharing banks.

Eyieyien said the move would bring serious implications for the Nigerian banking industry and the economy which warrants that the Central Bank immediately revisit the issue and withdraw the framework accordingly.

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As a result, Islamic banks could also be challenged with generating sufficient floating rate assets to offset their floating rate liabilities. Shariah compliant banks also lack the interest rate hedging instruments available to conventional banks.

However, Azmi said the introduction of Islamic repurchase transactions and efforts to increase Shariah compliant instruments will increase liquidity. Until then, banks should thoroughly monitor risks associated with their liquidity, assets, liabilities and profit rates. He also said it is common among Islamic banks to have a high exposure to real estate, adding many Islamic products may be based on property assets which expose the banks to counter party risk.

Bank Muamalat Indonesia attracts investors

GLOBAL: Oversea-Chinese Banking Corporation (OCBC), Qatar Islamic Bank (QIB) and Bank Permata, an affiliate of Standard Chartered, are said to be among bidders of a planned sale of a controlling stake in Bank Muamalat Indonesia (BMI).

Shareholders of BMI are reportedly looking to sell more than 50% in the bank in a deal that could be valued at US$600 million. Second-round bids are expected in the middle of June.

BMI, Standard Chartered, OCBC and QIB have declined to comment on the matter.

Middle East IPOs suffer

GLOBAL: The value of IPOs in the Middle East has plummeted 94.8% to US$21.7 million in the first quarter of 2011 from the same period in 2010, the lowest in five years, due to weak investor sentiment, according to Ernst & Young.

Phil Gandier, the MENA head of transaction advisory services at Ernst & Young, said aside from significant developments in the region, the main factor holding back IPOs is weak investor sentiment due to underperforming stock markets and risk aversion.

Political turmoil in the region has resulted in nine cancelled or delayed IPOs.

The region saw only two IPOs in the first quarter 2011, comprising Syria's Middle East Company US$3.1 million offering and Abu Dhabi's Insurance House US$18.6 million share sale.

Debt secured against DP World shares

GLOBAL: Port & Free Zone World (P&FZ), the owner of DP World, is considering refinancing options for its outstanding net debt facilities amounting to US$850 million.

According to the prospectus for DP World, which is en route to a dual listing on the London Stock Exchange (LSE), P&FZ's outstanding debt is partly secured against some of its shares in DP World.

P&FZ, a subsidiary of Dubai World, owns 80.5% in DP World.

Among the options being considered for the refinancing are further bank loans, asset disposals, public market bond issues including equity-linked bonds, or the sale of its shares in DP World.

DP World is expected to list 830 million shares of US$2 each on the LSE on the 1st June 2011. It is already listed on Nasdaq Dubai.

Islamic finance safe

GLOBAL: The Islamic finance industry has not experienced negative effects due to the political crisis in the MENA region, said John Vogel, senior corporate and finance partner at Washington-based Patton Boggs.

He said the industry has grown substantially in the GCC, Southeast Asia and Europe, which neutralizes any setbacks from the MENA region, adding the industry's 15% yearly growth rate has not been threatened by the political turmoil.

Railway fund on track

JORDAN: The Islamic Development Bank (IDB) is working with international and regional finance institutions to fund a US$5 billion Jordan based railway project.

Financial institutions including Abu Dhabi Fund, Arab Fund, Kuwait Fund, Saudi Fund, the European Investment Bank and the World Bank have reportedly pledged US$2.1 billion to the project.

The IDB has not confirmed the amount it would contribute.

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GFH bounces back

BAHRAIN: Gulf Finance House (GFH) has returned to the black and reversed nine straight quarters of losses in the first quarter ended the 31st March 2011 with a net profit of US$11.9 million.

It recorded a loss of US$7.5 million in the same period last year and has booked more than US$1 billion-worth of losses since it was impacted by the global financial crisis.

The turnaround in profit was attributed to the bank's cost cutting measures and debt restructuring, which reduced total expenses by almost 50% from US$25.9 to US$14.5 million.

GFH has been undergoing restructuring since 2010 and has since raised around US$300 million in cash and assets from investments it has exited.

Among the investments were Saudi Real Estate Company, Bahrain Financial Harbor and QInvest, a Qatar based investment bank.

It also repaid some of its debt and negotiated extended maturities on its remaining obligations.

In addition, the bank launched a convertible Murabahah aimed at raising up to US$500 million of new capital. Investors of the Murabahah were also offered the option of converting their interest into shares in the bank.

Its new business model also included establishing and nurturing Islamic financial institutions in the region. It set up Syria Finance House, an Islamic bank, in March last year.

Esam Yousif Janahi, the executive chairman of GFH, said that while the bank has seen a challenging few years due to the global financial crisis, it had previously built up a 10-year track record in undertaking infrastructure projects.

GFH plans to create more financial institutions to ensure a stable and constant income stream from management fees and proprietary investments, said Janahi.

He added that as part of the new business model the bank is eyeing projects in new markets, and will announce further positive updates going forward.

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The railway, linking Iran, Iraq, Lebanon, Saudi Arabia, Syria, Turkey and other GCC countries along with the European rail network, is expected to increase trade between IDB member countries.

Strong demand for GCC debt

GLOBAL: The GCC may issue up to 20 Sukuk over the next six months due to global demand for emerging market debt, according to V Shankar, the global chief executive for non-US operations, Standard Chartered Bank.

He added that emerging market bonds have become necessary investments for fixed income investors.

StanChart helped arrange Sharjah Islamic Bank's five-year Sukuk issuance in May, which raised US$400 million.

World Bank returns to Sukuk

GLOBAL: Sri Mulyani Indrawati, the managing director of the World Bank, has stated that the bank recognizes Islamic finance as being a priority area in its financial sector program.

It has also been suggested that the International Finance Corporation, which raised US$100 million in 2009, will return to the Sukuk markets once a portfolio of Shariah compliant assets to back its Sukuk has been completed.

Sukuk sell-off

GLOBAL: Dubai's Islamic bonds have fallen the most in six months as Europe's growing debt crisis caused investors to sell-off riskier assets.

According to Bloomberg, the yield on Dubai's 6.4% dollar Sukuk maturing in November 2014 rose 22 basis points to 4.38% on the 27th May, the biggest weekly gain since November 2010 and the steepest among Gulf issuers.

Mark Watts, the head of fixed income at National Bank of Abu Dhabi's asset management group, explained that Dubai is vulnerable to sell-offs when market sentiment changes as it is seen as a weaker credit by investors.

Pushing the industry forward

GLOBAL: Shaikh Ebrahim bin Khalifa Al Khalifa, the chairman of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), has stressed the importance of Shariah standards in promoting international standardization and encouraging growth in the industry.

"The wide application of AAOIFI standards has resulted in progressive standardization and harmonization of international Islamic practices," he said.

Meanwhile, Mohammad Nedal Alchaar, the secretary general of AAOIFI who will step down in July to become Syria's trade and economic minister, also urged the industry to expand its retail sector and increase liquidity into the market. He also voiced the need to create an efficient and regulated secondary Sukuk market.

MIDDLE EAST

Debt for development funding

IRAN: The country's budget for the fiscal year ending the 20th March 2012 has allowed government issuances of up to IRR350 trillion (US$32.99 billion) in bonds and Sukuk to accelerate the implementation of development projects.

According to the budget, affiliate companies of oil, energy, housing and urban development, roads and transportation ministries can issue up to IRR27 trillion (US$2.55 billion) in debt papers to finance economic projects.

In March, Mohsen Khojasteh-Mehr, the deputy oil minister, said the oil ministry is planning to issue a EUR2 billion (US$2.80 billion) Sukuk to diversify its financial resources.

Financing for Axis

UAE: Indonesian telecommunication firm Axis has signed a US$1.20 billion Shariah compliant financing agreement with local and international institutions.

The financing comprises of three separate facilities and has a tenor of seven and a half years.

The facilities are: a US$450 million Murabahah commercial facility arranged by Deutsche Bank and HSBC and underwritten by Deutsche and Saudi British Bank; US$400 million from China's telecommunication service provider Huawei, underwritten by China Development Bank; and US$350 million from Ericsson, arranged by HSBC and

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backed by EKN, a Swedish export credit agency.

The financing will be used to help fund the firm's expansion strategies for the next five years, especially to grow its mobile broadband services.

Axis is a subsidiary of Saudi Telecom Company, which raised its stake in Axis to 80.1% from 51% earlier this year.

BisB back on track

BAHRAIN: Bahrain Islamic Bank (BisB) will issue up to 75% of its paid-up capital from the 1st June until the end of the month.

The issuance, initially planned for March, was delayed as a result of political turmoil in the kingdom.

Khalid Abdulla Al Bassam, the bank's chairman, explained that the capital increase amounts to 546.44 million ordinary shares, each with a nominal value of 100 fils (26.52 US cents). Subscriptions for the issue will run from the 8th June through to the 22nd June.

Share allotments will be determined on the 29th June and announced the following day.

Nakheel sticks to the plan

UAE: Ali Rashid Lootah, the chairman of Nakheel, denied claims that it would change its 10% profit rate on its AED4.8 billion (US$1.31 billion) Sukuk to be issued at the end of June. The Sukuk aims to pay about 60% of its debts as part of overall restructuring.

Some analysts have said Nakheel needs to offer yields of 15% more for its Sukuk to attract buyers.

Ahmad Alanani, the Dubai-based head of fixed income sales for MENA at Exotix, said it would not make sense for creditors to buy Sukuk from Nakheel at less than 20% without a government guarantee, due to the company's dubious project pipeline, its portfolio which is concentrated in the UAE, and its high leverage.

CBB's Sukuk a hit

BAHRAIN: The Central Bank of Bahrain (CBB)'s BHD12 million (US$31.83 million) monthly Sukuk Al-Salam Islamic securities issuance has been oversubscribed by 483%.

The 121st issue of Sukuk Al-Salam securities has an expected return of 0.85%. It carries a 91-day maturity beginning the 1st June and ends on the 31st August.

Bank growth affected

QATAR: Qatar Central Bank's new rulings are expected to affect bank growth, say analysts.

In February, the Central Bank ordered all conventional banks to shut their Islamic banking divisions and to stop taking Islamic deposits immediately, on concerns that the banks were using conventional bank funds to finance their Islamic operations.

The banking authority also limited the amount of financing banks can provide to Qataris to QAR2 million (US$549,149) and to foreigners to QAR400,000 (US$109,830).

Credit Suisse Research and Analytics has cut 2011 net income estimates for Commercial Bank of Qatar by 22% and Doha Bank by 10%. Nomura International said Qatar National Bank will also see slower loan growth and a disruption to its strategy from the central bank's moves.

However, Jaap Meijer, the head of banking research at Dubai based Alembic HC Securities said the Central Bank's ruling presented large opportunities for Shariah compliant banks.

Islamic financing for fund

UAE: Abu Dhabi Islamic Bank (ADIB) and Khalifa Fund for Enterprise Development have signed an MoU to provide Islamic financing for the fund's clients through the bank's branches.

ADIB will provide credit administration services and process the finance applications for Khalifa Fund's clients.

Third Gulf Sukuk

UAE: HSBC Bank Middle East has sold a five-year Sukuk worth US$500 million at 155 basis points above the mid-swap rate.

According to Bloomberg data, the 3.58% Sukuk is the third one to be sold in the Gulf this month. The other two Sukuk

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RATINGS

Weak performance

MALAYSIA: RAM Rating Services has downgraded the rating of Syarikat SESCO's RM605 million (US$198 million) Bai Bithaman Ajil Islamic securities from 'AAA' to 'AA1', based on an anticipated increase in payment obligations due to new developments under the Sarawak Corridor of Renewable Energy.

SESCO is the sole electricity provider in the state of Sarawak.

Power play

MALAYSIA: RAM Ratings Services has reaffirmed the 'AA1' rating of independent power producer Segari Energy Ventures' RM930 million (US$303 million) Sukuk Ijarah, due to its solid business profile.

RAM has also reaffirmed the 'AA3' rating of Johor-based Tanjung Bin Power's RM5.57 billion (US$1.81 billion) Istisnah medium-term notes program, with a stable outlook.

Solid position

MALAYSIA: RAM Rating Services has assigned a final rating of 'A3' to Bank Muamalat Malaysia's proposed Islamic subordinated Sukuk program of up to RM400 million (US$130 million), with a stable outlook.

Fragile position

KUWAIT: Fitch Ratings (Fitch) has downgraded Kuwait International Bank's individual rating to 'D' from 'C/D' and affirmed its long-term issuer default rating (IDR) at 'A-' and short-term IDR at 'F2'. The outlook for the long-term IDR is stable.

The reaffirmations are based on support from the Kuwaiti authorities. The downgrade of the individual rating is due to deterioration in asset quality.

DP World stands strong

UAE: Standard & Poor's Rating Services (S&P) has revised DP World's outlook from stable to positive, with long-term corporate credit and senior unsecured debt ratings affirmed at 'BB'. The revision anticipates the sale of 75% of shares in its Australian branch. No negative impact is expected from its parent company, Dubai World.

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were the Islamic Development Bank's 2.35% Sukuk and Sharjah Islamic Bank's 4.72% Sukuk.

Average yield of Sukuk in the Gulf fell to its lowest since September 2005 when its rate declined to 4.51% on the 24th May.

New home financing

BAHRAIN: Saar Central has signed an agreement with Al Baraka Islamic Bank to offer an Islamic home financing scheme for its residential projects.

Saar Central is a real estate project in the Saar area of the kingdom that is managed by Capivest Islamic Investment Bank.

Promising future in Oman

OMAN: Islamic financial institutions could capture 10% market share of Oman's total banking assets in their first few years of operation, said Islamic finance experts from Ernst & Young.

Oman recently allowed Islamic banking and Bank Nizwa is expected to be the first Shariah compliant financial institution to open its doors in the sultanate.

Ashar M Nazim, the director of Islamic financial services at Ernst & Young, said with an economy worth US$50 billion and banking assets amounting to US$42 billion growing at a healthy pace, Islamic finance is expected to take up to 10% of the market once Shariah compliant products are properly rolled out.

He stated that total Islamic banking assets could amount to around US$6 billion in four to five years if the sector can capture the projected market share.

Ashar added that people who are not under the formal banking system will likely prefer Islamic banks, predicting a 25% increase in terms of customer accounts.

Meanwhile, Islamic financial institutions in the region are also expected to start investing in Oman, which could support the country's efforts to develop large scale utility projects.

Abid Shakeel, the banking, capital markets and Takaful team leader of the Islamic Financial Center of Excellence at Ernst & Young, added there is a desire for Shariah compliant investment due to high liquidity in the Middle East, while the standardization of rules and regulations also supports the growth of global Islamic finance.

Technical support for IIRA

BAHRAIN: Malaysian Rating Corporation (MARC) has entered into a technical agreement with the Islamic International Rating Agency (IIRA) to provide technical expertise and analytical support.

JCR-VIS, an affiliate of Japan Credit Rating Agency, will also provide support to IIRA under this agreement.

The deal will provide a platform for MARC to collaborate with IIRA and JCR-VIS on the development of new rating product offerings for the Islamic financial services sector, and promote best practices.

Finalizing Sukuk

SAUDI ARABIA: The lead arrangers for Saudi Aramco Total Refining and Petrochemical Company (SATORP) Jubail refinery's 16-year US$995 million Sukuk are finalizing documentation and are about to approach Saudi Arabian capital markets regulator for approval before launching the Sukuk on the market.

The lead arrangers for the Sukuk are Credit Agricole, Deutsche Bank and Samba Financial Group. The Sukuk is part of the US$8.5 billion project's debt total which will refinance advances from Saudi Aramco and Total.

Coming up...

Volume 8 Issue 22 – 8th June 2011

Meet the Head
Cheryl Packwood, the CEO of Business Bermuda, based in Bermuda

Features
Islamic Microfinance Institutions by Michael Skully from Monash University, Australia

Islamic Microfinance in Palestine by Iyad Nabulsi from UNDP, Palestine

The New Legislative Framework for Sukuk Issuance in Japan by Naoki Ishikawa from Mori Hamada & Matsumoto Law, Japan

Case Study
Cagamas Islamic Medium Term Notes US$15 million issued on the 7th April 2011

MOVES

BURSA MALAYSIA

MALAYSIA: Non-executive director of Bursa Malaysia, Abdul Wahid Omar, has resigned.

Omar has stepped down to focus on Maybank, where he is currently the president and CEO.

Bank Muamalat Indonesia in the spotlight

Bank Muamalat Indonesia (BMI) has made headlines recently on news that it could be up for sale and is eyeing a larger international presence.

Last week it emerged that the bank's major shareholders, which include the Islamic Development Bank (32.82%), Kuwait's Boubyan Bank (24.94%) and Atwill Holdings (17.95%), could sell around 50% in the bank in a deal possibly valued at US$300 million.

Singapore's Oversea-Chinese Banking Corporation (OCBC), Qatar Islamic Bank (QIB) and Bank Permata, an affiliate of Standard Chartered, are said to be among bidders for the sale.

BMI has remained tightlipped on the matter, stating that it is a shareholder issue.

However, Meitra Ninanda Sari, the corporate secretary and spokesperson for BMI, said while the bank's shareholders may be exploring this option, no concrete decision has yet been reached.

Speaking to Islamic Finance *news*, he added: "The issue of the stake sale was not brought up at the bank's annual meeting for shareholders held on the 26th May".

Nonetheless, speculation is rife that first-round bids for the interest in BMI have already been completed, with the second round of bidding expected by the middle of June. Morgan Stanley is said to be advising BMI's shareholders, while QIB, reportedly the front runner for the bid, is being advised by QInvest.

It is worth noting that QIB has been eyeing an entry into the Indonesian market since late last year, which it could undertake via its Malaysian arm, Asian Finance Bank.

Although small, with total assets of IDR21.62 billion (US$2.52 billion) as at the 31st March 2011, BMI would make a prize catch for any foreign player looking to capture a slice of Indonesia's lucrative banking market. The bank has a network of 367 branches across Indonesia and one office in Malaysia.

BMI also has a healthy balance sheet and is well capitalized with a capital adequacy ratio of 12.42%, exceeding the industry's 8% regulatory requirement.

In the first quarter ended the 31st March 2011, the bank reported a 56.3% year-on-year surge in net profit to IDR513.11 million from the previous year. Its non-performing financings also improved, down to 3.99% in the first three months of 2011, against 5.83% a year earlier.

Meanwhile, Sari said BMI is also keen to expand its services to foreign markets, especially Saudi Arabia and Hong Kong. It began offering foreign remittances in Malaysia this March and will study the success of the service before deciding to provide it in other markets.

"Retail remittances are the black gold of the Indonesian international banking scene due to the sheer capacity of Indonesian migrants, which makes the market very appetizing to us," he said.

On its domestic business, the bank is also looking to provide more corporate financing, after undertaking several trade finance and syndication deals last year; and sees agribusiness, the airline and infrastructure industries as promising sectors.

Sari also clarified that BMI could issue a global Sukuk this year or launch an IPO, saying the bank has no urgent need to undertake any such corporate actions as its existing capital base is sufficient. However, he added that options to increase the bank's equity may be taken next year.

Sukuk hope springs eternal

The Sukuk market, like the conventional bond market, can be viewed as a gauge for the performance of the Islamic finance industry as a whole. As one of the most significant components of the Islamic capital markets, the asset class acts as a benchmark for investor sentiment and market confidence. After reaching an estimated US$35 billion in 2007 the Sukuk market took a nosedive in 2008 and has yet to fully recover. The market began to improve in 2010 but liquidity issues restricted growth, and it is only in 2011 that indications of a robust rally have emerged.

Following a flourish of US$2.58 billion worth of global Sukuk issued in December 2010, January and February marked a listless start to the year. However, the market picked up in March and overall first quarter global Sukuk totaled US$3.7 billion, a substantial increase over 2010's first quarter total of US$2.27 billion. Bank Negara Malaysia governor Dr Zeti Akhtar Aziz has announced that global Sukuk issuance in 2011 is likely to top the record US$35 billion seen in 2007.

> *"A recent spate of issuances in the Gulf region is setting up the sector for a strong second half"*

The recent political upheaval in the Middle East has however raised concerns that 2011 could be another slow year. The unrest has spread to Bahrain, Yemen, Jordan, Libya and Syria, with murmurs appearing in Oman and Iran, making it more expensive for companies in these regions to issue Islamic debt.

There is considerable pent-up demand as companies and sovereigns wait until the political situation stabilizes, to avoid the current high yields.

However, a recent spate of issuances in the Gulf region is setting up the sector for a strong second half, as borrowers look to benefit from improving investor sentiment despite localized disturbances. Currently there is a lot of demand chasing limited paper, meaning issuers are also able to take advantage of narrower spreads.

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The Islamic Development Bank (IDB) has once again provided the impetus, setting a pricing benchmark within the Gulf region with its US$750 million issue. This was followed by a flurry of corporate issuances, including Sharjah Islamic Bank and HSBC Middle East.

Continued investor interest has led to stable regions such as Saudi Arabia, the UAE and Qatar making up for the slowdown in Sukuk issuances from affected regions.

Saudi International Petrochemical Company plans to issue Sukuk worth at least SAR1.5 billion this year, while in March Bank Al Jazira closed its maiden SAR1 billion (US$266.65million) Sukuk, the first corporate launch from the kingdom in 2011, oversubscribed four times to huge investor demand.

Qatar Exchange also recently announced that it would introduce government bonds and Sukuk for trading as part of its expansion to support the regional investor community.

Asia-Pacific, and Malaysia in particular, is also likely to benefit from increased investment flows as its political stability and attractive yields tempt investors from the shifting sands of the GCC market.

> ***"Global Sukuk issuance for the remainder of the year is expected to surpass the 2010 peak of US$43.56 billion"***

2011 also looks set to be a bright year for the primary Sukuk market, as the number of Sukuk maturing should see a significant number of straight renewals.

The IMF expects global GDP to grow by 4.3% this year, with strong economic performances from Asia and the GCC over the past decade. High levels of infrastructure spending and the revival in 2011 of private sector projects is likely to contribute to the growth of the Islamic finance industry.

Based on the momentum seen so far in 2011, global Sukuk issuance for the remainder of the year is expected to surpass the 2010 peak of US$43.56 billion, according to KFH Research's first quarter global Sukuk report.

More sovereign issuers are expected to tap the Sukuk market, as governments continue to raise funds to support economic growth and fund fiscal deficits, and the cumulative infrastructure projects and funding needs in the GCC and Asian regions will support further Sukuk issuances.

However, the performance of the regional markets will continue to be affected by global events; therefore any deterioration on the sovereign risk in Europe, or worsening developments in Middle East politics, will have an impact on market sentiment and may affect 2011's performance in emerging Islamic markets.

IILM: Taking their time?

Established in October 2010, the International Islamic Liquidity Management Corporation (IILM) was heralded to be the savior to the Islamic finance industry's liquidity woes, via the issuance of short-term instruments to facilitate market movement and subsequently develop an active secondary market. Mandated to issue highly-rated short-term Shariah compliant instruments in major reserve currencies and to develop a platform to enhance cross-border Islamic finance activities, many within the industry were optimistic at the time of the IILM's launch.

Backed by 12 central banks including Bank Negara Malaysia, Bank Indonesia and Qatar Central Bank, and the multinational Islamic Development Bank; and supported by the Islamic Financial Services Board, much is riding on the IILM to excel compared to other institutions set out to provide similar services, such as Liquidity Management House, Liquidity Management Center and the International Islamic Financial Market with comparatively much less regulatory and government support.

The main purpose of the IILM is to issue short-term Sukuk, via a highly-rated and stable institution to solve both liquidity management issues and enhance the Islamic capital markets. The IILM's AAA rating, only matched by two other IFSB members: The Islamic Development Bank and Singapore is expected to be a toothsome temptation to sovereigns, corporates and institutions seeking secure investments.

Countries such as Indonesia, whose central bank in January 2011 contributed US$5 million in equity to the establishment, are optimistic that its association with IILM will boost the country's Islamic finance sector by increasing its appeal as a sovereign to Islamic investors and widen its investor base for global debt papers. Bank Indonesia (BI) governor, Darmin Nasution, was quoted as saying: "BI will be able to invest in Sukuk and other Shariah instruments issued by the IILM, also enabling the government to get higher ratings in issuances of Sukuk or other Shariah instruments to reduce the costs of financing."

However, eight months on, the IILM's role in the market is still nebulous and their presence still very much phantom-like. An industry player revealed to Islamic Finance news that despite the IILM making several senior hires in the last year - with at least one high-profile international hire apart from the CEO himself, and news of an upcoming Sukuk issuance, market players still perceive IILM's current impact to be negligible.

It is still unclear as to what the IILM's activities will be for the year, and why the institution has so far kept mum about their progress since October. Whether it boils down to regulatory constraints or a lack of support from the central banks in terms of issuing globally-accepted papers or creating frameworks, we are still none the wiser.

Afghanistan drafts Sukuk guidelines for Islamic windows

Afghanistan

By Dr Alam Khan Hamdard, IFN Correspondent

For the first time in the history of Afghanistan, the central bank, Da Afghanistan Bank, issued guidelines on the 17th April 2011 for banks and financial institutions that offer Islamic banking products.

The guidelines are mainly for Islamic banking window (IBW) operations. This is because in Afghanistan there are no stand-alone Islamic banks and the conventional banks are the ones who started the Islamic banking operations based on the IBW module.

The guidelines cover all aspects of Islamic banking such as corporate governance, Shariah compliance, risk management and investments as well as in the finance and accounting aspects where separate ledger accounts, journal and accounting systems are required. It also dictates special requirements for financial reporting.

For those who have established branches with an IBW, an Islamic banking logo is used and their compliance with Shariah laws is indicated by the manual. It also indicates the terms and conditions as well as the requirements for the licensing of IBW operations by the existing banks and other applicants intending to apply for Islamic banking licences. The procedures for product application and the approval process for Islamic products are also outlined whereby all are subject to the approval by the Da Afghanistan Bank.

In line with the new guidelines, New Kabul Bank, the largest bank in Afghanistan, is planning to launch three Islamic banking products for the first time; comprising of Murabahah-based trade financing, car financing and Murabahah/Musharakah-based financing for the import of oil and gas.

The draft of the Islamic banking law is being finalized by the central bank and will be presented to parliament next week and probably approved within the next few months.

Overall the Afghanistan Islamic banking industry has grown 10% to US$55 million in the last four months.

Furthermore, the Afghanistan Institute of Banking and Finance has implemented short-term Islamic banking training courses for banks offering Islamic banking. New Kabul Bank has also launched Islamic banking deposit products in the last month which takes Islamic banking into the villages of Afghanistan.

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Australian tax developments

Australia

By David Wood, IFN Correspondent

This month has seen a renewed interest in financing using commodity Murabahah. Recent changes to the Australian income tax legislation have facilitated the wider use of this form of Shariah compliant financing. Commodity Murabahah may be structured as follows:

(a) A bank, will acquire commodities for their current market value in a transaction which will occur upon the London Metals Exchange;
(b) The bank will sell the commodities to the Australian borrower for an amount equal to their market value plus an agreed mark-up. Title in the commodities will be immediately transferred to the borrower. The purchase price for the commodities will be payable by the borrower over an agreed period (the financing period) by way of equal instalments (periodic instalments); and
(c) The borrower will immediately sell the commodities for their current market value in a transaction which will also occur upon the London Metals Exchange.

Division 230 of the Income Tax Assessment Act 1997 (1997 Act) was recently enacted and represents a code for the taxation of gains and losses arising from financial arrangements.

This Division defines a "financial arrangement" and sets out the six methods (four of which are elective) for bringing to account gains or losses on financial arrangements. These methods determine the tax-timing treatment of all financial arrangements covered by Division 230.

Division 230 applies to all financial arrangements that a taxpayer starts to have on or after the 1st July 2010.

The threshold question is whether the commodity Murabahah arrangement would constitute a "financial arrangement" of the borrower for the purposes of Division 230. Having regard to the definition of "financial arrangement" in section 230-45:

(a) The commodity Murabahah would be an "arrangement". Having regard to the matters described in section 230-55(4) the terms of purchase and payment of periodic instalments should represent a single arrangement and there should be no basis for separating out particular rights or obligations under the relevant agreement as separate "arrangements";
(b) The commodity Murabahah would constitute a "financial arrangement" as from the time the bank delivers the commodity to the borrower, the only subsisting rights and obligations under the arrangement are the borrower's obligation to make the periodic instalments.

The periodic instalments should constitute a "financial benefit" and are "cash settlable" within the meaning of section 230-45(1)(b), as they may be settled by money.

This conclusion accords with the Explanatory Memorandum to the Bill introducing Division 230 which states, at paragraph 1.45:

> "A simple delayed settlement is a financial arrangement, where the payment occurs some time after the relevant thing is delivered. This is because from the time of delivery the only subsisting rights and obligations

Continued...

under such an arrangement are cash settlable.

However, where the period between delivery and the time for payment is 12 months or less, gains and losses from the financial arrangement are excluded from Division 230 [Schedule 1, item 1, section 230-450]."

Division 230 does not, however, apply to certain gains and losses made from a financial arrangement. The commodity Murabahah should not fall within the specific exclusion under section 230 450 for short-term arrangements where a non-money amount is involved for the following reasons:

(a) The commodity which the borrower will acquire from the bank is likely to be a money equivalent (that is, it is in a form readily converted into money as evidenced by the purchase and sale transactions occurring on the London Metals Exchange); and
(b) The period between the time when the trustee acquires the commodity and the time when the borrower discharges its obligations under the agreement in full by paying the final periodic instalment will be more than 12 months.

Consequently the overall loss made by the borrower upon the commodity Murabahah (being the difference between the sum of the periodic instalments and the market value of the commodity at the time of purchase) should be allowable as a deduction to the borrower under Division 230 on an accruals basis over the term of the commodity Murabahah.

> ***"The proportion of the periodic instalments that exceeds the market value of the commodity at the time title was transferred to the borrower should be taken to constitute 'interest'"***

If the bank is a non-resident withholding tax must be considered. Under Division 11A, part III of the 1936 Act, a liability to interest withholding tax at the rate of 10% (subject to any applicable double tax agreement) falls upon a non-resident of Australia (not acting through an Australian permanent establishment) in respect of income derived that is "interest paid" to that non-resident by an Australian resident borrower (who is not acting through a foreign permanent establishment).

The definition of "interest" for withholding tax purposes is expanded by section 128A(1AB) beyond the common law meaning of the term to include, relevantly, an amount:

(a) That is in the nature of interest; and
(b) To the extent that it could reasonably be regarded as having been converted into a form that is in substitution for interest.

The proportion of the periodic instalments that exceeds the market value of the commodity at the time title was transferred to the borrower should be taken to constitute "interest". If the bank is a resident of a country with which Australia has concluded a double tax agreement which includes a "financial institution" exemption clause (for example the UK, US) then withholding tax may not be imposed as the periodic installments should give rise to amounts of interest for the purpose of this exemption.

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Bangladesh towards digital banking

Bangladesh

By Md Shamsuzzaman, IFN Correspondent

Banking in Bangladesh has been advancing rapidly to reach an international standard, though 25% of the population do not use banking services. The present government has declared "Vision 2021", targeting effective use of information and communication technology in all areas including in financial institutions. The philosophy of "Digital Bangladesh' includes ensuring people's rights, transparency and accountability.

The Bangladesh Bank, the central bank, is at the frontline of the government's drive to digitalize and has already formulated a five-year strategic plan for the financial sector. The plan is based on advanced technological applications and will eventually transfer it into a paperless organization within the plan period.

Introducing e-commerce recently, the central bank has achieved a milestone in the trade and business arena allowing the banks to offer online payment transactions in the local currency. The Online Credit Information Bureau (CIB) report, a component of risk management for extending loans and advances connecting the central bank and the head offices of other banks, is under way. Online CIB will update borrowers' data automatically and therefore minimize the extent of a loan default.

Three banks have also started offering mobile banking. The system allows customers to transfer funds via their mobile phones. Those who do not have an account will get the service by purchasing a prepaid card from the banks. In the case of foreign remittances, the beneficiaries will get money at their doorstep. Islami Bank Bangladesh has also introduced a remittance card for remittance beneficiaries to withdraw money from any ATM.

The ongoing digitalization of the banking industry involves conventional and Islamic commercial banks. Islami Bank Bangladesh, the best awarded bank both domestically and internationally, plays a pivotal role in this respect. Having a wide network of 251 branches across the country and handling 28% remittance inflow, the bank has pledged to execute its vision for the year 2011 as "Year of Welfare and Green Banking" in line with the digitalization program of Bangladesh Bank.

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Canada Makes Progress on Tax Front

Canada

By Jeffrey Graham, IFN Correspondent

In May 2010, the Islamic Finance Working Group of the Toronto Financial Services Alliance (IFWG) issued a report entitled "Making Toronto the North American Centre for Islamic Finance: Challenges and Opportunities". Among others, the report discussed, at a high level, the development of Islamic finance in Canada and also highlighted some of the Canadian tax challenges. There is a broad consensus that certainty in taxation is a critical part of ensuring that Toronto and Canada can emerge as a North American centre for Islamic finance.

As a follow up to the May 2010 report, KPMG (Carmela Pallotta and John Bain), on behalf of the IFWG, led an important consultation process on Canadian tax challenges associated with the development of Islamic finance in Canada. Earlier this week, KPMG, on behalf of the IFWG, released a draft discussion paper.

The draft discussion paper provides a more comprehensive analysis of the direct and indirect tax implications from a Canadian perspective.

The paper notes that while the analysis should be straightforward for products that are structured similar to conventional products, there are challenges in structuring more complex Islamic financial products and services to be both Shariah compliant and income and commodity tax neutral.

Experience has shown that the income and commodity tax treatment of Shariah compliant products can be at odds with the tax treatment of conventional financial services.

The draft report considers income and commodity tax challenges for the following products: Mudarabah, Murabahah, and Diminishing Musharakah with Ijarah, Sukuk Ijarah and Takaful.

The report also highlights some of the measures taken by other western jurisdictions to manage the tax implications of Islamic finance products.

Australia, France, Indonesia, Ireland, Malaysia, Singapore, South Korea and the UK have modified or are modifying their taxation regimes to ensure Islamic finance products are treated the same as conventional products.

Once the paper is finalized it will help in the ongoing discussion of Islamic finance in Canada and enable policy makers, regulators and practitioners to take steps to further the development of Islamic finance in Canada.

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High hopes for the 'new' Egypt

Egypt

By Dr Walid Hegazy, IFN Correspondent

Prior to the revolution on the 25th January, the Egyptian government had adopted a cautious strategy towards Islamic financial institutions. This strategy prevented any excessive Islamic influence in the country's economic and financial sectors. However, after the revolution, all obstacles posed by Mubarak's regime will be removed in the near future and this will have an enormous impact on the rising influence of Islamic finance instruments.

Although the level of foreign investment dramatically dropped in the wake of the revolution, the new government has played an active role in promoting investment and development; primarily attracting investors from the GCC countries. Many investors in the Arab Gulf region are keen on investing their money in sectors that are subject to the Shariah. However, before this can happen, Egypt has to build an adequate regulatory framework for the purposes of promoting Islamic finance as an attractive and dependable market. Our prediction is that Islamic finance will witness significant developments in Egypt, similar to what happened in Saudi Arabia, which was a late comer to this market compared to other countries in the region. However, as soon as the government changed its policy towards Islamic finance by encouraging its banks to offer Shariah compliant products, the size of the market has risen to become one of the leading in the region.

One recent and positive development is the announcement made by the Egyptian Exchange Market (EXG) that concrete plans have been proposed between EXG and the Arab Monetary Fund (AMF) concerning fixed income instruments, specifically Sukuk which can be sold between Arab Gulf Investors.

"We are going to enforce the Sukuk market," said Mohamed Abdel Salam the EXG chairman. Also, the Egyptian Muslim Brotherhood has suggested a proposal to close the current budget gaps through the issuance of Sukuk. They argued that most Egyptians have reservations against charging interest and therefore by introducing Islamic finance products in the Egyptian market, this may encourage local investors to be more inclined to invest their money.

In the issuance of the last three Treasury-bills, the government had filed to increase the full amount as the investors demanded a higher yield. However, the main irony lies in the fact that Egypt has about 70 million Muslims but lacks a substantial Islamic finance system that neither complements nor complies with the domestic legislation.

It is reported that global assets held by financial institutions have climbed to US$5.2 billion in 2011 through the issuance of Sukuk compared to the amount grossed in the same period last year at US$4.4 billion. It follows therefore that, the Sukuk market is a fast growing one as expressed by the Muslim Brotherhood who are in the process of setting up a new plan for increasing the amount of investment in Egypt through Sukuk.

Finally, Humayon Dar, the chief executive of BMB Islamic Consultancy, believes that Egypt will need to adopt Islamic banking as a means of appeasing politically active Islamic groups.

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AIFA seeks to increase quality of Islamic finance graduates

Malaysia

By Nik Norishky Thani, IFN Correspondent

You have a vacancy in your Islamic banking division. Having received an application from a Malaysian university graduate in Islamic finance and one from an Ivy League university law graduate, who would you choose to fill the vacancy? It is essentially a choice between a graduate familiar with the subject matter of Islamic finance and the other bearing the hallmark of a marquee institution but not necessarily knowledgeable about the industry.

This is where the Association for Islamic Finance Advancement (AIFA) is relevant. Announced in April 2011, the AIFA was allocated RM3.17 million (US$1.05 million) by the Malaysian government to be the main accreditation body for Islamic finance programs worldwide to ensure the quality, industry relevance and global recognition of Islamic finance education.

AIFA's membership will likely mainly comprise education providers. It is also expected to collaborate with accreditation bodies such as the Association to Advance Collegiate Schools of Business, which has 620 accredited member institutions in 38 countries including Harvard University and Yale University.

The International Islamic University Malaysia (IIUM) has been tasked with spearheading AIFA and it is a good choice. IIUM has a strong reputation within the industry, offering programs on Islamic finance that have produced key executives in institutions such as Bank Negara Malaysia, Khazanah Nasional and HSBC Amanah Malaysia.

One key opportunity for AIFA is the prospect of playing a role that no one else currently occupies in producing quality Islamic finance graduates. The industry has seen its fair share of individuals with the zeal for Islamic studies but perhaps less so in terms of banking knowledge and the opposite is also true. Producing talents with a balanced knowledge between Islamic and banking theories will not only fulfill the talent requirement of the industry but with quality graduates. A global accreditation body such as AIFA would increase the minimum standard of graduates in Islamic finance.

Another opportunity is the potential for cross border collaboration with other international universities. Harvard has The Center for Middle Eastern Studies, Georgetown has The Centre for Muslim-Christian Understanding, and Oxford has The Oxford Centre for Islamic Studies, but we have yet to see a formal collaboration between such institutions with universities that offer Islamic finance graduate or post graduate courses.

With AIFA, such a possibility could be more realistically explored. My answer to the question at the start of the article – with AIFA fulfilling its mandate and realizing its full potential, I would go with the Islamic finance graduate. Without AIFA, it will have to be the Ivy Leaguer.

Nik Norishky Thani, head of special project (Islamic), office of President & group CEO, Permodalan Nasional Berhad. These are only his views and opinions.

Recent major developments in Takaful in Brunei

Brunei

Muhd Jamil Abas Abdul 'Ali, IFN Correspondent

The Takaful business in Brunei has undergone two important changes — regulatory and operational.

In the regulatory regime, the regulatory supervisory role in respect of Takaful businesses and their operations have been transferred from the insurance section, ministry of finance to the newly set up Brunei Darussalam Monetary Authority (Authoriti Monetari Brunei Darussalam) from the 1st January 2011. Takaful companies and their businesses continue to be regulated under the Takaful Order 2008.

In the operational sector, there are three Takaful companies in Brunei, namely Insurans Islam TAIB, a wholly owned subsidiary of Tabung Amanah Islam Brunei, a statutory corporation established by the Perbadanan Tabung Amanah Islam Brunei Act, Cap 163, Takaful Brunei Am (formerly Takaful IBB), and Takaful Brunei Keluarga (formerly Takaful BIBD). The last two entities are the wholly owned subsidiaries of Syarikat Takaful Brunei Darussalam which is a newly established company resulting from a merger of Takaful IBB and Takaful BIBD.

The Takaful Order 2008 requires that all Takaful businesses (Family Takaful and General Takaful) which are presently conducted under one single entity, or composite model, should be segregated for better protection of the public.

The objective of this ruling is to afford greater protection to the public and to lessen the effect of a contamination or failure of one type of Takaful business to or affecting the other type. It is accepted that General Takaful entails higher risks and has more claims than Family Takaful. Hence, the requirement for the funds of the two types of Takaful businesses are required to be segregated due in part to the different nature of assets and liabilities of different classes.

Traditionally, the business operational structure of Takaful business in Brunei was largely based on the Mudarabah model. The two subsidiaries of Syarikat Takaful Brunei Darussalam have recently revised their business models by introducing more Wakalah-fee based businesses into their Takaful operations, with the resultant effect that the Mudarabah model is reduced substantially.

Under this Wakalah model, the operators (shareholders) are paid a fixed fee upfront as commission out of the contributions received from participants. The operator is not entitled to any profit sharing from surpluses. Laudably, all expenses are paid for by the wakeel operator and not deducted from participant's funds. Whereas, under the previous Mudarabah model, expenses incurred in the investments were paid out of the investment pool.

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Al Baraka needs key to Asia to unlock global competitiveness

As far as multinational Islamic banks go, Al Baraka Banking Group is an established name. Founded by renowned Saudi businessman Sheikh Saleh Abdullah Kamel, who is also chairman of the banking group, the Bahrain-domiciled Al Baraka boasts a presence in 12 countries with over 300 foreign branches.

However, a closer look at Al Baraka's financials and its international strategy suggests the group still has a long way to go if it wants to compete with rivals such as Al Rajhi and Kuwait Finance House.

With total assets of US$16.3 billion, Al Baraka is small in comparison to Al Rajhi and Kuwait Finance House, who each have over US$40 billion in assets. This is despite Al Baraka having a wider global reach.

A missing link for Al Baraka could be an absence in key Islamic banking markets such as Indonesia and Malaysia. Although it has a representative office in Indonesia, the operation mainly serves as a marketing arm to promote trade between the republic and the Middle East.

Speaking to Islamic Finance *news*, Moes Mokhtar, chief representative of Al Baraka's Indonesian office said that the bank sees Asia as an important part of its international strategy. Al Baraka is also said to be interested in one of the Islamic megabank licenses from Bank Negara Malaysia, the central bank, but the banking group and the Malaysian authority have remained tightlipped on the matter.

Moes said while the bank is "definitely interested" in Malaysia its focus now is to expand its presence in Indonesia which has a larger market.

The bank's efforts to acquire a bank in Indonesia are still ongoing, added Moes, who in April told Islamic Finance *news* that Al Baraka had identified several takeover targets, which could be a state owned entity.

Meanwhile, Moes also highlighted that one of the directors on Al Baraka's board is a Malaysian, showing the bank recognized the importance of the Malaysian market. He was referring to Anwar Ibrahim, a political leader of the country's opposition party.

"There is a move to shift our concentration in the Middle East into markets like Indonesia and Malaysia," he said.

The shift in focus would prove beneficial to the bank if it wanted to cement its position as a global Islamic bank. Currently, its net income is largely derived from its European markets, followed by the Middle East and then North Africa.

> ***"Investors also seem to have lost interest in Al Baraka's stock"***

With Islamic finance still at a developing stage in Europe, Al Baraka would do well to refocus its business to Asia where the industry has shown more promising growth.

To its credit though, the group already has a presence in Pakistan, a significant market for Islamic finance. Al Baraka Bank (Pakistan) reported a net profit of PKR80.5 million (US$938,065) in the first quarter of 2011, compared with a net loss of PKR264.93 million (a US$3.09 million loss) in the previous corresponding period. However, even with total assets of PKR6.14 billion (US$724.12 million), the banking group may need a further push to consolidate its position in Asia.

According to its financial statements, income from its other markets, including Pakistan, only contributed US$16.12 million to its total operating income of US$169.86 million at the end of March this year. At US$1.41 billion, assets classified under its 'other' markets also contributed the least amount to its entire asset portfolio.

On top of this, the Middle East, where the banking group has US$7.1 billion-worth of assets, is still recovering from the recent financial crisis and now undergoing political turmoil.

As evidenced by Al Baraka Bank Egypt's first quarter 2011 results, the bank has not been shielded from the recent developments in the country. Its Egypt operations reported a 43% decline in net profit to EGP25 million (US$4.2 million) from a year earlier while total assets increased marginally to EGP13.8 billion (US$2.32 billion) from EGP13.7 billion (US$2.3 billion) in the first three months of 2010.

Furthermore, according to a recent report by the Boston Consulting Group (BCG), the compound annual growth rate of retail banking revenue in the Middle East declined to 2% between 2006 and 2010 from over 25% between 2001 and 2006. "In fact, since 2008, the time of very strong growth is over in the region and even though the industry is recovering from the worst of the crisis, returning to pre-crisis development in the foreseeable future is unlikely," said BCG.

On another note, investors also seem to have lost interest in Al Baraka's stock, which is listed on the Bahrain Bourse. The counter has shown a steady decline since February 2010, when it was trading in the US$1.80 price range.

As at the 30th May, the stock traded at US$1.19. Its market capitalization has also been on a downtrend since 2008, falling to BHD447.03 million (US$1.19 billion) in 2010 from BHD675.8 million (US$1.79 billion) two years earlier.

The banking group's financials, although recording steady growth, have also proven unremarkable. In the first quarter of this year, it reported net income of US$53.46 million compared with US$48.34 million at the end of March last year. In contrast, Al Rajhi posted a net profit of US$453 million in the same period.

Al Baraka did report higher provisions of US$14 million as at the 31st March 2011, against US$13.25 million a year earlier. However, it did not provide details on the provisions in its financial statements.

One bright spot that does stand out in its financials is its cash and cash equivalents of US$3.15 billion as at the end of March this year. Flush with cash, Al Baraka is in a strong position to undertake acquisitions, especially if it wants to follow through on plans to grow in Asia and compete on a more level playing field with its bigger rivals.

The Growing Need for Education in Islamic Finance

An understanding of Shariah principles and the differences between Islamic and traditional finance warrants proper education. ADAM LOMAS delves into the need for such knowledge in Qatar.

Returning to Doha in 2009 after an absence of nearly 30 years was fascinating as there was a massive transformation in the skyline of the West Bay.

But that is not all that has changed in Doha. The national development plan calls for a shift away from the hydrocarbon based economy that has been the source of Qatar's phenomenal growth — today Qatar has either the largest or the second largest GDP per head of any nation, depending on how it is calculated.

The national development plan also calls for a focus on education so that influential roles in the finance sector can be filled with Qatari nationals. There is also a clear understanding that there is, and will be, a continuing role for expatriates.

At the Qatar Finance and Business Academy (QFBA) we have focused on teaching the fundamentals of Islamic finance since we opened our doors in 2010, in cooperation with the Islamic Institutions of the Qatar Foundation.

There is a growing interest in Islamic finance, among all sections of the community and particularly by western banks. This seems particularly true since the failures of non-Islamic finance became so obvious and led to the ongoing recession which continues to blight much of the world.

> *"It is also interesting to note the interest in alternative forms of banking by the Y generation, those who will lead the financial sector in the future"*

It is also interesting to note the interest in alternative forms of banking by the Y generation, those who will lead the financial sector in the future.

QFBA has focused on transformational learning, which rather than simply transferring knowledge via the classroom encourages debate and dialogue.

Through this dialogue, we have examined the advantages and disadvantages of Islamic finance. A number of interesting points have emerged:

1. There is minimum understanding of the Islamic finance principles, particularly among expatriates and also some suspicions.
2. There are a number of ways in which the principles of Islamic finance might have prevented the economic chaos of the last two to three years.
3. Even these principles can be misused and at the end of the day it depends on the integrity of decision makers.
4. Informed debate is a useful way of ensuring better understanding.

It is believed that by linking our learning on Islamic finance to our leadership programs, we hope to encourage in tomorrow's leaders the principles of sound corporate governance and an understanding of the Muslim world.

The national development plan will be achieved through a combination of a better understanding of the principles of Islamic finance and excellent leadership skills.

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Islamic Stock Market Investment

Islamic investments have found their footing in the global stock exchanges by offering Shariah indexes and ETF's. MUFTI AHMED SULIMAN and YUSUF MOOLA discuss their features.

Investment in the stock exchange is not exclusive to any one state or country. The global trend has shown that stock market investments play a significant role in the economy. A good economic state of affairs leads to a boom in the stock market while a poor state of affairs sends the stock market crashing.

Setting the scene

The purchase of an ordinary share in a larger business is referred to as a Musharakah (partnership). Upon acquisition of the share one becomes a partner in the business.
There may be two scenarios here:

a. The company has liquid and illiquid assets
b. The company only has liquid assets (cash).

In the first case, one may pay any amount of money with mutual consent of the buyer and seller for the purchase of the share. However, in the latter case, one may only pay an amount equal to the value of the share being bought. For example, if the liquid assets of the company amount to US$1 million and one is purchasing a stake in the company equal to one tenth of the company, then one may not pay more or less than US$100,000, as this is regarded as an exchange of cash for cash, which may only be done at par value according to Shariah law principles.

Preference shares, conventional bonds and other conventional financial instruments are not regarded as Shariah compliant investment options.

Shariah dissection

Shariah has laid down the law as to what may and may not be purchased. Keeping this rule in mind, Shariah scholars have set certain investment principles for trading in the stock market.

Industry screen

Industry screen refers to the screening of the company based on the main business activities of the company. The company should not be trading in prohibited industries as a core function of its business.

The following industries have been ruled as impermissible:

1. Conventional financial institutions such as banks and insurance companies;
2. Gambling houses and casinos;
3. Companies that manufacture, sell, pack or transport pork, alcohol and non-halal food and beverages;
4. Tobacco based industries;
5. Entertainment based companies, including cinemas, clubs, pornography, television and radio stations and music.

> ***"The property sector has proven to be a challenge for Shariah scholars and the cause of vigorous debate"***

Companies may have mixed income, for example, retailers that sell permissible items may also have an alcohol section or butchery as part of their business. Contemporary Shariah scholars have allowed the purchase of shares in a company if the income derived from the alcohol/butchery (non-permissible source) is negligible. Similarly, these companies may have some sort of investment or bank account that earns interest.

Scholars have set the tolerance level at 5%, which is the total interest income (not net interest income), and other non-permissible revenue should not exceed 5% of total revenue. If non-permissible revenue exceeds 5% then investment would not be allowed. Similarly, if the sum of interest income and other non-permissible income is less than 5% of the total revenue, then the investment will be allowed. However, all impermissible earnings will be donated to charity and the investor may not derive any personal benefit from this amount, no matter how small.

The property sector has proven to be a challenge for Shariah scholars and the cause of vigorous debate. This problem may be more challenging for Muslim minority countries, where retail and warehousing property companies house a significant number of 'non-compliant' tenants, like conventional banks, cinemas and such.

Financial screen

The following ratios have been set as a tolerance bench mark:

a. *Total interest bearing debt vs total assets – 30%:* The total interest bearing debt (including debentures, preference shares, bonds and such) should not exceed 30% of the company's total assets.

b. *Total interest based assets – 30%:* The total interest based assets (including fixed deposits, bonds and such) should not exceed 30% of the company's total assets.

c. *Liquid assets to total assets – 70%:* The company's liquid assets (cash + trade debtors) should not exceed 70% of the company's total assets.

Some scholars have also added the following ratio:

d. *Liquid assets to market cap:* The company's liquid assets (cash + trade debtors) should not equal nor exceed the market cap of the company.

This last ratio is not universally accepted. The Shariah standard of AAOIFI has excluded this ratio. In fact, the members of the AAOIFI Shariah board have explicitly mentioned that the inclusion of this last ratio is unnecessary.

Companies are screened periodically, depending on the timing, presentation and disclosure of financial results. In some countries, companies present their financial statements twice a year, showing interim and final results. In such cases, it would not be possible to perform the Shariah screens more than twice a year.

One may also find that some investment managers use a 33% ratio as opposed to 30%. This is also acceptable. The limit is set as one third.

Continued

Another interesting difference is the use of market capitalization instead of total assets. Market capitalization (cap) refers to the price per share multiplied by the number of shares in issue. The market cap of a company may be influenced by factors outside the company. It is also largely driven by investor perception of the company. During market booms one may find that the Shariah universe of shares may increase tremendously due to the rise in the base (market cap) and the opposite will occur when markets come crashing down.

> ***"During market booms one may find that the Shariah universe of shares may increase tremendously due to the rise in the base (market cap) and the opposite will occur when markets come crashing down"***

Total assets on the other hand, are held by some as a more stable basis for calculating these ratios. The total assets, as shown in the balance sheet of a company, reflect the true position of the company and are not driven by 'perception'. The effect in times of upward trends and downward trends may not be as challenging when using total assets as a base.

A possible resolution could be to apply total assets as a base for companies that have asset bases and leverage of their asset bases and to use market cap as a base for companies.

These companies spend money on growing intellectual capital which is temporarily disallowed to be presented as an asset in the balance sheet. For example, an IT company developing software or a healthcare organization spending huge amounts of money to develop new medicine but cannot account for research in its balance sheet.

Non-permissible income (NPI)

Non-permissible income refers to any kind of income that is regarded as impermissible according to Shariah law. As explained above, a company may earn interest from cash in its bank account. Such interest is calculated and donated to charity. Shariah investors do not gain any personal benefit from such NPI.

Shariah Supervisory Board (SSB) or Shariah Advisory Council (SAC)

SSB/SAC members consist of Shariah scholars who are experts in Shariah laws in general, however specializing in Islamic commercial law.

The appointment of an SSB or SAC is an additional governance requirement for companies that offer Shariah products and services. The core function of this board/committee is to provide guidance on Shariah law and its implementation within the framework of the company.

This board/committee provides a compliance certificate confirming that the products offered by the company are Shariah compliant. Periodic audits are also performed to ensure that the company complies with the rules and guidance of the SSB/SAC.

The identification of Shariah compliant stocks has given rise to the establishment of Shariah indexes globally.

When creating a Shariah universe of investable stock, fund/portfolio managers may find themselves trading with smaller constituents than their conventional counterparts. Yet we find in some cases that Islamic managers outperform their conventional counterparts.

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Islamic Stock Broking and Trading

There is clearly a distinction of what constitutes an Islamic brokerage house. OWAIS ANIS advocates the establishment of this institution by examining the features and the intricacies as well as highlighting the benefits.

The recent economic crisis has left many jobless, companies bankrupt, led to the shutdown of plants and factories, and seen real estate price nosedive. The reason for these extremes was very high leverage and poor control causing a great fall in the US and later the world. Large government bailout plans increased public spending, which in turn lowered interest rates and hampered the rebuilding of economies. We can say that this showed a complete failure of the capitalist financial system and the world is now looking for another financial model that can aid in the recovery of the crisis. The Islamic financial system can provide the required economic stability and capital security.

The Islamic economic and financial system is rule-based, comprising a set of rules and laws referred to as Shariah; governing economic, social, political and cultural aspects of the Muslim society. The Shariah compliant financial services industry comprises of Islamic banking, capital markets and Takaful. Islamic financial products also represent a class of investment products, which may appeal to those looking for ethical investments, as these products must comply with strict Shariah rules.

The growing awareness of and demand for investing in accordance with Shariah principles on a global scale have been the catalyst towards making the Islamic financial services industry a flourishing one. This is also a reflection of the increasing wealth and capacity of investors, both Muslims and non-Muslims, to seek and invest in new investment products that serve their needs.

In the early 1990's, some initiatives were taken for Islamic capital development in Malaysia, where the primary focus was to expand the concept of Sukuk and later of Islamic funds. For Islamic equity funds, a Shariah screening criteria was developed by their respective board, to filter Shariah compliance scripts. To analyze the performance of Shariah compliance stocks, certain indexes were formed to analyze the performance of the shares. However, common investors were not aware of these Islamic modes of investments. At that point, the presence of Islamic brokerage houses became necessary in the Islamic financial sector. In 2005, the first Islamic brokerage house was initiated in Qatar and Malaysia.

> ***"Shariah compliant scripts are those which have been filtered by Shariah screening criteria and prepared by renowned Shariah scholars globally"***

Initially in the early 1980's, Dr Mukhtar M Metwally, a professor of economics from University of Riyadh, presented a paper regarding the concept of an Islamic stock exchange. He defined how stability could be brought in shares prices in an Islamic economy. His main proposal was: "The management committee of the stock exchange should determine the maximum share price (MSP) for each company at intervals of no more than three months. The MSP should be equal to the company's average net worth per share. Furthermore, shares will not be traded above the MSP." Hence, what is essentially needed is to bring about a rational behavior in stock markets and to remove the erratic movements in stock prices. This can be done by:

I. Banning speculation
II. Allowing cash purchase of shares
III. Removing management malpractices.

At present, certain restrictions have been imposed on the clients of Islamic brokerage houses to invest in the stock market according to Shariah rules as compared with conventional brokerage houses. These restrictions are described below.

1. **Only Shariah compliant scripts are allowed for trading**: Shariah compliant scripts are those which have been filtered by Shariah screening criteria and prepared by renowned Shariah scholars globally. The criteria are described as:

- **Business of the investee company**
  The core business of the company should not violate any Shariah principles. Therefore, it is not permissible to acquire the shares of the companies providing financial services on interest like conventional banks, insurance companies, leasing companies or the companies involved in businesses not according to Shariah rules, for example, companies making or selling liquor, pork, haram meat, or involved in gambling, operating night clubs, disseminating pornographic content or prostitution.

- **Interest bearing debt to total assets**
  The company's debt/asset ratio should be less than or equal to 40%, which means the company should have 60% or more from equity financing.

- **Non-compliant investments to total assets**
  Companies by law are restricted to investment in insurance or the banking sector to secure their funds. Now companies have two options, whereby they can either invest totally in Takaful (newly launched) or to invest in 33% or less of conventional funds.

- **Non-compliant income to total revenue**
  The ratio of non-compliant income to total revenue should be less than 5%. Total non-compliant income includes income from gambling, income from interest based transactions, income from gharar-based transactions such as derivatives, insurance claim reimbursement from a conventional insurance company, any penalty charged on late payment in credit sale, income from casinos, addictive drugs, alcohol, dividend income from the above-mentioned businesses or

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companies which have been declared non-Shariah compliant.

- **Illiquid assets to total assets**
  The ratio of illiquid assets to total assets should be at least 20%. Illiquid assets include inventory of raw materials, work-in-process, all fixed assets such as property, plant and equipment, stores and spares as well as stock in trade.

- **Net liquid assets/share vs market price/share**
  Market price per share should be at least equal to or greater than net liquid assets per share.

2. **Intra-day trading should be prohibited**: Day trading has little to do with actual investing. Usually day traders watch the market and buy and sell on short-term price fluctuations (normally within one day). For this reason, a number of Islamic scholars have termed this as closer to gambling and thus it is prohibited.

3. **Margin finance is not allowed**: Margin trading is termed as buying stocks using money loaned from the broker, so interest (riba) is paid for this loan. Margin trading is not allowed in Islam, as this contract comprises of riba.

4. **Prohibition for derivatives – options and futures**: Scholars disagree on the validity of forwards, futures and options. Some scholars argue that in these contracts, the sold commodity and the payment of the price are made at a future date. Hence it contains an element of gambling.

5. **Prohibition of short selling:** Short selling is not valid in Shariah as it is gambling and cheating the buyer. This is because the vendor sells the product that he borrows although he does not own it.

6. **Trading of right allotment letters is prohibited**: Right allotment is an agreement letter between the shareholder and the company. It is not considered a share and is completely prohibited for trading.

> ***"The main objective for the formation of Islamic brokerage house (IBH) is to create a sovereign Islamic capital market"***

Importance of Islamic brokerage houses in the formation of Islamic capital market

The main objective for the formation of Islamic brokerage houses (IBH) is to create a sovereign Islamic capital market. As compared to conventional brokerage houses, Islamic brokerage houses are more committed and service oriented towards clients due to Shariah. In general, conventional brokerage houses target large trading volumes to receive more revenues. They often recommend or buy low-priced stocks for their clients, which causes a huge depreciation in equity, rather than profit. On the other hand, an Islamic equity broker is bound to invest in Shariah compliant scripts which are usually the best available stocks in market.

Unlike conventional brokerages, Islamic brokerages do not carry out intra-day speculative buying or margin trading as these types of unethical trades are strongly prohibited, which protect investors from huge losses and brings price stability in the market. This, in turn, not only increases investors' profit and confidence, but also attracts other investors to invest in Shariah compliant scripts. As a result, volume (liquidity is the basic criteria for selection) will increase in Shariah compliant scripts, which tends to increase the interest of other companies to be listed as Shariah compliant.

Efforts to encourage conventional brokerage firms to convert or to open an Islamic window in their respective companies will lead us to a new era for Islamic capital markets. We hope that the Islamic capital market will not only resolve the liquidity issue but also help economies become interest-free.

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Islamic Finance and Canadian Capital Markets

In light of the Toronto and London Stock Exchanges' possible merger to create a combined entity with a market capitalization of US$6.03 trillion, JEFFREY GRAHAM predicts prospects for Islamic capital markets in Canada.

In early February 2011, the Toronto and London Stock Exchanges announced that they had agreed to merge, intending to create a combined entity with a market capitalization of CA$5.9 trillion (US$6.03 trillion). The new stock exchange would be the second largest in the world with a market capitalization 48% greater than the NASDAQ. As noted below, the merger, if consummated, also has the potential to substantially enhance the development of Islamic capital markets activities in Toronto.

Background

The London Stock Exchange (LSE), founded in 1801, is the fourth largest stock exchange in the world by market capitalization. For much of the past decade ownership and control of the London Exchange has been in play.

In December 2005, the LSE rejected a GBP1.6 billion (US$2.6 billion) takeover offer from Macquarie Bank. Shortly after Macquarie withdrew its offer the LSE received an unsolicited approach from NASDAQ. Later in the day, NASDAQ announced that it was abandoning its plan to take over the LSE and sold the majority of its shares to Borse Dubai.

Toronto Stock Exchange (TMX), founded in 1861, is the largest stock exchange in Canada, the third largest in North America and the seventh largest in the world by market capitalization.

The Toronto Stock Exchange is the leader in the mining and oil and gas sector, with more mining and oil and gas companies listed than any other exchange in the world.

Assuming that the merger of the LSE and TMX is approved the exchanges will continue to operate under their current names for the time being. Eight of the 15 board members of the combined entity will be appointed by the LSE and seven by TMX. Initially a Canadian would be the chairman of the board.

The current CEO of the LSE would head the new enlarged company, while the TMX chief executive would become the new firm president. The combined entity would be jointly headquartered in both London and Toronto.

The approval process for the proposed merger is complex. Approval from the shareholders of each public company, the Ontario courts and various regulatory authorities are required, including the governments (or agencies) of four Canadian provinces.

> *"For much of the past decade ownership and control of the London Exchange has been in play"*

Implications for Islamic finance in Canada

The combination of the LSE and TMX has intriguing possibilities for the development of Islamic finance in Canada, given the history and experience of the LSE in this field.

Sukuk

The LSE is a key global venue for the issuance of Sukuk. To date, over US$19.5 billion has been raised through 31 issues of these alternative finance investment bonds.

The LSE offers the choice of two routes to market — the Main Market or the Professional Securities Market.

The Main Market is the Exchange's flagship international market for established companies and offers access to deep pools of capital and the benefit of a high profile launch.

The Professional Securities Market, which is Exchange-regulated, offers the benefits of listing with more flexible regulatory requirements. It allows the admission of debt securities and Sukuk without the requirement for a full prospectus as only listing particulars are required, and the disclosure requirements are tailored to wholesale needs as they can be governed by domestic GAAP (Generally Accepted Accounting Principles) rather than IFRS (International Financial Reporting Standards).

In addition to the prestige of admitting securities to trading on a truly international and globally respected exchange, allowing companies to raise their profile with investors worldwide and access to a deep pool of capital, London offers the benefit of competitive admission and listing costs.

Shariah compliant companies on Alternative Investment Market

The Alternative Investment Market (AIM) has listed the company shares of four Shariah compliant institutions: Islamic Bank of Britain, European Islamic Investment Bank, The Family Shariah Fund and Shariah Capital.

The AIM market offers smaller growing companies all the benefits of being traded on a world-class public market within a regulatory environment that has been designed to meet their specific needs.

The flexible approach to regulation and the streamlined admission process have made it an attractive market for smaller institutions, including growing Islamic companies, to develop their business.

Exchange traded funds on Islamic indexes

The LSE also has a vibrant market in Exchange Traded Funds (ETFs) including seven Shariah compliant ETFs based on Islamic indexes. ETFs are open-ended index tracking funds listed and traded on exchanges like shares.

They allow investors to gain exposure to a diverse range of assets and offer simple and efficient access to developed and emerging markets, broad and sector indexes.

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By trading a single share, users can effectively gain access to an entire index without the burden of investing in each of the constituent stocks making ETFs a highly efficient and cost effective investment tool.

Recent developments

Most recently, in mid-May a group of Canadian banks and pension funds made an offer to buy the TMX in a bid that champions a domestic alternative to the proposed LSE/TMX merger agreement (Maple Offer).

The investors would be Toronto-Dominion Bank, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Caisse de Depot et Placement du Quebec, Canada Pension Plan Investment Board, Ontario Teachers' Pension Plan, Alberta Investment Management and Fonds de Solidarite des Travailleurs du Quebec.

> ***"At this point it is difficult to predict the outcome of the proposed LSE/TMX merger or the competing Maple Offer"***

The Maple Offer would give TMX shareholders 40% of the company, the pension funds 35% and the bank-owned investment dealers 25%. The Board of TMX has rejected the Maple Offer and has indicated that it plans to proceed with the LSE/TMX merger. Nationalist concerns are increasing amid a wave of exchange mergers worldwide, including Singapore Exchange's October bid for Sydney based ASX, which was withdrawn after failing to win Australian government support.

Certain US lawmakers have also suggested that their support for the pending Deutsche Boerse deal for NYSE Euronext of New York was contingent on it being structured as a merger of equals. At this point it is difficult to predict the outcome of the proposed LSE/TMX merger or the competing Maple Offer.

What is clear is that the TMX is going to undergo fundamental change in the coming months and that under one scenario, prospects for a capital market for Islamic finance in Canada are substantially enhanced.

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The Islamic Paradigm on Finance, Economics and Development

In Islamic finance the religious dimension incorporated into finance, economics and development creates a distinguishment. FAROUK A ALWYNI shares his thoughts on this.

Paradigm means worldview, or the way people view the world and things surrounding it. An Islamic paradigm will be based on the primary sources of Islam's belief system, which is the Quran and hadith (sayings of Prophet Muhammad).

In the last two decades, the discussion on Islamic economics has been circulating around academic circles. The discussion then evolved into the discussion on Islamic finance and moved beyond mere academic theory. Muslims have witnessed the growth of Islamic financial institutions, not only in the Muslim world but also in the countries where they are a minority. The growth has been quite rapid in the last decade.

Amid this growth, it is very important to take a step back and see closely whether Islamic finance has something to offer the public good. This close observation is important to avoid a situation where people will finally recognize that Islamic finance is basically the same as conventional finance, only using Arabic names. When we have reached this situation, it could be a backlash for the growth of Islamic finance.

First of all, when we take the religious dimension into finance, economics and development, it means we need to subscribe to the religious worldview of Islam itself. Then, we will need to have a new approach in looking at finance, economics, and development (FED). In Islam, the world that we live in today is basically considered a temporary world, it will have an end sooner or later.

According to the Islamic texts, a person could end up having a much better life in the hereafter or much worse, it is about ending up in paradise or hell. Whatever we do in this world - good or bad - will be recorded, and have consequences for our life in the next world. So, basically doing a lot of good for others in this world is for his or her own interest in the hereafter since they will not go un-recorded and/or un-rewarded, or un-punished otherwise (for doing bad).

The above belief system of Islam will have to be an integral part when we discuss the Islamic paradigm on finance, economics and development (IPFED). When this belief system becomes part of FED, the approach to FED itself will then need to be changed. The discussion on the subject of economics and development will not only concern the welfare of people in this world, but also in the hereafter. The finance concept, as a derivation of economics, will also then not only discuss about profit maximization in this world, but also in the hereafter.

> ***"First of all, when we take the religious dimension into finance, economics and development, it means we need to subscribe to the religious worldview of Islam itself"***

Within the above context, it is important to note the objectives of Shariah as prescribed by a great scholar of Islam in the past, Imam Ibn al-Qayyim.

He states that "the basis of the Shariah is wisdom and welfare of the people in this world as well as the hereafter. This welfare lies in complete justice, mercy, well-being and wisdom. Anything that departs from justice to oppression, from mercy to harshness, from welfare to misery and from wisdom to folly, has nothing to do with the Shariah."
From the above definition by Ibn al-Qayyim it is clear that when we talk about IPFED there will be no separation between this world and the hereafter. The welfare that we want to achieve is a comprehensive welfare, not only the welfare in this mortal world.

As a result, all the policies developed on the basis of IPFED, by companies including financial institutions and/or governments/states will also need to take into consideration that comprehensive welfare.

Considering that, according to the Islamic belief system the welfare in the hereafter is much better than the welfare in this world, then all policies pertaining to the creation of welfare in this world should be aligned with the objective to achieve welfare in the hereafter, there should be no contradiction between them.

If there is, then the welfare in the hereafter should take priority.
The same then could be said when we apply the concept into companies and/or Islamic financial institutions (IFIs), that the profit maximization desired should not be at the expense of the return in the hereafter. Here, the alignment will be necessary.

In short, the behavior of the IFIs will then even from a 'this world only' perpective, always need to be ethical and uphold the public good.

The modern concepts of sustainable development, ethical finance, corporate social responsibility, human development, green economy, and such are to a large extent in line with the IPFED. The difference may only be in their worldview approach, while those proponents of more ethical systems may only concern the betterment of mankind in this world, the IPFED will consider them as having religious duty too.

The activities to advance the public good basically is an integral part of the IPFED. In Islam, there are multiple rewards for

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the person who gives his or her wealth for the poor, the orphans, the widows, and those who are in need. In fact, one of the main endless rewards given by God to a person even after his or her death is a lasting charity such as an orphan home, a well for giving water to drink, and such.

> ***"If the above doctrines are applied consistently in the Muslim world, there will be no big gap between the rich and the poor in the Muslim society"***

Monetary instruments used to bring public good in Islam are among others zakat, (obligatory alms), infaq (voluntary givings), sadaqah (voluntary givings), waqf (voluntary giving for on-going activities), and such. From the conventional and/or secular perpective, these activities will only be considered as expenses, or at best the act of philantrophism.

But, IPFED will consider those activities as investment activities, something that will produce return for a person who does it. Within the IPFED, all good deeds will be recorded, and thus, having return, if not in the world, then it will be in the hereafter.

If the above doctrines are applied consistently in the Muslim world, there will be no big gap between the rich and the poor in the Muslim society.

In fact, the consistent applications of those instruments will ensure the fulfillment of the basic economic rights of the people such as food, housing, health, and education. So, IPFED envisions two major implications for a good deed in this world, for the person him or herself, and for society.

When we have a paradigm integrating this world and the hereafter, then, 'the giver of wealth' will get some 'rewards' from God, some of these charitable acts will even get 'endless rewards'. Here, the return on investment will be infinite. The other implication is for the society, it will help the weak segment of the society, this in turn will finally contribute to a more equal society where there will be no extreme poverty.

The making of the society guided by IPFED will to some extent be similar with the welfare state of some western countries.

However, if these countries use the resources from taxes and/or debt, the IPFED guided system will mainly use 'voluntary' charity as resources for the common welfare of the people. On top of that, this will be faith driven activities. The system evolved then will be unique and the cost to achieve the common welfare will be cheaper since the cost of funds will be much less compared to those in the secular system.

However, the challenge will be to incorporate this belief system into the way of life of the majority of the people so that it could be put into practice. IPFED, if applied, will have far reaching consequences in the area of management, human resources, the conception of growth and development, finance and its profit maximization objective, economics and social justice, and such.

To some extent, the greater awareness of the people in searching for a better system, the system that can make capitalism more humane and ethical, will make IPFED relevant.

The interesting thing is IPFED takes the concept of 'economic man' into a new level, which is beyond this world. It still appreciates the self interest, but the self-interest here will create a virtuous cycle since a person who cares about his or her welfare in the hereafter will have no choice but to do good in this world. Thus, when a person cares about their self interest in the hereafter, then that person will automatically be more ethical and caring.

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Islamic Finance: Stumbling Blocks in Product Development and the Path to New Innovations

Innovation has driven the Islamic finance industry to its current heights, TARIQ AL-RIFAI expresses that the industry has now reached a tipping point whereby product development has poised it for further growth.

It is true that Islamic finance is a young industry and it has grown from zero to over US$1 trillion in assets during this short time. However, the growth has been inconsistent across all sectors of the industry.

Most industry insiders would agree that the launch of Dubai Islamic Bank in 1974 was also the date modern Islamic finance was born. Three years later, another financial institution popped up — Kuwait Finance House. It took them nearly two decades to be taken seriously. By that time, the local conventional banks woke up to realize that they had already lost nearly one-third of their market share.

Where Islamic retail banks excel and innovate

Islamic banks were very successful at attracting a loyal client base, and at developing innovative consumer finance products to meet the market's needs. With the success of retail banking and consumer finance, the industry quickly moved to develop other sectors such as investment banking, Takaful, private equity, wealth management or asset management. Each of these sectors has found its niche, but none has found the same success as retail banking and consumer finance.

Is there a future for Islamic investment banks?

Investment banking took off in the 1990s. Global financial institutions were particularly attracted to this market segment since much of the transactions were driven by governments in the GCC.

Starting from scratch, these small financial institutions had to play catch-up in developing Shariah compliant alternatives to conventional investment banking products.

As a result, some financial professionals felt that Islamic investment banking was on a copying binge, instead of innovating new products. As modern finance has been around for nearly 400 years, what is available on the market today has been tried and tested.

On the other hand, critics discounted some of the innovations in this space, most notably Sukuk. Though it is easy to call Sukuk 'Islamic bonds', they are far from it. Sukuk is not a debt instrument, they are a financing instrument where assets are transferred or pooled together. In simple terms, they can be more closely associated with asset-backed securities, but definitely not bonds.

> *"With the success of retail banking and consumer finance, the industry quickly moved to develop other sectors such as investment banking, Takaful, private equity, wealth management or asset management"*

Other innovations in Islamic investment banking include the Arboun contract, which is similar to a European style call option (though not universally approved), and Istisnah financing for infrastructure projects.

Unfortunately, Islamic investment banking has not been controversy free. Several recent innovations have been criticized and not been widely accepted by the market. Here are two which have been mentioned most often—

1. Tawarruq which many view as a method of replicating paying interest in cash.

2. The use of Waad in a total return swap. This has been one of the most controversial innovations in Islamic finance. The main reason being that returns on any asset can be exchanged (swapped) for returns on Shariah compliant assets. For instance, an investment portfolio of casinos and liquor companies and swap returns with a portfolio investing in the Dow Jones Islamic Market Index and called itself Shariah compliant.

However, the greatest challenge for Islamic investment banks is not controversial innovations, but rather competition from global financial institutions, which have multi-billion dollar balance sheets and vast distribution capabilities.

True Islamic finance - private equity

The concept of private equity (PE) is at the core of Islamic finance; the sharing of profits based on capital and risk. One would have thought that this sector would have developed much sooner than the late 1990s. Nevertheless, it did catch on rapidly up until the financial crisis in 2008.

There are multiple structures for profit distribution, such as "waterfall" structures, where certain investors get paid first before other investors (not Shariah compliant).

There is also a lot of leverage in these transactions including warrants, convertible shares, and mezzanine debt, all of which pose issues for Islamic PE investors.

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Given these challenges, to be able to compete with their conventional counterparts, Islamic PE firms found a way around them — innovation.

Over the course of five years, Islamic PE firms developed no less than six structures to finance transactions, leaving them with similar potential returns as with conventional PE. Not all were universally accepted, some were called off balance sheet loans to avoid Shariah scrutiny.

Where Islamic PE failed, however, is not on developing innovative structures. It already proved that it could innovate, invest in good companies and offer comparable returns. Where it failed was on the investor relations' side.

Firms did not properly explain the investments to clients, as well as the risks associated with PE investments, nor did they clarify that their capital would be tied up for years without a liquidity, such as a sale. This, in turn, left many investors feeling betrayed. It will take many years for this sector to recover.

Islamic wealth management – the oxymoron

With all the wealthy customers in the Middle East, Islamic wealth management should be a much larger industry than it is today.

Instead of measuring in the hundreds of billions, this industry can be measured in the tens of billions. What are some of the innovations in this space and where has it gone wrong?

First of all, a full product range has never been available, even today. So, to say that there is Islamic wealth management is misleading. Institutions offering Islamic wealth management are selling a limited menu of products.

Islamic wealth management began in the 1980s, with Swiss banks offering a few products to attract high net worth (HNW) clients from the Middle East. The attempts never amounted to anything beyond offering a handful of products and equity funds.

Wealth management, at its core, requires a full range of high quality investment products — from multiple asset classes such as equity, fixed income, real estate, short-term cash, PE, Takaful and alternative investments.

Many gaps still exists, particularly on the fixed income side. This is where many wealth managers fall short on being able to offer their clients a truly diversified portfolio.

The potential still exists to develop this market further, but what is required is patience and a desire to educate a market that clearly needs financial education.

> ***"Instead of measuring in the hundreds of billions, this industry can be measured in the tens of billions"***

Fund and more funds — asset management

Ironically, the first Islamic funds were not established in Muslim countries. The first one was the Amana Income Fund, launched in the US in 1986, followed by others in South Africa, and eventually Malaysia and Saudi Arabia.

Muslim countries witnessed the launch of Islamic banks in the 1970s, but for Muslims living in the west, they could only hope that one day, Islamic banks would reach them. In the meantime, they had to do something, so investments were the next best choice.

In the Middle East, it was not until the early 1990s before equity funds began to appear on the market.

This can be attributed to the fact that early Shariah boards did not approve of investing in equity markets until the seventh Fiqh Academy Conference held in Jeddah, Saudi Arabia in 1992, where investing in the stock market was formally approved. This opened the door for the development of Islamic equity funds in the 1990s. However, Islamic equity funds did not become widely recognized by international fund managers until the launch of the Dow Jones Islamic Market Indexes in 1999.

With this recognition that Islamic funds are a true niche market, international fund managers poured in to serve the market. This was the key innovation in equity funds.

From then on, what fund managers failed to do was to pay attention to what the market wanted. Instead, they focused on developing more new and exotic products the market didn't need or understand. Examples of this include the development of Islamic hedge funds or fund of funds.

Where innovation is needed is in developing more fixed income products and commodity funds. On the fixed income side, Sukuk is the only active sector.

On the commodity side, an alternative to futures and options contracts needs to be developed in order for Islamic investors to participate in this sector.

What is next?

As mentioned previously, Islamic finance has come along way in a short time. A US$1 trillion industry is not to be ignored, but keep in mind that Islamic finance has not developed evenly across all sectors.

It is also important to note all the major innovations this industry has made over the last four decades. Without these innovations, this industry would not exist today.

What is clear is that this industry will continue to innovate and grow especially on the Takaful side. For the first time, it is now outselling conventional insurance in the GCC.

Takaful demands investment products, particularly fixed income. It is only a matter of time before it reaches a tipping point and propels the rest of the industry up with it.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 21

Opportunities amidst volatility

Cover Story

It is only fitting that the inaugural cover of Islamic Investor begin with the most popular asset class in the asset management industry – equity. The darling of many a retail investor, its reputation has nevertheless declined since the beginning of the global financial crisis due to inconsistent returns.

Global markets remain volatile, with analysts late last year predicting a positive albeit moderate growth for 2011. However, the first quarter of the year witnessed the political unrest in the Middle East and a tsunami caused by an 8.9 magnitude earthquake that devastated northeast Japan. Rising oil prices and Europe's debt woes also did little to help soothe the uncertainties.

This prompted Goldman Sachs to revise its earlier global economic growth forecast down to 4.3% from an earlier estimate of 4.8%. Downside risks have also resulted in a shift towards tighter monetary policy in emerging markets.

China, the world's second largest economy, has also begun to show signs of a cool down. The latest HSBC's preliminary purchasing managers' index slipped to a 10-month low of 51.1 in May, from April's reading of 51.8. This was accompanied by four interest rate hikes since mid-October, and the reserve-requirement ratio being raised eight times since November, with the most recent on the 12th May.

The impact is clearly reflected in the Redmoney Asia ex Japan All Cap Index which fell from 920.35 on the 29th May to 895.78 on the 30th May.

In spite of this, fund managers remain optimistic about economic growth, particularly in developing economies. The average GDP growth for emerging markets, led by China and India, is in the range of 5-9%, compared to less than 1% for most developed markets, while the foreign reserves of emerging markets has surpassed the west to hit US$2.4 trillion (of which China has the lion's share and Saudi Arabia accounts for US$500 billion).

The potential for Islamic finance in developing economies was confirmed by Franklin Templeton Asset Management CEO Dr Mark Mobius, speaking at the eighth summit of the Islamic Financial Services Board in Luxembourg last month. A keen advocate of emerging markets, Dr Mobius commented that: "We have seen an increase in the number of new issues and the number of investors in new markets. We like Malaysia, Singapore, Indonesia and Thailand. We think there are good opportunities for investing in these countries."

The confidence in emerging markets is already being capitalized on by Shariah compliant asset managers, despite a somewhat bearish short-term outlook. Conglomerate Reliance Anil Dhirubhai Ambani Group recently appointed Malaysia-based subsidiary Reliance Asset Management as its investment manager for its Reliance China-India Shariah growth fund. Reliance is confident that the fund will provide its targeted Middle East investors with what it terms as "two of the most exciting growth markets".

Because of the strict adherence to Shariah law, Shariah compliant equity funds in general have proven to perform better during periods of volatility compared to conventional funds. Recent Eurekahedge data shows equity funds in Malaysia and Pakistan charting double digit returns over the last 12 months. Opportunity knocks for the Islamic asset management industry: it's time to open the door and seize it.

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Mark Mobius sees growth for Islamic funds

GLOBAL: The Islamic finance industry has an increasing role to play and is expected to continue on its current growth trajectory, said Mark Mobius, executive chairman of Templeton Emerging Markets Group, at the 8th Islamic Financial Services Board Summit in Luxembourg in May.

He also said the Islamic funds sector could be attractive to the global socially responsible investment market due to similar ethical and marketing aspects, adding Islamic funds and banks perform better than their conventional counterparts due to their ethical requirements.

Meanwhile, he said Luxembourg represented an acceptable fund registration hub and Islamic funds from the country could be issued throughout the region via the EU passport.

Solid growth

PAKISTAN: The mutual funds industry in Pakistan has posted a 21% growth for 2011, contributed by a 182% increase in Islamic funds to PKR17 billion (US$197.69 million).

Distributions declared

MALAYSIA: Public Mutual has declared distributions for 10 funds with a total of over RM573 million (US$190.29 million), including for its three Islamic funds: Public Ittikal Fund; Public Islamic Equity Fund; and Public Islamic Select Treasures Fund.

For the financial year ended the 31st May 2011, it declared a gross distribution of 8 sen (2.66 US cents) for Public Ittikal Fund, 2 sen (0.66 US cents) for Public Islamic Equity Fund and 1.5 sen (0.48 US cents) for Public Islamic Select Treasures Fund.

Yeoh Kim Hong, CEO of Public Mutual said the funds have done well for the period under review.

Favoring Shariah compliance

MALAYSIA: ASM Investment Service's corporate clients are increasingly opting for Shariah compliant funds due to healthy returns, said Nik Mohamed Zaki Nik Yusoff, its CEO.

He said the concept of Tazkiah in Islamic finance, which filters returns generated from vague or undetermined investment sources to ensure Shariah compliance, also made Islamic investments more attractive to investors.

The Takaful-backed feature of some Islamic investments also helps draw investors to Shariah compliant asset classes, added Yusoff.

ASM offers six Shariah unit trusts, of which three are provided with free Takaful coverage. It also provides a Takaful cover for two of its conventional unit trusts.

Investment fund manager

MALAYSIA: Reliance Asset Management (Malaysia), a subsidiary of India's Reliance Anil Dhirubhai Ambani Group, has been appointed as the investment manager of an Islamic equity fund called Reliance China-India Shariah Growth Fund.

In managing the fund, Reliance Asset Management has appointed Reliance Wealth Management and Hong Kong based China Asset Management (Hong Kong) as sub-advisors.

The fund is based in Mauritius and targets investors from the Middle East.

Shariah fund chosen

UK: Low-cost pension scheme NEST Corporation has selected HSBC Life Amanah Pension Fund for its Shariah fund.

NEST aims to help employers meet new workplace pension duties to be introduced in 2012.

The HSBC Life Amanah Pension fund which invests in Shariah compliant equities, has returned 63.5% since its launch up to the 31st March 2011.

Bermuda Paves the Way for Islamic Funds

The Bermuda Monetary Authority (BMA) recently published some guidance notes that will facilitate the establishment of Shariah compliant investment funds in Bermuda. FAWAZ ELMALKI and SHEBA RAZA take a closer look.

The Bermudian government is keen to promote the development of Islamic finance on the island and to explore opportunities to support the growth of this burgeoning industry.

The publication of the notes illustrates Bermuda's continued commitment to embracing new market entrants and alternative business products, further complementing its role as a domicile of choice for Islamic finance transactions and Shariah compliant funds.

Located within easy access of both London and New York, Bermuda's existing relationship with the GCC countries (particularly Bahrain) and its desire to promote the development of Islamic finance means it is well positioned to provide opportunities for investors, promoters and asset managers to expand and develop their Shariah compliant product offerings on an attractive, globally recognized platform.

Bermuda's highly respected and transparent regulatory framework already provides legal certainty to Islamic finance transactions such as Sukuk by providing modern, flexible corporate and trust legislation based on common law principles coupled with tax neutrality, a key element in effectively structuring transactions. Company names in Bermuda may also be registered in Arabic or non-Roman script. Shariah compliant funds can be established in the same manner as conventional funds. In essence, the Shariah element essentially operates as an extra set of rules layered on top of the corporate structure that influence the underlying investment decisions to suit a specific group of investors. Shariah compliant funds are thus not dissimilar to ethical investment vehicles.

There is a steady growth in the development of Shariah compliant private equity funds, global infrastructure funds and alternative asset funds in addition to the traditionally accepted real estate and commodity based funds. Within the private equity space, Shariah compliant funds often incorporate Mudarabah or Musharakah arrangements, structured as limited partnerships operating through specific profit and loss sharing agreements. Bermuda's limited partnership legislation accommodates both Mudarabah and Musharakah arrangements. In addition, neither Bermuda's Companies Act nor its Investment Funds Act restricts a fund's choice of investment objectives.

> ***"Bermuda is determined to maintain a leading role in the Islamic finance industry"***

The guidance notes only apply to mutual funds and open-ended funds established under the Investment Funds Act 2006, and not to closed-ended funds (e.g. private equity funds). The guidance notes aim to recognize certain unique features of Shariah compliant funds and provide guidance on a number of issues which such funds may need to consider in complying with the existing regulatory framework. This includes the appointment and role of the Shariah supervisory board, required disclosure in the fund's offering document (such as risk factors and conflict of interest disclosure) in line with Bermuda's existing Fund Prospectus Rules, required disclosure in the fund's constitutional documents (such as investment restrictions) and notification of material changes to the BMA.

The guidance notes augment Bermuda's regulatory regime to ensure that Bermuda domiciled Shariah compliant funds comply with international best practice. The BMA supervises, regulates and inspects financial institutions operating in or from within Bermuda. The BMA is a full member of the International Organization of Securities Commissions (IOSCO), and refers to the core principles issued by IOSCO (deemed to be universal standards of conduct within the investment business industry).

There is currently an unprecedented increase in investor demand for Islamic finance and Shariah compliant products and thus the publication of the guidance notes is timely. Recent developments in the Middle East have highlighted the need for locally based investors and managers to seek greater geographic and product diversification.

One of the key determinants for the successful development of Islamic finance in any jurisdiction is the existence of a legal framework that supports the operation and growth of the industry. Bermuda offers such a framework and the guidance notes are based on sound corporate governance principles that demonstrate the BMA's desire to ensure that Shariah compliant products are easily accommodated within Bermuda's existing regulatory framework whilst remaining appropriately regulated. Shariah compliant mutual/open-ended funds will otherwise still be subject to the same regulatory framework as conventional funds.

Already widely recognized for its contribution to conventional finance and one of the world's leading fund domiciles, Bermuda is determined to maintain a leading role in the growth of the Islamic finance industry. Bermuda offers an attractive, global, politically neutral and familiar platform to western investors and managers familiar with conventional finance and fund structures seeking access to alternative asset classes in emerging markets (such as Islamic finance) whilst simultaneously offering Islamic investors and managers seeking geographic and product diversification an internationally accepted platform from which to access a wider asset class and global investor base.

Fawaz Elmalki is a partner at Conyers Dill & Pearman (Dubai office) and can be contacted at Fawaz.Elmalki@conyersdill.com. Sheba Raza is an associate at Conyers Dill & Pearman (London office) and can be contacted at Sheba.Raza@conyersdill.com.

Atlas Pension Islamic Fund – Equity Sub Fund

The objective of the Atlas Pension Islamic Fund (APIF) is to provide a portable, individualized, funded (based on defined contribution) and flexible pension scheme assisting individuals to plan their retirement. APIF, comprising three sub funds, provides a diversified portfolio of Shariah compliant equity securities and Shariah compliant fixed income instruments.

What led to this fund being launched?

The objective of launching a pension fund is to encourage a concept of saving for retirement amongst individuals, by providing a suitable investment option. The APIF was launched to serve as a Shariah compliant primary saving vehicle for the retirement savings (pension) of individuals.

The open-ended APIF- Equity Sub-Fund's objective is to achieve long-term capital growth. It has been set up to invest primarily in local Shariah compliant equity securities, with a minimum of 90% of its net asset value in listed securities during the year, based on quarterly average investment calculated on a daily basis.

What are the key factors that drive the fund's performance?

The key factors contributing to the fund's performance are well managed asset allocation and stock selection throughout the time period.

Who are your investors?

We have a mix of both retail and institutional investors. They are mostly located in the major cities of Pakistan. We also have a few non-Pakistan residents, as well as foreign investors located in the Middle East and US.

What specific risks does the fund take into consideration? And why?

The fund measures risks that include but are not limited to: market risk, liquidity risk and credit risk as stated in the constitutive document.

How often do you review this fund?

The fund performance is reviewed on a daily basis with monthly/event driven portfolio rebalancing.

What are the sectors you are heavily invested in and why?

The fund is mainly invested in two major sectors – chemicals, and oil and gas – as of the 30th April, 2011. The respective investments are 29% and 26% for the sectors. The fund seeks to balance out between high dividend yielding and high growth stocks and thus, the heavy investment in the respective sectors.

What are the sectors you have recently exited and why?

Recent reduction in exposure was taken from the electricity sector; from 17.7% investment in March to 9.3% investment in April. This was because the market had better avenues for investment purposes.

How has this change affected the portfolio of this fund?

The portfolio is managed keeping in view the long-term growth and hence, the change shall result in better returns over the period of time.

What is the market outlook for this sector?

Pakistan's economy is set out on the path to recovery. The Karachi Stock Market is currently trading at cheap valuations/ discount as compared to regional markets. With improvement witnessed in the overall economic outlook and robust performance depicted by corporate results, it is expected that going forward the Karachi Stock Market will continue to provide decent returns to investors with medium to long-term investment horizon.

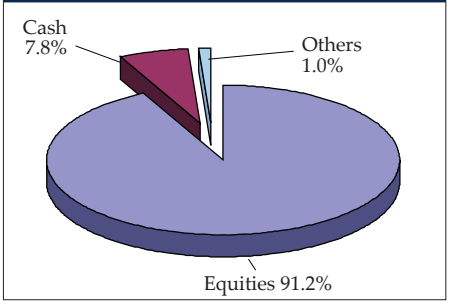
How has this fund performed compared to your initial expectations?

APIF- Equity Sub Fund's performance since inception has been remarkable at 66.03% as of the 30th April, 2011. The YTD NAV appreciation has been 34.51%.

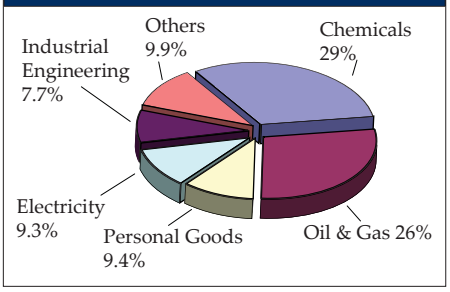
FACT SHEET	
Fund Manager	Atlas Asset Management Limited
Trustee	Central Depository Company of Pakistan Limited (CDC)
Shariah Advisor(s)	Dr. Prof. Fazlur Rahman
Benchmark (Index)	KMI-30
Inception Date	November 2007
Fund Characteristics (All figures are as at the 30th April 2011)	**Fund Size:** PKR48 million (US$559,342) **NAV per share:** PKR167.18 (US$1.95) **Minimum Investment:** PKR5,000 (US$58.32) **Management Fee:** 1.5% of annual net assets

PERFOMANCE SUMMARY	
YTD Return	40.26%
Return since inception	66.03%
Annualized Return	15.59%
2011 Return	9.25%
Last three months	5.51%

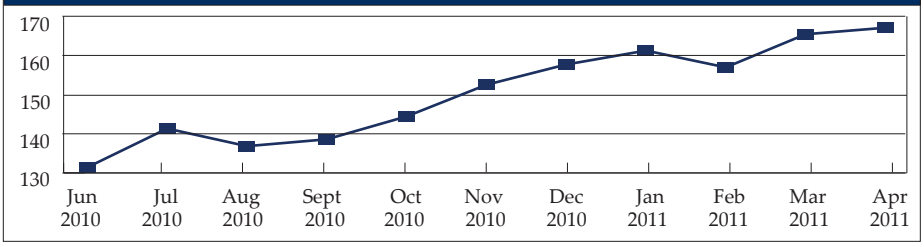
PORTFOLIO COMPOSITION



INDUSTRY ALOCATION



MONTHLY PERFORMANCE



Eurekahedge Asia Pacific Islamic Fund Index

Annualized Returns for ALL Funds (as of the 30th May 2011)

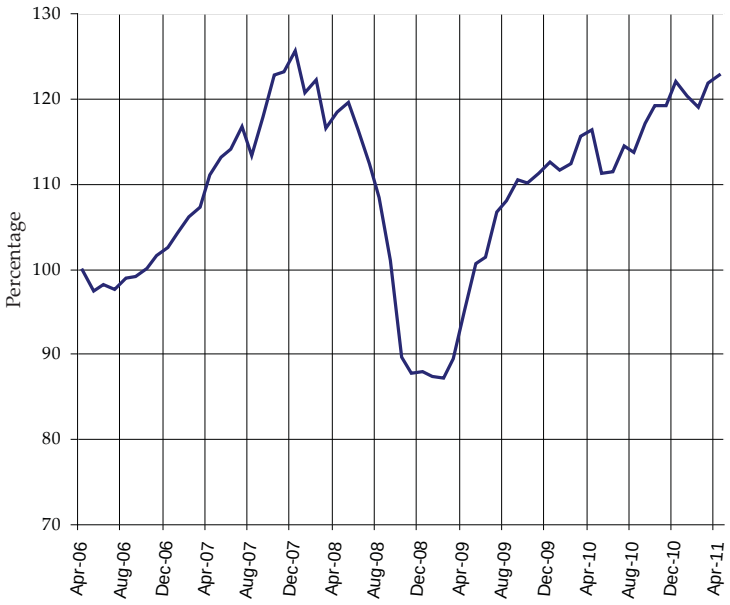
	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Taurus Ethical B	Taurus Asset Management	50.51	India
2	ETFS Physical Silver	ETFS Metal Securities	34.98	Jersey
3	Shariah Benchmark Exchange Traded Scheme (Shariah BeES)	Benchmark Asset Management Company	34.07	India
4	HwangDBS AIIMAN A20 China Access	HWANGDBS Investment Management	26.73	Malaysia
5	Kagiso Islamic Equity	Kagiso Asset Management	25.67	South Africa
6	ETFS Physical PM Basket	ETFS Metal Securities	22.83	Jersey
7	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	21.71	Malaysia
8	ETFS Physical Gold	ETFS Metal Securities	21.24	Jersey
9	Public Islamic Select Enterprises	Public Mutual	19.09	Malaysia
10	ETFS Physical Palladium	ETFS Metal Securities	18.49	Jersey
	*** Eurekahedge Islamic Fund Index**		**2.88**	

Annualized Standard Deviation for ALL Funds (as of the 30th May 2011)

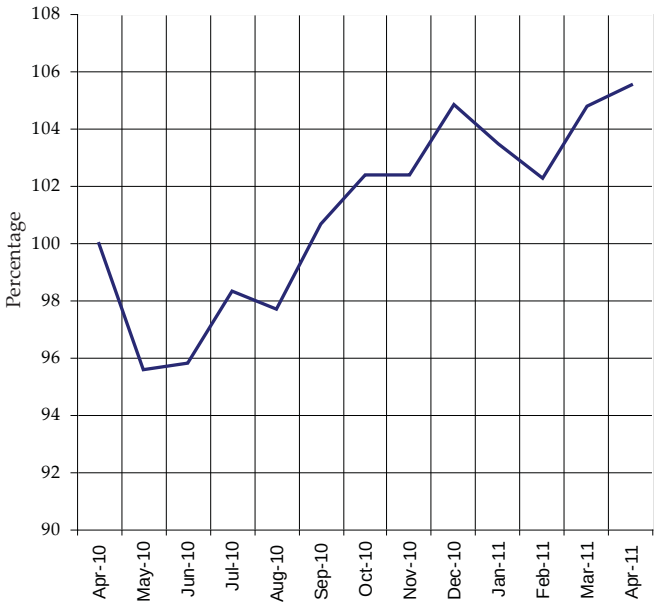
	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	iHilal Sharia Compliant Global Equity Opp (A)	iHilal Financial Services	0.00	Cayman Islands
2	RHB Islamic Income Plus 1	RHB Investment Management	0.11	Malaysia
3	Public Islamic Money Market	Public Mutual	0.16	Malaysia
4	PB Islamic Cash Management	Public Mutual	0.17	Malaysia
5	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.19	Malaysia
6	Kenanga Islamic Money Market	Kenanga Investors	0.24	Malaysia
7	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.24	Saudi Arabia
8	RHB Cash Management - Institutional	RHB Investment Management	0.25	Malaysia
9	PB Islamic Cash Plus	Public Mutual	0.28	Malaysia
10	CIMB Islamic Deposit	CIMB-Principal Asset Management	0.29	Malaysia
	*** Eurekahedge Islamic Fund Index**		**9.03**	

Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, global investing (which would focus on funds investing with global mandate instead of a specific country or geographical region), fund of funds, real estate as well as the Sortino ratio. Each table covering the duration, region, asset class and ratio will be featured on a five week rotational basis.

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Fund of Funds by 3 Month Returns

	FUND	FUND MANAGER	3-Month Return (%)	FUND DOMICILE
1	Russell Jadwa World Equity	Jadwa Investment	8.13	Saudi Arabia
2	Al Rajhi Balanced 2	Al Rajhi Bank	5.84	Saudi Arabia
3	Jadwa Aggressive Allocation	Jadwa Investment	5.04	Saudi Arabia
4	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	4.90	Saudi Arabia
5	Russell Jadwa Emerging Markets Equity	Jadwa Investment	3.82	Saudi Arabia
6	Al-Mubarak Balanced	Arab National Bank	3.52	Saudi Arabia
7	AlManarah High Growth Portfolio	The National Commercial Bank	3.49	Saudi Arabia
8	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	2.43	Saudi Arabia
9	Al Rajhi Balanced 1	Al Rajhi Bank	2.33	Saudi Arabia
10	Jadwa Balanced Allocation	Jadwa Investment	2.31	Saudi Arabia

** Based on funds which report 12 month returns as of 30th May 2011*

Top 5 Real Estate Funds by 3 Month Returns

	FUND	FUND MANAGER	3-Month Return (%)	FUND DOMICILE
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	9.71	Saudi Arabia
2	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	9.55	Ireland
3	Markaz Real Estate	Kuwait Financial Centre	3.11	Kuwait
4	Al-'Aqar KPJ REIT	AmMerchant Bank	2.70	Malaysia
5	Al Dar Real Estate	ADAM	0.82	Kuwait

** Based on 100.00% of funds which have reported Apr 2011 returns as at 30th May 2011*

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

Takaful news

Brought to you by Takaful IKHLAS®

1st June 2011

Bastion of the Islamic finance industry

Cover story

Welcome to the inaugural issue of our new dedicated Takaful section. With the continual rise of the Takaful industry, we at Islamic Finance *news* believe that this pillar of the Islamic finance industry warrants its own section devoted solely to the comings and goings within the flourishing Takaful industry.

The launch of the newly redesigned Islamic Finance *news* newsletter has afforded us the opportunity to highlight these events, giving greater insight and focus to a segment of the Islamic finance industry that continues to register significant growth above and beyond even conservative estimates.

In this section we will highlight the recent newsworthy developments taking place in the world of Takaful under the separate banner of Takaful news. Each week we will also feature an exclusively authored article on the Takaful industry written by industry practitioners and those directly involved in the world of Islamic insurance.

This week AM Best's Vasilis Katsipis shares his thoughts on the challenges for Takaful in the Middle East.

These pages will look forward to where the industry is headed, challenges faced as well as insights and analysis on the current trends, regulations, prospects and barriers facing the Takaful sector as a whole. We will be speaking directly to the industry and the movers and shakers that dominate the headlines. By giving this much maligned sector of the Islamic finance industry a greater voice it is our hope that we can be a part of its continual rise.

Prospects abound

As the Takaful industry continues to gain momentum across the globe, carving out new markets beyond its MENA and Southeast Asian regional base there is no reason to assume that the Takaful market cannot mirror the achievements of conventional insurance and eclipse that of the investment banking market.

> *"Takaful offers both vertical and horizontal growth prospects"*

This will not happen overnight but the opportunities are there. Takaful offers both vertical and horizontal growth prospects. With premiums from the conventional insurance business declining, opportunities are abound for Takaful operators. With conventional insurance markets becoming saturated and many majority Muslim nations beyond the UAE, Malaysia and Saudi Arabia only beginning to register significant take-up, Takaful will continue to provide ever increasing avenues for those willing to get involved.

Global Takaful contributions are estimated to be well on course to touch US$12 billion in 2011 up from US$9.15 billion in 2010, according to Ernst & Young's World Takaful report 2011.

According to the report, there still remain key issues facing the Takaful sector. They are competition for growth, diversification and specialization and the cultural and religious acceptability of insurance.

The report documents that competition, shortage of expertise and socio-political uncertainty are key business risks for Takaful in 2011. While other challenges remain, including evolving regulations, misaligned cost base and achieving an underwriting profit.

The increasing number of Takaful players in key markets has intensified competition, with small local players competing against established conventional players. According to industry observers the Malaysian and UAE markets are the most likely to see a flourish of M&A activity. This follows the easing of restrictions on foreign ownership of Malaysian insurers to 70% up from 49% under the financial sector liberalization plan and the introduction of the risk based capital framework and saturation of the UAE market.

The Takaful industry has yet to witness any of this much talked about consolidation, despite market saturation. With no mergers in sight, organic growth still appears a viable route even as competition increases.

In this issue...

Takaful Malaysia to hire more sales staff

MALAYSIA: Takaful Malaysia is planning to hire at least 1,900 sales personnel for its retail agency division to attain RM20 million (US$6.53 million) in the first year for the financial year target.

The firm plans to attract more sales talent by organizing roadshows and programs in the country.

Takaful MoU signed

PAKISTAN: Barkat Islamic Banking (BIB), Faysal Bank and Pak Kuwait Takaful Company have signed an MoU for Accidental Death Takaful on the Faysal Barkat Mortgage portfolio.

BIB is Faysal Bank's Islamic banking arm. Faysal Bank plans to further expand BIB this year by increasing the number of its existing 15 branches and offering more Shariah compliant products, although it has not provided specific details.

Takaful for University of Malaya staff

Malaysia: Takaful Malaysia has collaborated with the University of Malaya to roll out its Takaful Group Ma'asyi campaign, catering specifically to the university's 6,900 staff.

Ten plans are offered under the scheme which can be individually tailored to offer sufficient protection against death, total and permanent disablement, partial permanent disablement, and 36 critical illnesses. Funeral expenses, accidental medical reimbursement and daily hospital benefits are also included.

First unit linked insurance plan

SRI LANKA: Amana Takaful has launched Amana Takaful Prosper, a Shariah compliant unit linked insurance plan.

The plan offers three funds — a Safe Fund and Volatile Fund, consisting of varying degrees of investments in Mudarabah deposits and Shariah compliant equities; and a Growth Fund, which offers a mix of the Safe and Volatile funds. Life and Accident Takaful is also included in the plan.

According to Reyaz Jeffrey, the general manager and CEO, the appetite for investment by the public and private entities has increased, bolstered by a bullish performance from the capital markets. On the other hand, developments in the Islamic banking sphere and the expected changes conducive to Islamic finance will augur well for such a product.

The fund will be managed by NDB Aviva Wealth Management and Deutsche Bank as the custodian and administrator.

Generating contributions

MALAYSIA: Takaful Ikhlas is expecting its agency network to generate RM500 million (US$166 million) in new business contributions by 2015 from RM64 million (US$21 million) presently.

To achieve this target, the firm plans to boost its agency force to 7,000 from 5,000 currently and increase average annual contributions from each agent to RM60,000 (US$20,000) from RM20,000 (US$6,642).

It will also establish a new market development unit this year to penetrate the non-Muslim segment, hire more non-Muslim agents and provide them with Takaful training.

Takaful in the Middle East – Growing But Not Without Challenges

The year 2010 was a year of continued expansion for the Takaful market but it also faced some challenges. VASILIS KATSIPIS shares his views.

Premiums written by Takaful operators in the Middle East continued to grow but at a slower pace than it had originally been anticipated. Most existing companies revised their business projections downwards on the face of an expanding global recession. In a way this was to be expected given that many of the economies are recovering from the slow-down. A number of factors are still hindering the speed at which the market evolves. Initially, the impact of the global financial crisis was sharper than origininally anticipated and that impacted growth rates of a couple of years ago. Most of the local economies seem to be recovering and government spending on major projects is returning and reshaping the insurance industry.

Start-up activity, which had fuelled interest in the market during the preceding years, slowed down during 2009 and 2010 mainly due to the reduced availability of capital and subdued investor confidence. At the same time the capital position of most entities showed increased volatility due to drastic movements in equity and property markets.

When it comes to the market landscape, it is clear that Takaful companies have a significant competitive advantage especially on personal lines of business as they can make new covers accessible to segments of the population that did not have access to insurance before. In many respects this must be the preferred growth strategy as it will provide expansion in market segments that are not-competed for by the established companies. This seems to be the case in some markets whereby Family Takaful seems to be growing strongly. Despite the high growth rates experienced, premiums for Family Takaful remain low as in many cases the companies are redefining the insurance awareness of the market.

Given that many of the Takaful companies in the region are relatively new operators (started mainly in the last five years) the need to grow into credible competitors in the overall market has meant that the majority of business that has been written is mainly the compulsory personal lines (e.g. motor). While this provides the companies with increased business volumes, at the same time it has meant that Takaful companies have seen their competitive advantages being diluted and are increasingly competing on price against their well established competitors rather than the ethical value of their offering. Many Takaful companies are focusing on providing competitive premiums rather than differentiating their offering on their Islamic principles.

In recent years there have been several Takaful start-up operations in the Middle East. All companies, including Takaful, had been benefiting from the strong growth of the market up until 2008 and in many cases in 2009 too, masking the fact that many markets have more companies than they could accommodate. The slow down in many of these markets in 2010 has meant increasing competition for personal lines of business. In this environment many insurers seem to make brave but unwarranted assumptions about the potential growth rates of personal lines. This is a troubling development for any company operating in these markets but particularly for start-ups, as many Takaful companies have not had time to build their franchise and can only win business on price.

Overall capitalization of the Takaful market is strong having benefited either from good levels of retained profits among long-standing operators or significant capital injections for the newer companies. This is despite the fact that several Takaful operators have suffered recently from a concentration of assets in equities and real estate resulting in higher capital losses than many traditional companies. The policyholder funds of the younger companies remain significantly under-capitalized as a result of the up-streaming of profits to the operators' funds even in the early years of their development. This seems a precarious position given the continuing competitive nature of the market.

The publication of the "Standard on Solvency Requirements for Takaful (Islamic Insurance) Undertakings" by the Islamic Financial Services Board in December 2010 has been a significant development in providing local regulators with guidance on the regulation of Takaful companies. It is hoped that regulators of Takaful companies will adopt the advice provided therein as in most jurisdictions it is unclear as to which law (Shariah or national) will take precedence in a case of a Takaful insolvency.

> ***"Takaful operators have suffered recently from a concentration of assets in equities and real estate"***

Segmented and strong Takaful funds should be able to provide not only increased certainty against the risks of insolvency, but also the essential component within a profit distribution model which shows tangible additional benefits to policyholders. Such a framework should be capable of successfully attracting new target markets as part of a long-term strategy. This would not only be in line with the Islamic principles of mutuality that Takaful entities are designed to achieve, but also could attract other insureds with ethical attitudes which are not exclusively Islamic.

Vasilis Katsipis is the general manager (analytics) of AM Best Europe and he can be contacted at vasilis.katsipis@ambest.com.

Alberto G Brugnoni, chairman of the board at ASSAIF

Alberto Brugnoni is an international consultant in Islamic finance. His first Shariah compliant activities date back to the mid 80's with the execution of pioneering Murabahah transactions and participatory investment schemes. Brugnoni has authored some of the most innovative projects on financial and social inclusions, all recognized as benchmarks in their respective fields. Brugnoni runs ASSAIF, a consultancy that represents a truly unique proposition in the Islamic finance landscape.

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

Though my original background is in conventional investment banking, I developed very early a genuine interest in the value proposition of Islamic finance.

In the mid 1980's I pioneered some Shariah compliant transactions in Europe while working at Merrill Lynch. In September 1986, I attended the first ever conference on Islamic finance organized by the World Bank in Washington where two iconic figures, Ahmed al-Naggar and Mohammad al-Faisal encouraged my first steps in Islamic finance. From 2000 on I was able to complete some debut transactions such as the first Shariah compliant real estate financing in Italy and the first environmentally-focused Islamic finance project in Syria.

What does your role involve?

Over the years I have structured Islamic products for investment banks, family offices and individuals both in the Gulf region and Europe. Nowadays, with Islamic finance almost mainstream, I am putting my efforts in bringing Islamic finance to new regions such as the Russian Federation and the CIS countries; developing new areas such as microfinance and micro-Takaful, Islamic accountancy and Islamic social design and as well as raising the issue of the nature of currency.

What is your greatest achievement to date?

We take great pride in two projects we are working on right now. The first one is an Islamic syndication on behalf of one of the largest Russian banks, after selecting two world known financial institutions as co-arrangers, one from the west and one from the Gulf, we are now building up the structure. With this syndication we aim to bring Shariah financing to Russian SMEs through Murabahah and Ijarah contracts and therefore give domestic Muslim businesses the choice between conventional and Islamic finance. The second one is an Islamic microfinance fund that will be launched next October. Besides, the lives of common Muslim individuals have not significantly benefited from Islamic finance. In this initiative we will add positive screening to the negative screening embedded in the Islamic finance proposition.

Which of your products/services deliver the best results?

Our best product is communication and the ability to get the Islamic finance message across cultural backgrounds. We invest a disproportionate amount of resources and time in capacity building.

What are the strengths of your business?

All these activities are done on a strictly non-profit basis and though they do not have an immediate financial return we deem it important to contribute to the creation of awareness around Islamic finance.

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

Living in a part of the world where regulators and professional practices can freely share their points of view on Islamic finance is certainly an asset and makes life easier.

What are the obstacles faced in running your business today?

The lack of enabling legislation, tax and fiscal issues and sometimes a misperception of Islam and Islamic values are hurdles that make life a bit challenging.

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

The future of the industry will depend on how it will address the credibility issue hanging over it. The realities of financial markets which prioritize economic incentives rather than religious and ethical norms, have forced Islamic finance to become part of the international financial system by adopting the commercial banking model, its banks' lending criteria and costs of financing. The primary objective of profit maximization and efficiency has overshadowed its foundational claims of social justice and prevention of exploitation.

This tendency has led to a number of disturbing consequences, which are avoidance of equity financing to the extent that debt contracts represent more than 90% of the Islamic market; commodity Murabahah transactions with non-Islamic banks have allowed the siphoning of Islamic funds out to the conventional market, which in turn utilizes them for conventional interest based activities thus distorting the demand and supply parameters of the Islamic fixed income market.

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

The brand name of Islamic finance should emphasize issues such as community banking and socially responsible investment. To achieve this aim, a collective effort is needed to rearrange the instruments and contractual structures used by Islamic finance in light of the goals of Islamic economics.

Government of Bahrain Ijarah Sukuk

The Central Bank of Bahrain (CBB) issued its five-year BHD200 million (US$530.49 million) Islamic government lease securities on the 7th April 2011. The Sukuk will pay an annual fixed rate of 5.5% payable every six months on the 7th October and the 7th April during the issuance period and has been rated 'BBB'.

The minimum subscription investment for the Sukuk remains on par with all previously issued CBB securities at BHD 10,000 (US$26,526) or multiples thereof, to allow for the inclusion of smaller financing houses, and will mature on the 7th April 2016. The Ijarah structure is used by the CBB for its longer term issuances and according to the CBB the capital will be used for general government needs.

This is the latest round of securities issued by the CBB in addition to its monthly offerings. This particular Sukuk has been issued solely for 'primary dealers': that is the local retail banks. It is estimated that the CBB needs to regularly issue in excess of US$9 billion-worth of securities in order to satiate demand from local banks and maintain liquidity within the domestic banking sector.

The Bahrain Bourse listed the US$530.49 million government Ijarah Sukuk on behalf of the Kingdom of Bahrain. The director of the Bourse, Fouad A Rahman Rashid, issued a resolution to list the BHD200 million (US$530.49 million) Government Ijarah Sukuk as of the 26th April 2011. The listing brings the number of Sukuk listed on the bourse to nine, with an approximate value of US$3.41 billion.

Uncertain outlook

Despite the clashes in Bahrain, and the announcement of a three month state of emergency in the kingdom on the 15th March, demand remains strong for the government's short-term Sukuk programs. The CBB's monthly issues of Sukuk Al-Salam and Sukuk Ijarah continue to be heavily oversubscribed, indicating that the crisis has not impacted the Sukuk market as negatively as previously thought.

The Sukuk was rated at Bahrain's sovereign rating of 'BBB'. However, as of the 26th May Moody's downgraded Bahrain's government bond ratings to 'Baa1' from 'A3', with a negative outlook. The downgrade of Bahrain's rating is directly correlated with the adverse effects of the recent political situation and resultant impact on the country's future growth prospects, continual increases in the break-even oil price required to balance the budget, and a weakening of Bahrain's banking sector.

> ***"The listing brings the number of Sukuk listed on the bourse to nine, with an approximate value of US$3.41 billion"***

The main driver underlying Moody's decision to downgrade was the significant deterioration in Bahrain's political environment since February. Political tensions in the country remain high and there seems little prospect of the underlying causes of the unrest being peacefully resolved, at least over the short-term. The political outlook is therefore highly uncertain.

Moody's believes that these events are likely to have significantly hampered economic growth and government-championed diversification into sectors such as tourism, trade and the financial services may be unequivocally damaged by these events. The crisis has also affected Bahrain's public finances, with parliament having to approve an expansionary budget for 2011-12 as a result of rising expenditure; thus reducing fiscal flexibility.

Bahrain continues to receive strong political and financial support from Saudi Arabia and other GCC neighbors. Further downgrades could have significant repercussions regarding asset quality and could therefore increase liquidity pressures further.

Government Islamic Lease (Ijarah) Securities (Sukuk)

BHD200 million (US$530.49 million)

مصرف البحرين المركزي

Central Bank of Bahrain

7th April 2011

Obligor/Issuer	Central Bank of Bahrain
Issuance size	BHD200 million (US$530.49 million)
Tenor	Five years
Return	Annual fixed interest rate at 5.50%
Payment	Payable every six month on the 7th October and the 7th April during the issuance period
Maturity date	7th April 2016
Main lead Managers	Central Bank of Bahrain
Trustee	Ministry of finance
Governing law	Bahraini
Purpose of issuance	Government of Bahrain's requirements
Rating	'BBB'
Shariah advisor	Central Bank of Bahrain Shariah board
Structure	Ijarah (as documented in the prospectus
Issuance Price	BHD10,000 (US$26,526)
Tradability	Listed and traded on the Bahrain Bourse as of the 26th April 2011 issue only for primary desks

ISSUER	SIZE	DATE ANNOUNCED
Sarawak Energy	RM3 billion	28th May 2011
Perusahaan Listrik Negara	US$2 billion	27th May 2011
HSBC Middle East	US$500 million	26th May 2011
Nakheel	AED4.8 billion	23rd May 2011
Government of Malaysia	TBA	12th May 2011
Qatar Islamic Bank	TBA	12th May 2011
Islamic Development Bank	TBA	12th May 2011
Bank Muamalat Indonesia	US$100 million	10th May 2011
Bank Muamalat Indonesia	IDR1.5 trillion	9th May 2011
Bank Muamalat Malaysia	RM400 million	9th May 2011
Al Baraka Banking Group	US$300 million	4th May 2011
Jordan finance ministry	US$500 million	4th May 2011
Gazprombank	US$200 million	4th May 2011
VTB Bank	US$200 million	4th May 2011
Esso Malaysia	RM300 million	3rd May 2011
Indonesia finance ministry	US$1 billion	3rd May 2011
Westport Malaysia	RM2 billion	28th April 2011
Ranhill Power	RM800 million	22nd April 2011
Tamweel	TBA	21st April 2011
Mazaya Qatar	TBA	14th April 2011
Liquidity Management House for Investment	US$1 billion	12th April 2011
Noor Islamic Bank	US$250 — US$300 million	6th April 2011
Tatarstan	US$200 million	24th March 2011
Kazakhstan	US$500 million	16th March 2011
Masraf Al Rayan	US$1 billion	14th March 2011
First Gulf Bank	TBA	14th March 2011
Prasarana Negara Malaysia	RM5 billion	11th March 2011
Amana Takaful	LKR750 million	11th March 2011
Aldar Properties	AED3.5 billion	27th February 2011
Central Bank of Yemen	US$500 million	27th February 2011
Qatar International Islamic Bank	US$500 million	8th February 2011
Dana Gas	US$1 billion	31st January 2011
Bizim Securities, Turkey	TRL100 million	26th January 2011
Karachi Stock Exchange	TBA	18th January 2011
Academic Medical Center Malaysia	RM1.5 billion	17th January 2011
Credit Agricole	US$3 billion	14th January 2011
Engro Corporation, Pakistan	PKR3 billion	13th January 2011
General Authority of Civil Aviation, Saudi Arabia	SAR15 billion	13th January 2011
Brazil	TBA	10th January 2011
Kuwait Finance House-Turkey	US$500 million	5th January 2011
Franklin Templeton	TBA	21st December 2010
France	TBA	15th December 2010
Palestine Monetary Authority	US$50 million	8th December 2010
Saudi International Petrochemical Company	SAR1.5 billion	14th December 2010
UK Islamic Finance Secretariat	TBA	25th November 2010
Sabah Credit Corporation	RM1 billion	24th November 2010
National Commercial Bank, Saudi Arabia	TBA	23rd November 2010
Etisalat	US$1 billion	11th November 2010
Saudi Aramco, Total	US$1 billion	11th November 2010
Lebanon	TBA	10th November 2010

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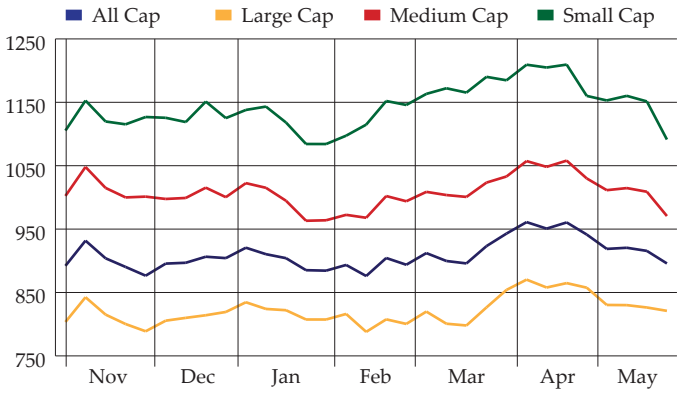
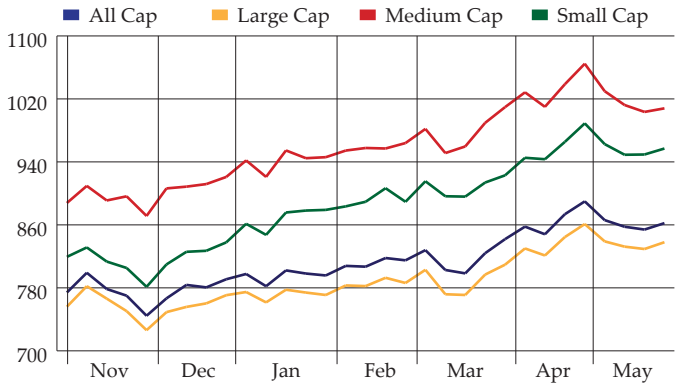
IFN correspondents are experts in their respective fields and are selected by Islamic Finance news to contribute designated short country reports

For more information about becoming an IFN correspondent please contact sasikala@redmoneygroup.com

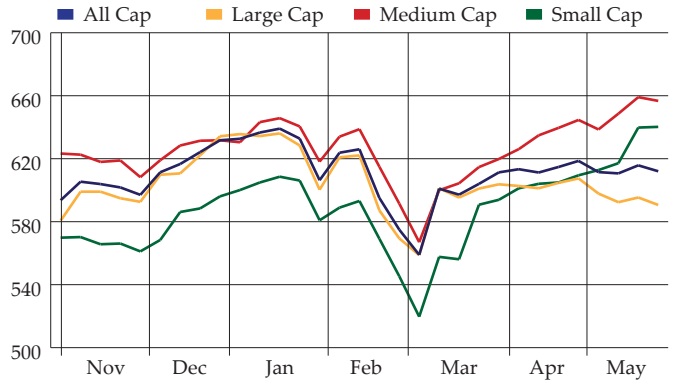
REDmoney Asia ex. Japan *6 Months*



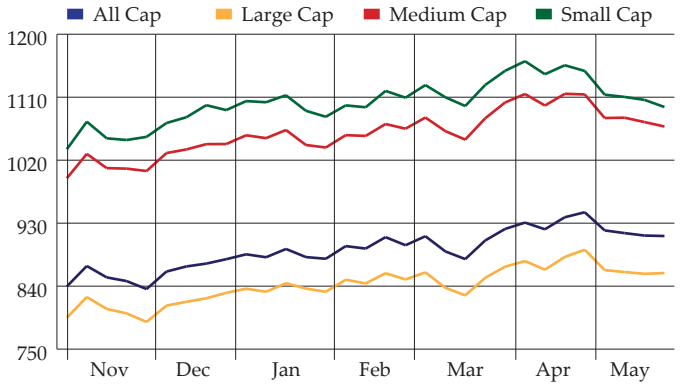
REDmoney Europe *6 Months*



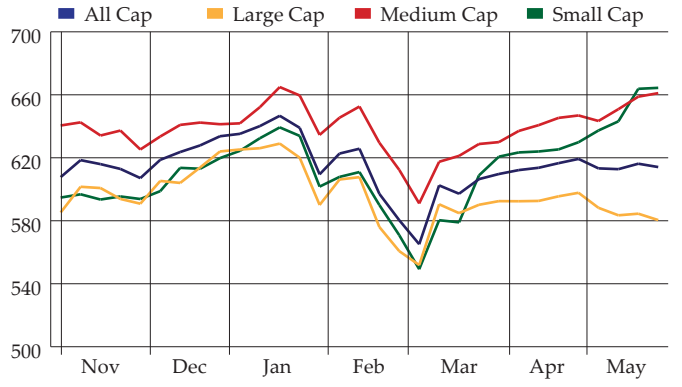
REDmoney GCC *6 Months*



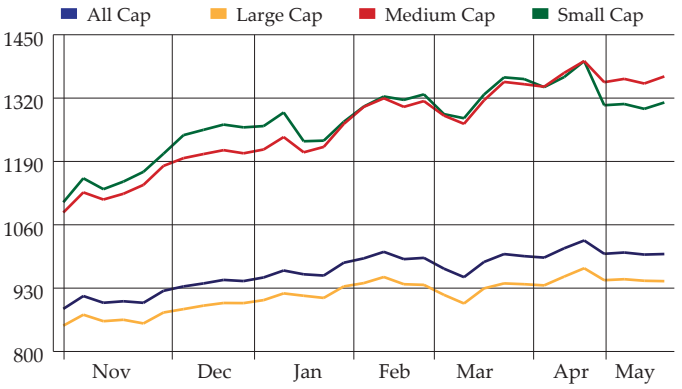
REDmoney Global *6 Months*



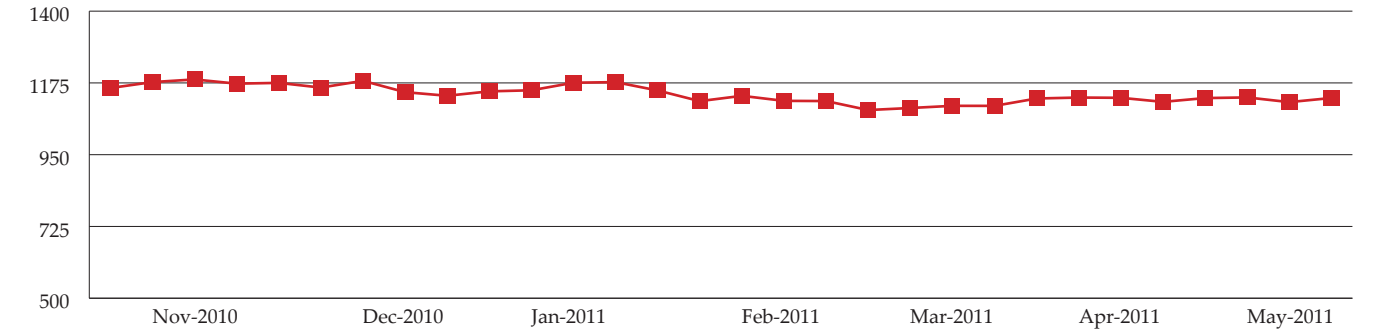
REDmoney MENA *6 Months*



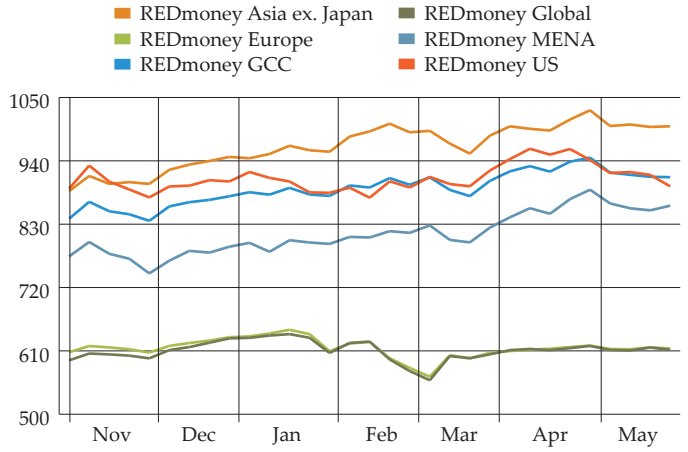
REDmoney US *6 Months*



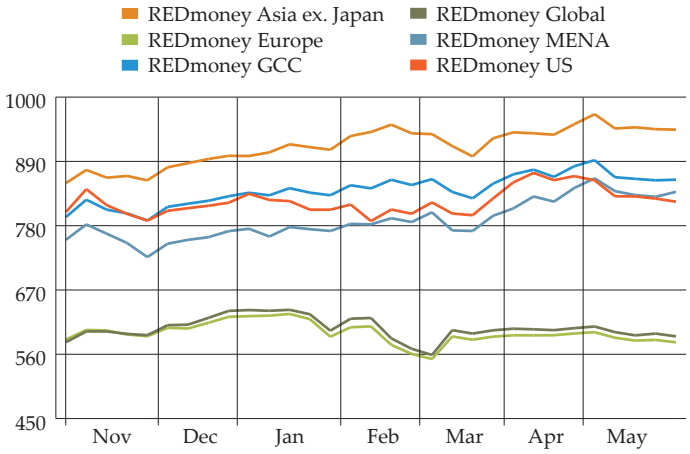
REDmoney Halal Food Participation (All Cap) *6 months*



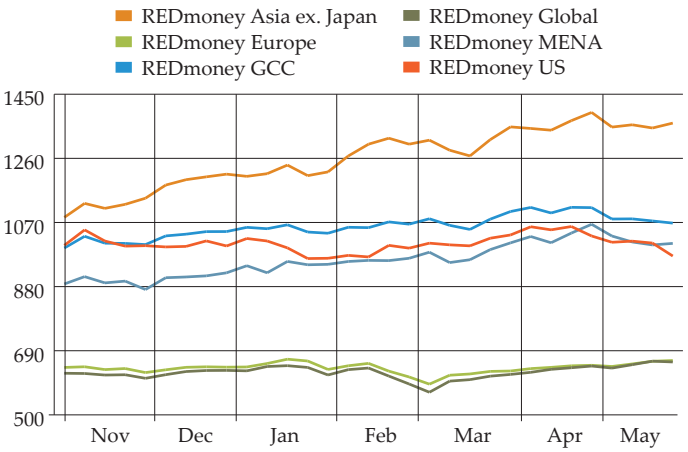
REDmoney Global Shariah Index Series (All Cap) *6 Months*



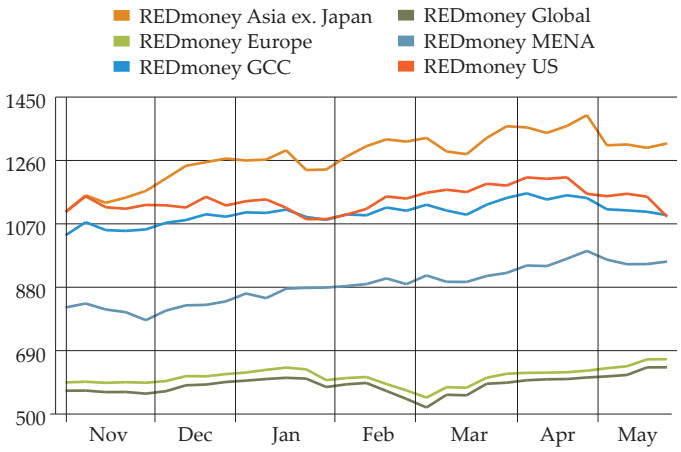
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



REDmoney Global Shariah Index Series (Medium Cap) *6 Months*



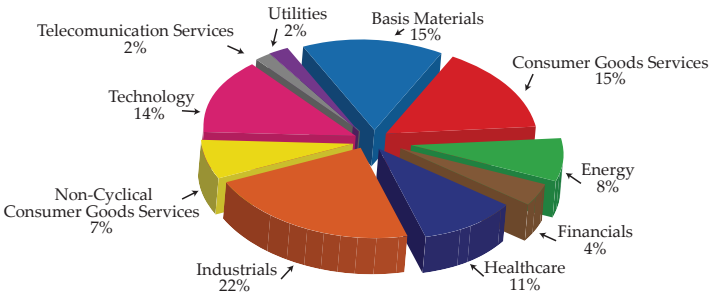
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

Equities are considered eligible for inclusion into the REDmoney Global Shariah Index Series only if they pass a series of market related guidelines related to minimum market capitalization and liquidity as well as country restrictions.

Once the index eligible universe is determined the underlying constituents are screened using a set of business and financial Shariah guidelines.



The REDmoney Global Shariah Index Series powered by IdealRatings consists of a rich subset of global listed equities that adhere to clearly defined and transparent Shariah guidelines defined by Shariyah Review Bureau in Jeddah, Saudi Arabia.

The REDmoney Shariah Indexes provides Islamic investors with an accurate and Shariah-specific equity performance benchmark with optimized compliance credibility due to the intensive research conducted to ensure that index constituents do not conflict with the defined Shariah requirements.

IdealRatings™ is the leading provider of Shariah investment decision support tools to investors globally, including asset managers, brokers, index providers, and banks to empower them to develop, manage and monitor Shariah investment products and Shariah compliant funds. IdealRatings is headquartered in San Francisco, California. for more information about IdealRatings visit: www.idealratings.com

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings

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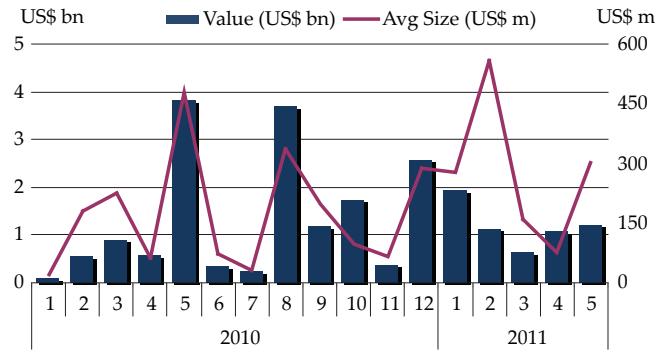
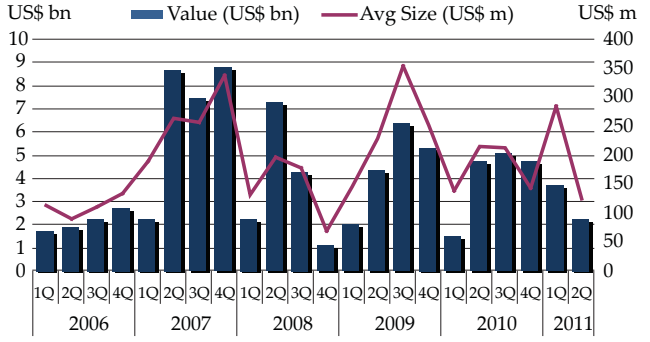
Most Recent Global Islamic Bonds

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
18th May 2011	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	Standard Chartered Bank, Deutsche Bank, BNP Paribas, HSBC
18th May 2011	Sharjah Islamic Bank	UAE	Issue price undisclosed	Euro market public issue	400	Standard Chartered Bank, HSBC
28th Apr 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	335	CIMB Group
28th Apr 2011	Westports Malaysia	Malaysia	Sukuk	Domestic market private placement	150	AmInvestment Bank, Maybank Investment Bank
21st Apr 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	332	HSBC, CIMB Group
29th Mar 2011	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah Sukuk	Domestic market private placement	267	JPMorgan, HSBC
23rd Mar 2011	Maybank	Malaysia	Sukuk Musharakah Sukuk	Domestic market private placement	330	Maybank Investment Bank
23rd Feb 2011	Cagamas	Malaysia	Murabahah Sukuk issued under issuer's Islamic/conventional CP program and Islamic/ conventional MTN Program	Domestic market public issue	132	CIMB Group, AmInvestment Bank
8th Feb 2011	GovCo Holdings	Malaysia	Murabahah Sukuk	Domestic market private placement	985	HSBC, RHB Capital, CIMB Group
28th Jan 2011	Aman Sukuk	Malaysia	Musharakah Sukuk	Domestic market public issue	361	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
27th Jan 2011	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, Bank, HSBC, RBS
25th Jan 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	884	HSBC, CIMB Group
10th Jan 2011	Bernas	Malaysia	Murabahah Sukuk	Domestic market public issue	114	Standard Chartered Bank, Bank Muamalat Malaysia
29th Dec 2010	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,192	Maybank Investment Bank
14th Dec 2010	National Bank of Abu Dhabi	UAE	Murabahah Sukuk	Foreign market public issue	159	HSBC, RBS, Maybank Investment Bank
10th Dec 2010	Cagamas	Malaysia	Murabahah Sukuk issued under issuer's Islamic/conventional CP program and Islamic/ conventional MTN Program	Domestic market public issue	287	HSBC, CIMB Group
8th Dec 2010	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	400	RBS, Citigroup
3rd Dec 2010	Malaysia Airports Capital	Malaysia	Murabahah Sukuk	Domestic market public issue	476	CIMB Group, Citigroup
29th Nov 2010	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	133	OCBC, Public Bank, Affin Investment Bank

Global Islamic Bond Volume by Month



Global Islamic Bond Volume by Quarter



Top 30 Issuers of Global Islamic Bonds *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Pengurusan Air SPV	Malaysia	Murabahah Islamic	Domestic market private placement	1,550	3	HSBC, CIMB Group
2	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329	1	CIMB Group, Maybank Investment Bank
3	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275	2	Maybank Investment Bank
4	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	1,250	2	Standard Chartered Bank, HSBC, CIMB Group, Citigroup, Deutsche Bank, BNP Paribas
5	Danga Capital	Malaysia	Sukuk Wakalah Trust Certificates	Foreign market private placement	1,089	1	OCBC, DBS, CIMB Group
6	GovCo Holdings	Malaysia	Murabahah Sukuk	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
7	Cagamas	Malaysia	Sukuk	Domestic market private placement; Domestic market public issue	966	14	RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank, Standard Chartered, AmInvestment Bank, Cagamas
8	Malaysia Airports Capital	Malaysia	Ijarah Sukuk	Domestic market public issue	792	2	CIMB Group, Citigroup
9	Qatar Islamic Bank	Qatar	Debut RegS Sukuk	Euro market public issue	750	1	HSBC, Credit Suisse, QInvest
9	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750	1	Standard Chartered, HSBC, Barclays Capital
11	Emaar Sukuk	UAE	Sukuk issue	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
12	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
13	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
14	Aman Sukuk	Malaysia	Musharakah Sukuk	Domestic market public issue	361	1	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
15	Maybank	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
16	National Bank of Abu Dhabi	UAE	Murabahah Sukuk	Foreign market public issue	312	2	HSBC, Maybank Investment Bank
17	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Musharakah Sukuk	Domestic market public issue	280	13	CIMB Group
18	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
19	Bernas	Malaysia	Musharakah Sukuk	Domestic market public issue	240	2	Standard Chartered, Bank Muamalat Malaysia
20	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195	1	HSBC, CIMB Group
21	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	193	3	OCBC, Public Bank, Affin Investment Bank
22	AmIslamic Bank	Malaysia	Musharakah Sukuk	Domestic market public issue	177	1	AmInvestment Bank
23	Maju Expressway	Malaysia	Musharakah Sukuk	Domestic market public issue	168	1	CIMB Group
24	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167	1	RHB Capital, Maybank Investment Bank
25	Putrajaya Holdings	Malaysia	Musharakah Sukuk	Domestic market public issue	161	1	CIMB Group, AmInvestment Bank, Maybank Investment Bank
26	Malaysia Debt Ventures	Malaysia	Murabahah Sukuk	Domestic market public issue	158	1	Lembaga Tabung Haji, RHB Capital, CIMB Group
27	Westports Malaysia	Malaysia	Sukuk	Domestic market private placement	150	1	AmInvestment, Maybank Investment Bank
28	Nomura Sukuk	Japan	Ijarah Sukuk	Euro market public issue	100	1	KFH
28	Kuveyt Turk Katilim Bankasi	Kuwait	Debut Turkish Murabahah Sukuk	Euro market public issue	100	1	KFH, Citigroup
30	IRAT Hotels & Resorts	Malaysia	Sukuk	Domestic market public issue	91	1	Affin Investment Bank
	Total				**16,143**	**93**	

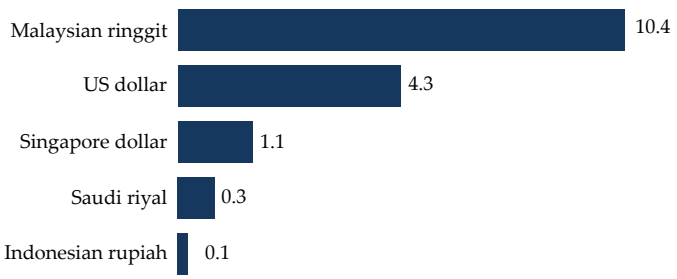
Top Managers of Islamic Bonds *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	4,002	40	24.8
2	Maybank Investment Bank	2,824	22	17.5
3	HSBC	2,638	16	16.3
4	Standard Chartered Bank	1,062	8	6.6
5	Citigroup	797	6	4.9
6	RHB Capital	658	6	4.1
7	AmInvestment Bank	650	9	4.0
8	RBS	522	4	3.2
9	OCBC	424	3	2.6
10	DBS	363	1	2.3
11	QInvest	250	1	1.6
11	Credit Suisse	250	1	1.6
11	Barclays Capital	250	1	1.6
14	Affin Investment Bank	195	4	1.2
15	Deutsche Bank	188	1	1.2
15	BNP Paribas	188	1	1.2
17	KFH	150	2	0.9
18	JPMorgan	133	1	0.8
19	Lembaga Tabung Haji	131	3	0.8
20	Al-Rajhi Banking & Investment Corperation	122	2	0.8
21	Bank Muamalat Malaysia	120	2	0.7
22	EON Bank	46	2	0.3
23	Public Bank	44	1	0.3
24	Kenanga Investment Bank	33	1	0.2
25	Trimegah Securities	18	1	0.1
25	Bank Mandiri (Persero)	18	1	0.1
25	(Persero) Danareksa	18	1	0.1
28	MIDF	17	3	0.1
29	Cagamas	15	7	0.1
30	OSK	9	2	0.1
	Total	**16,143**	**93**	**100.0**

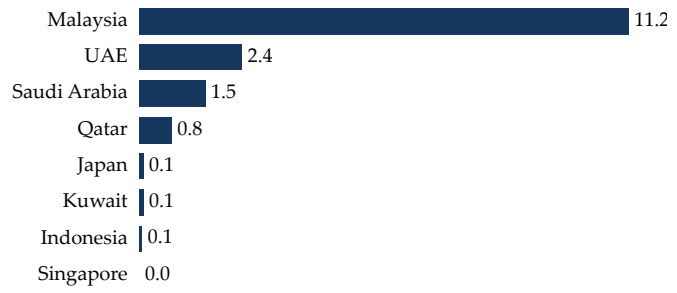
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC Holdings	875	3	7.3
2	Banque Saudi Fransi	701	3	5.9
3	Public Investment Fund	690	4	5.8
4	Samba Financial Group	637	3	5.3
5	Banque Saudi Fransi	600	2	5.0
6	Riyad Bank	567	3	4.7
7	KfW Bankengruppe	558	2	4.7
8	Standard Chartered	478	3	4.0
9	Saudi Hollandi Bank	457	2	3.8
10	National Bank of Abu Dhabi	422	1	3.5
10	Union National Bank	422	1	3.5

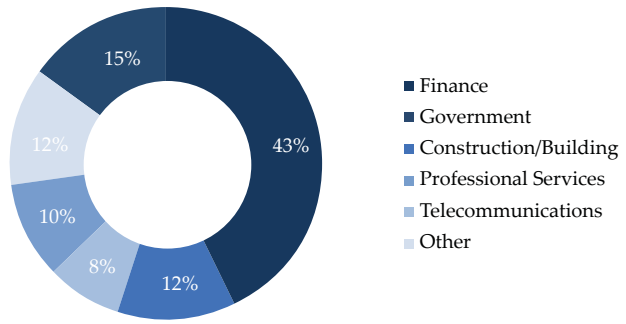
Islamic Bond Volume by Currency US$ (bln) *12 Months*



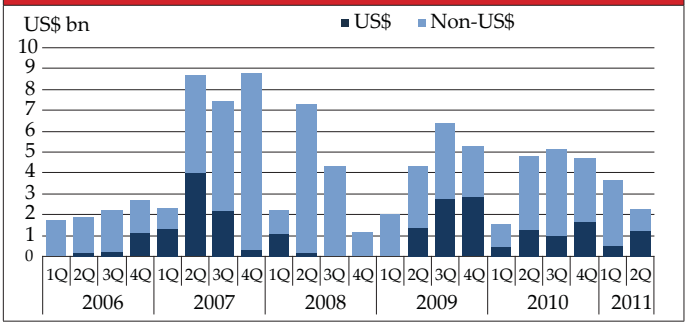
Islamic Bond Volume by Issuer Nation US$ (bln) *12 Months*



Global Islamic Bond Volume by Sector *12 Months*



Global Islamic Bond Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisers Ranking *12 Months*

	Legal Advisor	US$ (mln)	No	%
1	Linklaters	9,483	1	36.9
2	Allen & Overy	5,308	2	20.7
3	Al-Jadaan & Partners Law Firm	2,509	2	9.8
3	Baker & McKenzie	2,509	2	9.8
3	Clifford Chance	2,509	2	9.8

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	1,441	8	10.8
2	Banque Saudi Fransi	1,340	6	10.0
3	Saudi National Commercial Bank	1,296	6	9.7
4	HSBC	998	7	7.5
5	Arab National Bank	681	4	5.1
6	Maybank Investment Bank	660	5	4.9
7	Abu Dhabi Islamic Bank	654	3	4.9
8	Citigroup	394	4	3.0
9	AmInvestment Bank	307	3	2.3
10	Al Hilal Bank	300	2	2.3
11	Saudi Hollandi Bank	295	3	2.2
12	WestLB	270	4	2.0
13	Al-Rajhi Banking & Investment	265	3	2.0
14	Alinma Bank	265	2	2.0
15	RBS	250	2	1.9
16	Al Salam Bank	240	1	1.8
17	Riyad Bank	240	2	1.8
17	Bank Al-Jazira	240	2	1.8
19	Standard Chartered Bank	239	5	1.8
20	Union National Bank	239	2	1.8
20	National Bank of Abu Dhabi	239	2	1.8
20	First Gulf Bank	239	2	1.8
23	BNP Paribas	194	3	1.5
24	Noor Islamic Bank	171	2	1.3
25	Abu Dhabi Commercial Bank	147	1	1.1
26	Arab Banking Corparation	133	3	1.0
27	Al-Inmaa Bank	132	1	1.0
28	OCBC	131	3	1.0
29	DBS	131	2	1.0
30	UOB	116	1	0.9

Top Islamic Finance Related Loans Bookrunner Ranking

12 Months

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	3,486	3	26.1
2	Citigroup	384	3	2.9
3	Abu Dhabi Islamic Bank	378	2	2.8
4	HSBC	308	2	2.3
5	Maybank Investment Bank	237	1	1.8
6	RBS	233	1	1.7
7	WestLB	225	3	1.7
8	Noor Islamic Bank	184	1	1.4
8	National Bank of Abu Dhabi	184	1	1.4
8	First Gulf Bank	184	1	1.4
8	Abu Dhabi Commercial Bank	184	1	1.4

Top Islamic Finance Related Loans Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
24th Jun 2010	Saudi Aramco Total Refinery & Petrochemical	Saudi Arabia	5,706
23rd Aug 2010	Saudi Arabian Airlines	Saudi Arabia	1,920
30th Nov 2010	Saudi Arabian Mining Co - Ma'aden; Ma'aden Rolling	Saudi Arabia	1,913
25th Aug 2010	Emirates Steel Industries	UAE	1,700
15th Jun 2010	Dhuruma Electricity	Saudi Arabia	1,669
13th Dec 2010	Saudi Electricity	Saudi Arabia	1,333
1st Jul 2010	Sorouh Real Estate	UAE	735
17th May 2011	Emaar Properties	UAE	699
31st Jul 2010	Power & Water Utility for Jubail & Yabbu - Marafiq	Saudi Arabia	667
29th Oct 2010	Parkway Holdings	Singapore	578

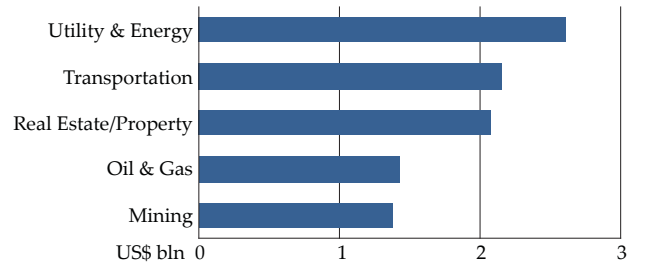
Top Islamic Finance Related Loans by Country

12 Months

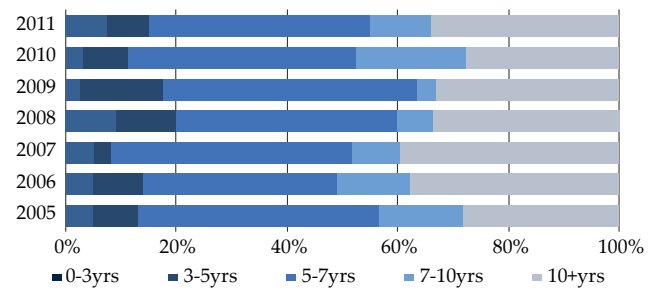
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	7,345	6	55.0
2	UAE	3,462	9	25.9
3	Malaysia	851	3	6.4
4	Singapore	656	3	4.9
5	Turkey	621	4	4.7
6	Bahrain	340	2	2.6
7	United Kingdom	70	1	0.5
8	Pakistan	10	1	0.1

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Jennifer Cheung (Media Relations)
Email: Jennifer.Cheung@Dealogic.com Tel: +852 2804 1223

7th - 9th June 2011
7th World Islamic Economic Forum
Astana *(WIEF)*

8th – 9th June 2011
2nd Annual World Islamic Funds Banking Conference: Asia Summit
Singapore *(MEGA Events)*

16th June 2011
The Global Investor Window 2011
London *(UCI International)*

20th -21st June 2011
KazanSummit 2011
Kazan *(Liniva-Media)*

29th June 2011
IFN Roadshow Thailand
Bangkok *(REDmoney events)*

7th – 8th July 2011
IFN Europe Forum
London *(REDmoney events)*

25th July 2011
IFN Roadshow Pakistan
Karachi *(REDmoney events)*

27th July 2011
IFN Roadshow India
Mumbai *(REDmoney events)*

20th September 2011
IFN Roadshow Korea
Seoul *(REDmoney events)*

21st - 22nd September 2011
The World Islamic Finance Summit 2011
Karachi *(Publicitas Pvt)*

22nd September 2011
IFN Roadshow Japan
Tokyo *(REDmoney events)*

17th – 19th October 2011
IFN Asia Forum
Kuala Lumpur *(REDmoney events)*

31st October 2011
IFN Roadshow Egypt
Cairo *(REDmoney events)*

3rd November 2011
IFN Roadshow Turkey
Istanbul *(REDmoney events)*

8th November 2011
IFN Roadshow Canada
Toronto *(REDmoney events)*

10th November 2011
IFN Roadshow New York
New York *(REDmoney events)*

15th November 2011
IFN Roadshow Hong Kong
Hong Kong *(REDmoney events)*

20th – 22nd November 2011
18th Annual World Islamic Banking Conference
Bahrain *(MEGA Events)*

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