Islamic Finance news

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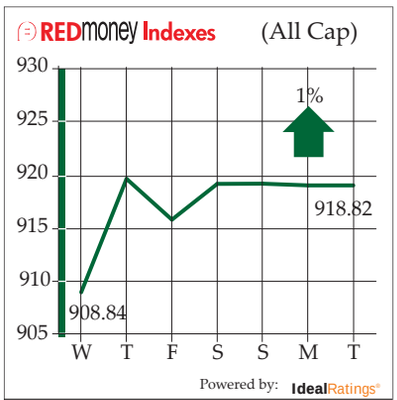

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The danger of derivatives

Cover Story

Islamic finance by its very nature is prohibited from various modes of financing, particularly those that result in riba (interest), gharar (uncertainty) and maysir (speculation). This has led to a limited secondary market as participants shy away from instruments they are unsure of. But as the Islamic finance industry becomes increasingly sophisticated and new techniques are developed, the barriers are falling away. Is a sophisticated derivatives market in harmony with Shariah principles a real possibility?

> ***"Shariah theoretically prohibits short-selling as it is essentially betting that the market will fall"***

Because Islamic finance prohibits speculation or gambling, many of the instruments which are securitized and tradable in conventional finance are impermissible or unusable. This has led to a reluctance to innovate or trade in secondary instruments, and the problems experienced by the over-leveraged and highly speculative conventional industry in the wake of the financial crisis only cemented Islamic banks' wariness.

A secondary market is simply a fancy name for an exchange where financial instruments including assets and contracts can be bought and sold. Islamic finance needs appropriate platforms for trading high quality assets, and its equity and bond markets are flourishing. However, many industry participants shy away from more complex instruments such as derivatives, as they are difficult to develop and use without flouting Shariah compliance. This has led to a problem for the industry as it is exposed to market volatility without recourse to the risk management products that conventional banks use to protect themselves.

Speculation

While the industry tends to see the development of a derivatives market as a pipedream, with speculative instruments on a par with the conventional industry completely restricted, this is not necessarily the case. Shariah law prohibits pure speculation. However, as we have seen with the development of the Islamic equity market and the Islamic bond market, it is possible to trade securities without breaking the restrictions on gambling.

Equity and debt can be traded Islamically. Sukuk, for example, provide the opportunity for an Islamic swap; where a certificate with a floating yield can be sold for a fixed price which can be paid in

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A lesson plan for growth

Editor's Note

Even as the world struggles to break free from the clutches of the recent financial crisis, markets have been able to learn valuable lessons from previous follies. While global Islamic finance remained relatively unscathed from the fallout, like a good student, the industry has achieved invaluable insight from these uncertain times which can only help it to further develop and mature.

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NEWS

Amana Bank selects Oracle Flexcube Universal Banking and Oracle Flexcube Direct Banking

Director general of **West African Institute for Financial and Economic Management** urges participation in Islamic banking

Emirates Link for Strategic Alliance approved as majority shareholder of **National Bank of Commerce (Uganda)**

The **IDB** agrees to provide US$380 million in financing for power plants in Bangladesh

The **Securities Commission of Malaysia** issues revised guidelines for Sukuk

Gulf Bonds and Sukuk Association calls for standardized regulatory procedures for Sukuk issuances

International Bank of Azerbaijan chooses consortium of **Dar Al Sharia**, **KPMG, Pinsent Masons** and **Salans** as consultants

Cagamas announces issuance of US$332.27 million Cagamas Sukuk commodity Murabahah

BNI Syariah cooperates with **Induk Koperasi Syariah BMT** to provide US$1.18 million financing to micro-enterprises

Besraya plans to launch US$232 million-worth of Sukuk Mudarabah

Gatehouse Bank completes first US-based student accommodation property purchase in **College Station**, Texas, US

Dubai closes US$800 million financing deal with banks to fund infrastructure projects

Bank Muamalat Indonesia's (BMI) major shareholders have deferred plans to sell their stake in the bank until next year

Al Rajhi Bank to distribute US$501 million-worth of dividends to shareholders for the first half of the year

Samba Financial Group's net profit down 9.7% in the second quarter

Ajman Bank introduces three new Roadmiles credit cards

Iraq approves establishment of government-owned Islamic bank

Gulf banks expected to post increase in profits in second quarter

National Bank of Kuwait first half profit rises despite dip in second quarter performance

International Development Bank of Iraq goes live with iMAL system

Tamweel introduces two financing products

Dar Al-Arkan International Sukuk Company announces periodic distribution of US$6.38 million

Ahli United Bank's first half net profit rises 19% to US$161.7 million

Nakheel to issue US$1.31 billion Sukuk on schedule this month

United Arab Bank's total operating income for the first half rises 11% to US$70 million

Malaysian prime minister urges global fund managers to benefit from development of Malaysia's capital market

Barwa Bank to provide financing worth US$494 million to **QD-SBG Construction Company**

Kuwait Finance House launches promotions in financing car purchases through leasing

Almana Group prices five-year US$215 million floating-rate trust certificate Sukuk

KFH reports 43% drop in second quarter net profit to US$83.09 million

Tamkeen and **Bahraini Saudi Bank** sign agreement to finance private sector

ISLAMIC INVESTOR

UBL Fund Managers announce payouts from its open-ended funds for the period ended the 30th June

Pak Oman Asset Management's board of directors approves dividends for POAIIF and POIAAF

Public Mutual introduces Public Islamic Treasures Growth Fund and Public Sukuk Fund

TAKAFUL

Family Takaful provides greatest opportunity for profit growth, says **AM Best**

Niger Insurance designs Mutual Halal Plan based on Takaful

Takaful Emarat partners with **NCB Capital** to offer more diverse investment products

WanaArtha Life contemplates entering local Takaful industry

Dubai Road and Transport Authority selects **Dubai Islamic Insurance and Reinsurance Company** as its new 'trusted agent'

Asuransi Jiwa Generali Indonesia delays plan to enter local Life Takaful market

RATINGS

MARC withdraws rating of 'AIS' on **Matang Highway**'s US$23 million Sukuk Musharakah

Moody's assigns provisional 'A2' rating with negative outlook to **First Gulf Bank**'s Sukuk

MARC affirms 'AAAIS' rating on **Cagamas**'s US$702.75 million Sukuk Musharakah issuance

S&P affirms 'A/STABLE/A-1' credit rating of the **Saudi British Bank**

MOVES

Shahid Hafiz Kardar resigns as governor of Pakistan's central bank

The danger of derivatives

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instalments. This is equivalent to a swap of two conventional assets, yet does not flout Shariah convention.

Islamic hedge funds are another example of a concept previously thought impossible. Many believe that the concept of an Islamic hedge fund is a contradiction in terms. Shariah theoretically prohibits short-selling as it is essentially betting that the market will fall, and other standard hedging methods such as equity long-short and bond arbitrage are also prohibited. However, some argue that as long as the purpose of the fund is to hedge against risk rather than to achieve profit through gambling, Islamic hedge funds could be permissible. To this end, the International Islamic Financial Market (IIFM) and the International Swaps and Derivatives Association (ISDA) recently launched their joint Tahawwut (Hedging) Master Agreement, a cross-border document to standardize documentation for privately negotiated Islamic hedging instruments, that is the first Islamic finance documentation applicable across all jurisdictions – a huge step forward for the Islamic financial industry in general.

Open to options

While the majority of scholars do not allow options trading because the delivery and the full price are deferred, making it highly speculative, the use of derivative contracts in Islamic finance is not as alien as many believe. After all, what is a Salam or Istisnah structure but a forward contract, albeit with upfront cash or margin-based payments.? Other Islamic contracts exist; such as Al-Khiyar Shart, Al-Khiyar Ayb, Al-Khiyar Fasgh, Al-Khiyar Qabul, and Arbun, which all have option-like features and can be used like calls, puts, and forwards for risk management in Islamic asset management. Al-Khiyar Shart, for example, is an optional condition in a structure which allows one of the parties to stipulate a condition for a period of up to three days, while Al-Khiyar Qabul is the option to accept or reject a proposal in a contract of sale. Arbun is the most popular contract for options, and allows a purchaser to make a deposit (as part of the purchase price) to buy specified assets at a later date. Should the sale not go through, the seller keeps the deposit.

However, banks are still struggling to find Islamic contracts that can be used for derivatives. Hussein Hassan, the head of Islamic structuring at Deutsche Bank, comments that: "Most of the contracts that we have today aren't entirely and immediately transferrable towards structuring derivatives products."

Acceptable practice?

Some Shariah scholars use the argument that derivatives for speculation can be acceptable when used to take advantage of price disparities, in order to help stabilize the market and encourage price equilibrium. Concurrently, some argue that even arbitraging is acceptable for the same reasons. While the Shariah does not allow premiums to be charged for options (as they are not actually sales or purchases but rights, which are abstract objects and cannot be charged for) it is generally agreed that these options contracts are valid as long as the contract itself cannot be bought or sold.

> ***"Transactions that circumvent the spirit of Shariah without breaking the letter of the law are certainly possible, but they are not desirable. Just because we can, doesn't mean we should"***

Indeed, as far back as 1995 Hashim Kali, in his comprehensive study 'Islamic Commercial Law: A Study of Options' stated that: "There is nothing inherently objectionable in granting an option, exercising it over a period of time or charging a fee for it ... options trading like other varieties of trade is permissible Mubah and as such it is simply an extension of the basic liberty that the Quran has granted."

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CLOSING BELL

Boubyan's strong growth

KUWAIT: Boubyan Bank reported a 46% increase in net profit to KWD4.4 million (US$16.06 million) in the first half of 2011 compared with KWD3 million (US$10.95 million) in the same period last year. The bank also posted a net profit of KWD2.3 million (US$8.39 million) in the second quarter of this year.

Its net finance income increased to KWD18.7 million (US$68.24 million) in the first half of this year compared with KWD13.6 million (US$49.36 million) in 2010, a rise of 38%.

Its total assets also increased by 24% in the first half of this year to KWD1.45 billion (US$5.29 billion) from KWD1.17 billion (US$4.26 billion) in the previous year.

The bank's growth and development was attributed to its strategic plans for expansion as well as the entry of National Bank of Kuwait (NBK) as a major stakeholder.

Aberdeen Asset Management

SINGAPORE: Aberdeen Asset Management Asia (Aberdeen Asia) has appointed **Suhaila Suboh** as its Asian fixed income strategist, based in Kuala Lumpur. The appointment is part of Aberdeen Asia's plans to set up a three-member fixed-income research team in Malaysia to introduce its Shariah compliant funds.

Bank Rakyat profits increase

MALAYSIA: Bank Kerjasama Rakyat Malaysia (Bank Rakyat) recorded an 18.3% increase in its pre-tax profit and zakat for the first half of this year to RM979.9 million (US$326.2 million) from RM828.6 million (US$275.83 million) in the same period in 2010.

The bank posted a net profit of RM788.6 million (US$262.39 million) this year, a 23.2% increase from last year's RM640.3 million (US$213.04 million).

Its financing income grew by 12.3% from RM1.95 billion (US$649.07 million) in the first half of last year to RM2.19 billion (US$729.01 million) this year.

Total assets increased by 24.2% to RM69.32 billion (US$23.08 billion) in the first half compared to RM55.81 billion (US$18.58 billion) in the same period last year.

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Market growth

In October 2010, the conventional credit derivatives market alone was worth an estimated US$55 trillion, and as such it is no wonder that the Islamic industry is keen to join the fray. With steps such as the new global hedging agreement encouraging the industry and giving players new confidence, several leading banks have announced new plans to offer structured products in 2011. CIMB Islamic introduced a new product in January that bundles debt with derivatives, offering returns linked to stock indexes as well as capital protection, and has plans to offer three other structured-type securities this year, according to Lee Kok Kwan, the deputy chief executive of CIMB Group. HSBC Amanah already sells structured securities linked to equities and is currently developing a new product which will allow currency swaps. Standard Chartered Saadiq provides investments that track returns on a basket of currencies, and is currently developing a commodity Murabahah package based on commodity derivatives, with potential returns from an underlying asset such as an equity index. The International Swaps and Derivatives Association is now working on a template to standardize the main terms for over-the-counter Shariah derivative contracts, and the market will only continue to grow as investors begin to realize its potential.

Ethics versus profit

The danger in all of these tools lies not in their structure but in how they are applied in the marketplace. While the use of these instruments may be acceptable to manage risk, where does risk management end and betting begin?

The risk is that the Islamic market may mimic the conventional market too closely. While the conventional industry can be of use in providing guidelines and structures which Islamic finance can utilize to develop its own structures, ultimately, the two markets are based on very different foundations. The danger is that the desire to copy the conventional industry, gaining access to vast profits, and the increasing ability and sophistication of Islamic structures to do so, will result in losing sight of the industry's ultimate ethical goals. Transactions that circumvent the spirit of Shariah without breaking the letter of the law are certainly possible, but they are not desirable. Just because we can, doesn't mean we should.

A lesson plan for growth

Editor's Note

Even as the world struggles to break free from the clutches of the recent financial crisis, markets have been able to learn valuable lessons from previous follies. While global Islamic finance remained relatively unscathed from the fallout, like a good student, the industry has achieved invaluable insight from these uncertain times which can only help it to further develop and mature.

This week, Islamic Finance *news* looks at some of the lessons and implications from the recent crisis. Islamic banking practitioner Mohammed Khnifer has contributed an article on the options for restructuring Islamic debt and how it is an indication of how much the Sukuk market has grown amid the crisis.

In the UAE, Sharjah Islamic Bank takes a look at the prospects for the debt capital market, which has presented itself as a winning solution for issuers and investors alike as they look past the recent financial troubles.

The crisis has also emphasized the importance of regulatory oversight in the financial industry, and although Islamic finance takes a more prudent and responsible approach to the system, this is also an area the industry cannot afford to overlook. As Muath Mubarak, the director of studies and corporate strategy at First Global Knowledge Centre in Sri Lanka, writes, Shariah supervision plays a critical role in the operations of Islamic financial institutions and is not a matter to be taken lightly.

Notwithstanding the issues the industry must be wary of, the financial crisis has also opened up opportunities as investors move away from past disappointments and seek new growth areas. This week, HSBC contributes a report on where China and Hong Kong fit in as Islamic investors seek further investment and geographic diversification; while our cover story explores the potential available for Islamic finance in the derivatives market, and whether derivatives trading can ever be a truly Shariah compliant possibility.

For those investors looking for the best assets in which to put their money, it helps to have institutions which can provide guidance on their options. In our Islamic Investor section this week, Lipper Asia Pacific Research highlights the intricacies involved in rating investment funds. The report notes, however, that while fund ratings can provide a reflection of a fund's past performance, they should not be taken as a prediction of its future performance.

Our Takaful news cover story considers the outlook for the global Family Takaful market, while Takaful Emarat highlights the sector's legal and compliance issues.

This week, Insider discusses First Gulf Bank's latest financial results, which kicked off the second quarter earnings season by beating market estimates. We also have IFN reports on the prospects for Islamic asset finance and the outlook for Islamic project financing in Thailand.

Rounding up our issue this week are reports from our IFN Correspondents, who have written on the Central Bank of Bangladesh's move to allow the establishment of an Islamic money market in the country, developments in the Islamic finance industry in Japan, Islamic project financing in Kuwait and the future of Islamic banks in Qatar.

AFRICA

Double software

TANZANIA: Amana Bank has selected Oracle Flexcube Universal Banking to meet its regional banking demands and support Islamic banking business modes; and Oracle Flexcube Direct Banking to provide online banking services.

Benefit from Islamic banking

NIGERIA: Professor Akpan Ekpo, the director general of the West African Institute for Financial and Economic Management, has urged Nigeria to participate in Islamic banking as the benefits outweigh the disadvantages.

He said that besides being a part of the Islamic global banking sector currently worth over US$1 trillion, establishing Islamic banking in the country could allow expansion to the northern regions of Nigeria which are largely unbanked.

When asked to comment on the backlash against Islamic banking from religious bodies in the country, Ekpo referred to the guidelines of the Banking and Other Financial Institutions Act 1991, which provides for the establishment of Islamic banks in the country without discriminating against non-Muslims by not attaching any religious sentiments or affiliations to their names.

Islamic banking for NBC

UGANDA: The central bank, Bank of Uganda, has approved Emirates Link for Strategic Alliance as the majority shareholder of the National Bank of Commerce (Uganda) (NBC).

The move is part of NBC's investors' agreement to acquire a 76% stake in the bank to restructure it into the Islamic banking system. The Emirates Link for Strategic Alliance currently owns 49% of NBC's shares.

NBC is expected to begin its Islamic banking operations in the final quarter of this year under its new chairman, Ahmed Darwish Almarar, who is also the owner of the Emirates Link for Strategic Alliance.

ASIA

Power plant financing

BANGLADESH: The Economic Relations Division has reportedly received a final confirmation letter from the IDB regarding its provision of US$380 million in financing for two power plants in the country.

The IDB is said to have formally informed the ERD on the 10th July that it will provide the financing.

The financing agreement is expected to be signed next month after approval from the ministry of law.

Amended' Sukuk guidelines

MALAYSIA: The Securities Commission of Malaysia (SC) has issued revised guidelines for private debt securities, Sukuk and trust deeds to enhance the

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Standardization urged for Gulf Sukuk

GLOBAL: The Gulf Bonds and Sukuk Association (GBSA) has called for the standardization of regulatory procedures governing Sukuk issuances across the MENA region. It urged for a single regulator, which it claims would quicken the issuance process.

Michael Grifferty, the president of GBSA, explained that there is a lack of a consistent approach in domestic regulations on how to issue Sukuk in the region. He stated that consistent and streamlined issuance procedures would help lower the cost of issuances.

Giambattista Atzeni, a committee member of the GBSA and the vice-president of BNY Mellon, advocated for more coordination at the government level. He rationalized that the Sukuk market still needs to develop and governments should prevent too many issuers from coming into the market at the same time.

According to Atzeni, the 2009 Dubai financial crisis provided an incentive to develop the region's debt markets. Borrowers then realized that debt capital markets were more efficient in raising finance compared to bank financing, which tended to be short-term and required frequent refinancing.

Salman Al Khalifa, the head of markets for the MENA region for Deutsche Bank, said that the issue structure of Sukuk has become less important, citing that conventional investors look at the underlying economics of Islamic instruments instead of their structure.

Total Sukuk issuances in the MENA region were more than 10 times the size of primary market equity launches, at US$44 billion in 2009 and US$40 billion in 2010, based on data from Deutsche Bank.

Khalifa claimed that the Saudi banks' approximate total of US$50 billion in capital would be insufficient to drive current growth rates and is limiting their ability to issue further financings. As a result, locally denominated Sukuk issuances have become increasingly significant.

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regulatory framework for fund raising and product regulation in the debt markets.

The revised Sukuk guidelines will provide clarity on the application of Shariah rulings and principles endorsed by the SC's Shariah Advisory Council in relation to Sukuk transactions, while the trust deed guidelines will improve disclosure standards and protection for corporate bond and Sukukholders.

The changes are in line with the broader objectives of the country's Capital Market Masterplan 2, which seeks to achieve higher levels of operational efficiency, enhanced standards for fair and ethical business practices and stronger internal controls for business conduct and risk management.

IBA appoints consultant

AZERBAIJAN: The International Bank of Azerbaijan (IBA) has selected a consortium of companies comprising Dar Al Sharia Legal & Financial Consultancy, KPMG and law firms Pinsent Masons and Salans as its consultants to help establish its Islamic banking arm.

The consortium, which will assist the bank in creating a structure to provide Islamic banking products and services, was selected from a number of shortlisted firms that qualified for the final stage of its tender.

The other companies included Ekvita & Islamic Finance Advisory Assurance Services and Ernst & Young with legal firm Baker McKenzie.

Cagamas Sukuk announced

MALAYSIA: Cagamas has announced the issuance of its Cagamas Sukuk commodity Murabahah totaling RM1 billion (US$332.27 million), to be sold in one, two and three-year tranches.

The three Sukuk will be listed and tradable under the Scripless Securities Trading System. The Sukuk represent unsecured obligations of Cagamas and will be redeemed at their full nominal value on maturity.

Financing for micro-enterprises

INDONESIA: BNI Syariah has collaborated with Induk Koperasi Syariah BMT (Inkopsyah BMT) to provide IDR10 billion (US$1.18 million)-worth of financing to Inkopsyah BMT's network of micro-enterprises.

The financing will be used as expansion capital by the 22 micro-enterprises, which are located in the country's six provinces — Central Java, Lampung, Southern Kalimantan, West Java and Yogyakarta.

Sukuk on the cards

MALAYSIA: Toll operator Besraya is planning to launch RM700 million (US$232 million)-worth of Sukuk Mudarabah to finance a greenfield road project: the Besraya Eastern Extension tollway.

RAM Rating Services has assigned a long-term 'AA3' rating on the Islamic bond.

AmInvestment Bank is the main lead arranger.

EUROPE

Acquisition completed

UK: Gatehouse Bank has completed the acquisition of its first US-based student accommodation property in College Station, Texas, US.

The transaction was conducted through a partnership with Global Securities House-Kuwait and is part of a joint investment with The Scion Group, a student-housing operator in the US.

Arch Street Capital Advisors, a US-based real estate advisory firm, structured and arranged the transaction.

The purchase is expected to deliver net cash yields of 7% per annum over a five-year holding period.

MIDDLE EAST

Infrastructure financing

UAE: Dubai has closed a US$800 million conventional and Islamic financing agreement with four banks to fund infrastructure projects in the emirate.

The deal is based on the securitization of road toll receipts and has received a strong response from financiers,

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BMI stake sale on hold

INDONESIA: Bank Muamalat Indonesia (BMI)'s major shareholders have deferred plans to sell their stake in the bank until next year.

Arviyan Arifin, its president director, cited a disagreement over pricing as one of the reasons.

Presently, Atwill Holdings, Boubyan Bank and the IDB own 80% of BMI's shares, while 20% is owned by Indonesian investors.

According to Arifin, several potential investors have claimed that the price is too high, as BMI's shareholders have offered the price of US$500 million for their 67% of shares. The amount is fixed at a price to book value of three times.

However, he defended the shareholders' pricing decision, stating that that the shares have been priced fairly, based on the bank's performance, as seen by the 41.17% growth of assets from IDR17 trillion (US$1.99 billion) in June 2010 to IDR24 trillion (US$2.8 billion) as of June 2011.

Aside from the pricing, the postponement may have also been influenced by the central bank, Bank Indonesia (BI)'s plan to review regulations to restrict individual ownership in local banks. Currently, Indonesia's banking ownership regulations allow investors including foreigners to hold up to 99% of shares.

Last week Mulya Siregar, the deputy director of Shariah banking at BI, revealed that at least eight investors have expressed interest in acquiring Bank Muamalat Indonesia's shares.

This is contrary to reports that have surfaced that Bank Mandiri, Bank Permata, OCBC, Para Group, Qatar Islamic Bank and Standard Chartered Bank have since pulled out of bidding for the stake in the bank.

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achieving a spread of 325 basis points above Libor.

The mandated lead arrangers and book runners for the financing were Citibank, Commercial Bank of Dubai, Emirates NBD and Dubai Islamic Bank.

Dividend distribution

SAUDI ARABIA: Al Rajhi Bank's board of directors has agreed to distribute SAR1.88 billion (US$501 million)-worth of dividends to its shareholders for the first half of 2011.

The dividend is equivalent to SAR1.25 per share (US$0.33) after zakat, which represents 12.5% of the nominal value of the bank's shares.

Profit drops

SAUDI ARABIA: Samba Financial Group has announced a 9.7% year-on-year decrease in net profit to SAR1.1 billion (US$293.89 million) in the second quarter ended the 30th June 2011.

The lower profit was attributed to a reduction in the group's special commissions income, which fell to SAR1.13 billion (US$302.16 million) from SAR1.2 billion (US$320.56 million) a year earlier.

However, total assets rose by 1.2% to SAR190.6 billion (US$50.83 billion). The group's financings and advances amounted to SAR82.4 billion (US$21.97 billion) while total investments rose to SAR70.2 billion (US$18.72 billion).

New credit cards

UAE: Ajman Bank has launched its three new Roadmiles credit cards — classic, premium and platinum.

The cards are the bank's first loyalty program, which enables cardholders to earn one point for every dirham spent on their cards.

Nod for Islamic bank

IRAQ: The country has approved the establishment of a government-owned Islamic bank with a capital of IQD250 billion (US$214 million).

The bank will be placed under the supervision of the Central Bank of Iraq

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Higher profits projection in second quarter

GLOBAL: Most Gulf banks are expected to post an increase in profits in the second quarter, following higher income from their retail banking operations and lower provisions, according to analysts and bankers.

Adnan Ahmed Yousif, the president of the Union of Arab Banks, said that the growth will be similar to the average 8% growth in the first quarter of this year. He also attributed this to the GCC governments' increased spending in infrastructure projects and industries.

According to Kuwait's Global Investment House, most Kuwaiti banks are predicted to report higher second quarter earnings as their overall revenues have improved, as well as booking less provision compared to the previous quarters.

Additionally, Qatari banks are forecast to post higher profits in the same period due to lower provisioning. In fact, Egypt's EFG Hermes said that Qatar National Bank is expected to see a 17% rise in its second quarter net profit.

On the negative side, several UAE banks, especially those with retail exposure, will find that their second quarter profit will be impacted by the Central Bank of the UAE's recently implemented consumer finance regulation. Under the new regulation, bank customers are not allowed to secure car and personal financing exceeding 20 times their monthly salary.

Abu Dhabi Islamic Bank, which is a subsidiary of National Bank of Abu Dhabi (NBAD), is expected to be among the worst affected banks in the country as a result of the new regulation, as three quarters of its loan book is composed of retail financing.

As for Emirates NBD and NBAD, these banks are expected to post mixed results, with Emirates NBD seeing a rise in second quarter profit, while NBAD will see a small slip, according to reports by EFG Hermes and Bahrain-based Securities and Investment Company.

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and will be managed by the finance ministry.

According to an Iraqi government official, the bank will strive to attract capital and contribute towards the integration of the country's government-owned and private banks.

Mixed results

KUWAIT: The National Bank of Kuwait (NBK) reported a net profit of US$534.4 million for the first half of 2011, an increase from US$529.2 million last year, although second quarter profit fell 4.5% to KWD65.9 million (US$239.68 million).

The bank reported total assets of US$49.9 billion as well as a total shareholders' equity of US$8 billion in the first half of this year, while operating income increased by 6% to US$968.9 million.

Ibrahim Dabdoub, its group CEO, attributed the bank's performance and growth to its approach of focusing on the core banking businesses in the region.

He added that NBK's recent entry into Islamic banking through the acquisition of Boubyan Bank will help the bank strengthen its market positioning in Kuwait as well as diversify its income sources.

iMAL software executed

IRAQ: International Development Bank of Iraq has gone live with Path Solutions' iMAL Islamic banking system.

The solution will enable the bank to speed up the introduction of new Islamic banking products while meeting local banking requirements, and support the corporate and retail lending market.

International Development Bank of Iraq and Path Solutions signed an agreement to install the software in December last year.

Double home financing

UAE: Tamweel has launched two new home financing products: a non-residents program and a home refinance program.

The non-residents program will provide home financing to selected foreign investors seeking to purchase residential property in the UAE up to a maximum value of AED5 million (US$1.36 million) and with repayment tenure of up to 25 years.

The home refinance program allows salaried and self-employed owners of fully-paid properties to acquire finance for up to 50% of the value of their home.

Dar Al Arkan coupon distribution

SAUDI ARABIA: Dar Al-Arkan International Sukuk Company has announced its periodic coupon distribution of US$6.38 million for the period beginning the 18th April 2011 and ending the 18th July 2011.

The periodic distribution is based on a three-month Libor of 0.28% with an additional profit margin of 2.25%.

Profit surges 19%

UAE: Ahli United Bank reported a 19% increase in its net profit attributable to its equity shareholders to US$161.7 million for the first half of 2011, which ended on the 30th June.

The bank also posted a 20.2% growth in its net profit to US$ 84.4 million for the second quarter.

Nakheel on track

UAE: Nakheel has announced that it will proceed to issue its AED4.8 billion (US$1.31 billion) Sukuk on schedule this month after securing full approval for its debt restructuring from all its creditors.

The Sukuk will be issued and managed by Deutsche Bank, according to a report. It added that the Sukuk will not be initially listed as Nakheel wants to give a chance to all its creditors to benefit from the bonds through either selling or mortgaging them.

The report also stated that Nakheel will not change a 10% profit rate on the pending Sukuk following rumors that it intends to modify its rates.

UAB up 11%

UAE: United Arab Bank (UAB) has posted an 11% growth in its total operating income to AED257 million (US$70 million) for the first six months ended on the 30th June 2011.

Non-interest income also increased 3% to AED75 million (US$20 million) due to a

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Prospects in capital markets

MALAYSIA: Najib Razak, the Malaysian prime minister, has urged global fund managers to take advantage of opportunities arising from the development of Malaysia's capital market. He said that the country requires the expertise of global fund managers to help develop its capital market as it will play a significant role in Malaysia's goal to become a developed nation by 2020. Elaborating on the opportunities in Islamic finance, Razak affirmed that Malaysia is the world's biggest Islamic banking and financial market, accounting for 66% of global Sukuk issuances in 2010, and has 184 funds with RM24 billion (US$7.98 billion) in assets under management.

"Over the next 10 years, our Islamic capital market is set to triple in value," Razak added, stating that the country has a broad and diverse economy on which to build its capital market.

He explained that Malaysia has one of the most comprehensive capital markets in the region, and the country's combined equity and debt markets have grown from RM720 billion (US$239.33 billion) in 2000 to RM2 trillion (US$664.81 billion) in 2010.Malaysia's capital market is expected to further triple in value by 2020 to between RM4.5 trillion (US$1.5 trillion) and RM5.7 trillion (US$1.89 trillion), according to Razak.

The prime minister said: "Additionally, the country's economic transformation program will encourage further growth in its capital market which will provide opportunities for issuers [and] intermediaries as well as investors."

Malaysia is likely to replicate the pattern seen in developed markets where institutional funds rapidly outgrew the economy, Razak claimed, citing historical trends that suggest that growth in the finance and derivative markets will outpace growth in the equity market as the country's capital market achieves maturity.

RATINGS

Off the list

MALAYSIA: Malaysian Rating Corporation has withdrawn its rating of 'AIS' on Matang Highway's RM70 million (US$23 million) Sukuk Musharakah.

This follows the redemption of its final tranche of RM15 million (US$5 million) Sukuk on the 27th May and cancellation of the facility.

Solid kick-off

CAYMAN ISLANDS: Moody's Investors Service has assigned a provisional 'A2' rating with a negative outlook to the upcoming senior trust certificates of First Gulf Bank's (FGB) subsidiary, FGB Sukuk Company.

The rating assigned to the trust certificates is the same as the long-term local currency and foreign currency deposit ratings of FGB, as the Sukuk certificate holders will be exposed to FGB's senior credit risk.

Stable outlook

MALAYSIA: Malaysian Rating Corporation has affirmed its 'AAAIS' rating on Cagamas's RM2.11 billion (US$702.75 million) Sukuk Musharakah issuance, with a stable outlook. The rating action affects outstanding Sukuk of approximately RM1.78 billion (US$592.84 million).

The affirmation is based on the strong credit enhancement level of the outstanding Sukuk as well as the satisfactory management of its collateral servicing and transaction administration.

Solid standing

SAUDI ARABIA: Standard and Poor's (S&P) has affirmed its 'A/STABLE/A-1' credit rating of the Saudi British Bank (SABB). The rating has a stable outlook.

The rating is based on SABB's solid revenue generating capability. The stable outlook reflects S&P's expectation that the bank will maintain its strong standings as well as continuing to benefit from HSBC's technical support.

continued...

rise in earnings from Islamic financing, fees and commission income on new loan disbursals.

However, the bank's provisions climbed to AED36 million (US$9.8 million), as compared with AED10 million (US$2.72 million) in the same period last year.

Highway financing

QATAR: Barwa Bank has signed an agreement with QD-SBG Construction Company to provide financing worth QAR1.8 billion (US$494 million) to the firm to finance the Dukhan Highway project.

QD-SBG Construction Company is a joint venture firm, owned by Qatari Diar and Saudi Binladin Group, together with Barwa Real Estate and a subsidiary of Barwa Bank, The First Investor.

Car purchasing leases

KUWAIT: Kuwait Finance House (KFH) has launched its promotions in financing car purchases through leasing, according to Wael Al-Kharraz, its acting cars department manager.

He added that the promotion will offer privileges such as Takaful coverage as well as providing its customers with another car should the leased car require repairs exceeding 24 hours.

The customer is charged a low monthly rental and has the option of buying the car at the end of the lease term.

Al-Kharraz also said that KFH attributes its significant market share in the car financing sector to its Murabahah car financing program.

Almana Group prices bond

QATAR: Almana Group has priced its five-year US$215 million floating-rate trust certificate Sukuk at a three-month US dollar Libor plus 450 basis points with an issue price at par.

The Sukuk, issued by its special purpose vehicle, Almana Sukuk 2011, is guaranteed by Almana Group, Almana Motors Company, Almana Trading Company, United Cars Almana and Almana Maples.

Gulf International Bank (GIB) was the sole bookrunner, while Barwa Bank, GIB, International Bank of Qatar and Qatar Islamic Bank were the joint lead managers.

KFH profit falls

KUWAIT: Kuwait Finance House (KFH) reported a 43% drop in its second quarter net profit to KWD22.8 million (US$83.09 million) from KWD39.9 million (US$145.41 million) in the same period last year. This is the fourth consecutive quarter where KFH has missed analysts' forecasts.

KFH's net income for the first half of 2011 was KWD45.5 million (US$165.82 million). The bank's shares declined by 5.2% on the Kuwaiti bourse after the results were released.

Support for private sector

BAHRAIN: Tamkeen and the Bahraini Saudi Bank (BSB) have signed an agreement to provide Shariah compliant financing facilities aimed at supporting private sector businesses in the kingdom.

Dr Anwar Khalifa Al-Sadah, the chairman of BSB, said that the agreement will enable enterprises in the private sector to increase their success factor, growth opportunities and sustainability.

Coming up...

Volume 8 Issue 29 – 27th July 2011

Meet the Head
Ajmal Bhatty, president and CEO of Tokio Marine Middle East, UAE

Features
Islamic finance in Pakistan: Past, present and the future; by Suleman Muhammad Ali, assistant vice-president of product development, Shariah compliance, training and advisory department at Meezan Bank, Pakistan.

Plain vanilla… with some sprinkles please!; by Yahya Abdulla, senior surveyor, EMEA cross- border capital markets at Cushman & Wakefield, UK.

Review of Islamic finance: Where are we?; by Stephen Hawkins, director at DH Flinders, Singapore.

Overview of Islamic banking and finance: Bangladesh perspective; by Nurul Islam Khalifa, executive vice-president of corporate investment division-1 at Islami Bank Bangladesh.

MOVES

STATE BANK OF PAKISTAN

PAKISTAN: **Shahid Hafiz Kardar** has resigned as the governor of the central bank, State Bank of Pakistan (SBP).

Yaseen Anwar, the deputy governor of SBP, has been named as acting governor.

Islamic asset finance overlooked?

Without a doubt, Sukuk remains the foremost method of fundraising in Islamic finance. According to KFH Research, the issuance of Islamic bonds rose by 34.7% month-on-month in June, bringing total Sukuk issuances to a little over US$47 billion in the first half of this year.

With such numbers helping the Sukuk market remain in the spotlight, it is easy to overlook other funding structures which contribute to the growth of Islamic finance, such as asset finance.

Last month, Saudi Arabia's National Shipping Company signed a SAR822.6 million (US$219 million) Murabahah financing agreement with the Saudi British bank and the National Commercial Bank to part-finance the construction of two general cargo ships.

The transaction signaled that while asset finance does not grab headlines like Sukuk deals, the market is still vibrant and remains a critical part of the Islamic finance industry.

"Norton Rose (Middle East) is currently involved in several Shariah compliant asset finance transactions. In recent times, we have seen Islamic finance being utilized in the shipping and aviation sectors, in addition to real estate. As Islamic and asset finance specialists, we very much hope that this trend will continue.

"We continue to be involved in tax driven acquisitions of real estate in new markets for Islamic markets such as France and Australia," said Mohammed Paracha, partner and the head of Islamic finance for the Middle East and Africa at Norton Rose (Middle East).

In a response to Islamic Finance *news*, he said that the law firm believes there is potential for asset finance to further contribute to the growth of Islamic finance, both inside the GCC and further afield.

"Our hope is that institutions, lessors and operators will increasingly consider using Islamic structures in asset finance transactions. We have, for example, seen and worked on aviation and shipping funds that blend conventional and Islamic investors' participation in a variety of assets," he added.

However, with asset prices still normalizing in the wake of the recent financial crisis, could this pose a challenge for the asset finance market, or could this type of financing prove to be a solution for corporates looking for financing amid a tougher economic environment?

And with institutions such as Moody's Investor Services seeing a negative outlook for the global shipping industry for the next 12-18 months mainly due to a continuing oversupply of vessels, would financiers be willing to fund the construction of more ships which could be at risk of just sitting idly at the docks?

Paracha said the value of assets does play a role in the success of structuring an asset finance transaction. "In current times, much will depend on the values of the assets in question and their likely fluctuation, the flexibility of the financiers from whom funding is hoped to be obtained, and the applicable regulatory environment of the transaction," he said.

Meanwhile, the main challenge in structuring an asset finance transaction largely relates to the combination of conventional and Islamic structuring elements in the same transaction, said Paracha, adding that, for example, some financiers may be looking to provide conventional debt, while others may be bound by Shariah considerations.

"As legal counsel to such transactions, our role is to create a structure and document package that addresses the needs of Islamic investors, conventional lenders and a variety of legal and regulatory systems," he said.

Project financing the way forward

Still searching for a foothold in the Islamic finance industry; Thailand plans to ramp up its efforts this year by enticing Middle East investors into the country via project finance initiatives. Previously stymied by a lack of regulation and tax provisions, the Thai Sukuk market is expected to receive a boost after the Securities and Exchange Commission (SEC) passed regulations permitting the issuance of domestic Sukuk earlier this year.

Perhaps the most appealing feature of the SEC's Sukuk guidelines is the structural flexibility afforded to Islamic bond issuers; allowing any type of Sukuk to be issued domestically. This should bode well for the country's sovereign Sukuk aspirations, which had been put on hold due to regulatory constraints. The issuance, which is set for this year, is expected to be priced at US$161 million. The country is no stranger to Sukuk issuances, having seen its first non-domestic Sukuk issuance by a government-linked company, Trans-Thai Malaysia, in 2010 at US$190.2 million, to fund a natural gas pipeline running across the Malaysian peninsula and Thailand.

According to Dheerasak Suwannayos, the president of the Islamic Bank of Thailand, the recent hike in petrol prices bodes well for Islamic investors, and that the country should capitalize on the current lack of Sukuk issuances in the market. "A lot of money has been received by the rise in petrol prices, and that needs to be reinvested.

Not many Sukuk have been recently issued so it's an opportunity to grab that liquid market," he said.

Infrastructure projects and investments are expected to soar in Thailand and other Southeast Asian countries, following the lackluster investment environment in the Middle East and Europe this year. Already, Middle Eastern investors have a considerable stake in the Thai halal market, and the upcoming infrastructure boom, typical to every developing nation, is expected to draw more interest to the country.

At present, plans to expand the Bangkok airport and expand the city's public transport system are already underway, and Suwannayos revealed that the Thai economy could certainly benefit from foreign investments as an alternative to tapping into the domestic pool. He also revealed that Thai Airways are currently in talks with Middle Eastern investors for a possible airplane leasing deal.

Under-utilized arbitration framework

In line with the rapid progress of Islamic banking in Malaysia, its comprehensive legal infrastructure has been developed to govern the regulatory regime for Islamic banks, Takaful operators, Islamic finance windows and the various forms of Sukuk and money market instruments available in the country. It is this level of legal competence that is credited with helping to assert Malaysia's current position as world leader in Islamic finance.

This legislation has been reinforced by the establishment of a dedicated high court bench to provide a comprehensive adjudicative system to deal with disputes involving Islamic banking, while the new rules for arbitration (Islamic banking and financial services) enacted in 2007 provide a customized mechanism for the resolution of disputes in the Islamic financial services sector which in effect extends to any proceeding relating to Islamic financial business.

However, the current rulings are not specific to Islamic finance and rely on the designated court or arbitrator to defer issues or questions pertaining to Shariah to the published rulings of the Shariah Advisory Council, or to refer the question to the Shariah Advisory Council directly for its ruling.

According to Dr Nik Norzrul Thani, the chairman and senior partner at Zaid Ibrahim & Co (ZICO), the current Islamic arbitration rules have been relatively unsuccessful as "not many Islamic financial institutions are referring themselves to arbitration in the first place and regionally speaking there are currently not that many disputes in Islamic finance".

However, Malaysia is taking the long-term view on this, as Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia, has previously stated: "The Kuala Lumpur Regional Center for Arbitration (KLRCA) will be enhanced to serve as a platform to deal with cases involving Islamic banking and finance and to extend these services beyond our borders."

Corollary to that, all decisions have specific rules for Islamic financial arbitration. For example, in the Shamil bank case, one of the rationales for Islamic financial arbitration was to have competent people who are knowledgeable in Islamic finance to be able to give a better rationale in their judgments. This is to avoid judgments by arbitrators that are not wholly qualified to pass judgment on Islamic finance, particularly from a Shariah perspective, and to acknowledge when a decision must be passed up to the Shariah council for clarification.

According to ZICO's Thani, Malaysia has been entirely forthcoming in creating rules for Islamic arbitration within the KLRCA, believing that: "Awareness needs to be created first in order for Islamic arbitration to become an acceptable method of mediation." It is reflective that Islamic financial transactions in general have not fully incorporated this arbitration potential.

> ***"Regionally speaking, there are currently not that many disputes in Islamic finance"***

"The rules have been there for a number of years. However, there is now an increasing need to provide specific rules for Islamic arbitration," says Thani, because there is now a realization that Islamic finance is beginning to differentiate itself to a greater extent and is now significantly different from conventional finance.

Thani goes on to say that: "We now need qualified people who understand the Shariah aspects. Shariah is a very highly specialized topic and there needs to be experts that can be called upon to refer upon these cases." Parties are free to choose who is going to represent the case however, and that judge must understand his position and know when he must refer to experts to give their viewpoint. Thani states that: "We need to create familiarity about Shariah specialization. Where the concern lies is through understanding the difference that Shariah can bring to a transaction or dispute."

There exists a culture of Islamic finance, and judgments need to take this into consideration rather than simply upholding a judgment based solely upon the governing law. As Thani further eludes: "We do not want to create cultural misunderstanding of Shariah."

The rules for Islamic arbitration are currently being updated by the KLRCA, and nominated Islamic arbitrators and panelists have still to be consulted on the draft rulings, meaning that any changes are still under consideration and are unlikely to be showcased any time soon. These rules are, however, expected to be more comprehensive in their purview, bringing more Islamic financial transactions under their remit, whilst tailoring specific segments to govern in favor of the Muamalat and taking into full consideration the culture of Shariah.

The KLRCA is trying to pioneer within this field and should be lauded. However, as with any pioneering feat, this will take time and it will have to tread carefully so as to not upset the delicate balance that Islamic finance has created for itself in the country and across the globe.

The KLRCA is an institution geared up not only to serve Malaysian registered companies but also to serve as a center for cross-border disputes. In line with Malaysia's promotion of Islamic finance, to have the leading center for transactional disputes internationally would clearly benefit its cause further, making Malaysia the natural choice for Islamic dispute resolution due to the wealth of qualified Islamic financial human capital on offer.

Japan shifts focus from Islamic money to Islamic market

Japan

By Serdar Basara, IFN Correspondent

The main motivators behind Japan's interest in Islamic finance have been attracting Islamic funds (called 'Islamic money' by the Japanese) and securing natural resources. Moves by other countries, especially by the UK, were also important triggers in Japan's involvement. This helped the Japanese diligently study Islamic finance and build a legal framework upon which to base transactions.

The most revolutionary steps have been changes in the Banking Law in 2008, which allow bank subsidiaries to enter Islamic finance transactions; and changes in tax regulations, which exempt withholding tax for Sukuk dividends for non-resident investors. Now, companies are able to issue Sukuk in the newly-established Tokyo Pro-Bond Market, a part of Tokyo AIM. The Financial Services Agency officially described the rationale for this change as "attracting Islamic money to Japan".

Studying Islamic finance diligently led Japan to discover another important economic rationale: the Islamic world as a marketing segment, which is described as the 'Islamic market' by the Japanese. Nomura Research Institute, the influential think-tank subsidiary of Nomura Securities, defines Islamic finance in a recent opinion report as an important tool to penetrate the Islamic market.

As a proof of this interest, Nikkei Business Daily's 'Islamic Market Forum' on the 11th July, with prominent speakers from both Japan and the Islamic world, was fully booked by 500 registrants days before the event.

This progress may be a sign for the future growth of Islamic finance in Japan.

Serdar Basara is the president of Japan Islamic Finance. He can be contacted at basara@japanislamicfinance.com.

The ethical dilemma in Doha

Qatar

By Amjad Hussain, IFN Correspondent

R Seetharaman, the CEO of Doha Bank, recently re-ignited the debate about the role of Islamic finance. The higher role of Islamic finance to "enhance the general welfare of society as a whole" is something that is regularly discussed by the industry but, to date, we have not seen a great deal of positive results.

At present, many forms of global ethical financing are unavailable to Muslims because their underlying structure does not preclude the use of interest. However, there is huge interest in such investments and the small number of Islamic schemes that exist have proven to be popular with Muslim investors. A tangible result of discussions about the higher purpose of Islamic financing would be a greater focus on creating Shariah compliant ethical investment instruments that appeal to Muslims and non-Muslims.

Is this a challenge that the Islamic finance industry in Qatar is ready to take on? In many ways, Qatar is ahead of the curve because of its emphasis on global charitable projects, such as those run by the Reach Out to Asia organization, under the patronage of the Qatar Foundation. Also, Qatar's clear humanitarian stance with regards to recent global geo-political events, such as those in Libya, makes it a good candidate for helping to develop a new form of investment product that brings together ethical and Shariah investors.

With the global market still defensive in light of the economic instability in the Middle East, Qatar-based Islamic financial institutions could seek to capitalize on their stable market position by focusing on new products.

This of course is not a new debate but brings a welcome change from the ongoing developments around the closure of the Islamic finance windows.

Following the Qatar Central Bank's (QCB) February circular requiring conventional banks to close their Islamic banking functions, share prices of the affected banks have been hit hard by pressure to sell although the overall QE Index is up.

With this comes the positive news that Qatar is under review by Standard & Poor's Ratings Services for a potential upgrade to emerging market status which, if granted, will no doubt have a positive impact on the Islamic banks.

It seems that customers of Islamic windows are still trying to grapple with their religious dilemma: shift to conventional banking services or move to a new Islamic bank.

There is enormous client loyalty to the conventional banks which historically made it difficult for the Islamic banks to attract new customers. This loyalty had been generated over years of relationship building and also protective provisions introduced by the QCB (to prevent undue competition between banks). Local news reports suggest that only 30% of accounts have been closed but of those 90% of customers have chosen to transfer to Islamic institutions.

This provides much needed cause for opimistim for the industry. Islamic banks also now have an opportunity to take advantage of the change by focusing upon overcoming some perceived customer service issues.

Other than HSBC, which has announced that it will close down its Amanah services by the end of the year, there have not been any formal announcements from other conventional banks in terms of how they intend to comply with the QCB's circular.

The deadline of the 31st December 2011 is fast approaching and so there will no doubt be more news on this front in the coming months.

It seems that some conventional banks with Islamic windows are still hoping for a last minute extension to at least minimize losses but there are currently no whispers of change on the horizon.

Amjad Hussain is a partner at Eversheds. He can be contacted at AmjadHussain@eversheds.com.

Bangladesh to start Islamic money market

Bangladesh

By M Shamsuzzaman, IFN Correspondent

The Central Bank of Bangladesh will soon allow an Islamic money market to manage liquidity of the Shariah-based Islamic banks properly, a top official of the central bank told the media recently.

The issue was discussed at a meeting with CEOs of seven Islamic banks at the central bank on the 20th June 2011. The official also said that Malaysia has already allowed the Islamic money market to manage funds of the Islamic banks globally. He noted that a collaborative effort has been made in Malaysia in the form of the International Islamic Liquidity Management Corporation consisting of 11 central banks or monetary agencies as well as multinational institutions, offering Islamic financial services in addressing liquidity management issues.

Shariah rules do not permit payment or receipt of interest by any individual or institution. Currently some Islamic banks are using their surplus funds through an unofficial money market, as disclosed by Mohammad Abdul Mannan, the managing director of Islami Bank Bangladesh Limited.

Under the existing regulatory policy, Islamic banks maintain an 11.5% statutory liquidity ratio (SLR) instead of 19% as for conventional banks. Credit deposit ratios have also been relaxed for Islamic banks up to 90% instead of 85% for interest-based banks as Islamic banks can't participate in treasury bills auctions and can't buy interest-bearing derivatives.

Currently, seven private commercial banks out of 30 are operating under Shariah rules. They are Islami Bank Bangladesh, Al-Arafah Islami Bank, Export Import Bank of Bangladesh, Social Islami Bank, Shahjalal Islami Bank, First Security Islami Bank and ICB Islamic Bank. Besides that, seven other conventional banks including government undertaking banks have introduced Islamic banking branches.

Earlier a recommendation in respect of introducing an Islamic money market for managing liquidity of Shariah-based banks was adopted in the international seminar on 'Global Financial Crisis and Strength of Islamic Banking System' at which Ahmed Mohamed Ali, the president of the IDB, was present.

The seminar was organized by the Islamic Bank Consultative Forum, a joint body of all Islamic banks in Bangladesh, on the 24th and the 25th May 2011 in the capital of Bangladesh, where bankers, economists, financial analysts and policymakers from around the world attended.

M Shamsuzzaman is the executive vice president and head of marketing at Islami Bank Bangladesh. He can be contacted at zaman.ibbl@gmail.com.

Alkhorayef closes multi-million US dollar financing deal

Kuwait

By Alex Saleh, IFN Correspondent

The growth of Islamic finance in relation to project finance has been expanding at a remarkable rate. There has been a recent trend, particularly within the Gulf GCC nations and in particular Kuwait, to use Islamic finance structures as an instrument for project financing. A number of factors have made the use of Islamic financing attractive in the region, including the ability to comply with Shariah law and the sharing of financial risks and rewards.

One example of the use of Islamic finance in relation to project financing is the recent KWD48 million (US$174 million) syndicated financing facilities for Alkhorayef Group, a leading Saudi group in Kuwait.

The deal, which was led by National Bank of Kuwait and Boubyan Bank, was split equally between a conventional tranche and an Islamic tranche.

One of the many roles for National Bank of Kuwait was to act as the mandated lead arranger, inter-creditor agent, security agent and account bank. Boubyan Bank also acted as the mandated lead arranger and the Islamic agent. In addition to National Bank of Kuwait and Boubyan Bank, other participating banks included Bank Muscat and Qatar National Bank in the conventional tranche, while Warba Bank and Ahli United Bank participated in the Islamic tranche.

The proceeds from the financing facilities will be used by Alkhorayef to finance the construction of a project known as the New Gathering Center 16 in west Kuwait. The construction contract was awarded to Alkhorayef by Kuwait Oil Company, a company wholly owned by the Kuwait government.

The Islamic financing tranche consisted of a commodity Murabahah and an Ijarah facility. The commodity Murabahah facility was in the amount of KWD750,000 (US$2.7 million) with a profit margin of 3% above the discount rate declared by the Central Bank of Kuwait.

The Ijarah facility was in the amount of KWD11.7 million (US$42.1 million) with a profit margin of 2% above the central bank. The underlying assets used for the Ijarah facility were certain machinery and equipment owned by Alkhorayef.

The Murabahah facility has a tenure of two years, ending in July 2013, while the Ijarah facility has a final maturity date ending in October 2015.

Both structures included the issuance of promissory notes under Kuwaiti law to secure the obligations of Alkhorayef under the Murabahah and Ijarah facilities.

Given the unique aspects of the Kuwait legal system and the project contract between Alkhorayef and the Kuwait Oil Company, structuring both conventional and Islamic tranches within the context of a project finance transaction created some challenges, which were quickly addressed.

With many other project finance deals on the horizon in Kuwait, this deal can serve as a blue print for future project finance transactions.

Alex Saleh is a partner and the head of the Kuwait office at Al Tamimi & Company. He can be contacted at alex.saleh@tamimi.com.

Daud speaks

By Daud Vicary Abdullah

By the time you read this article, I will have made a slight career change. This involves my running an institution of higher education that is dedicated solely to Islamic finance.

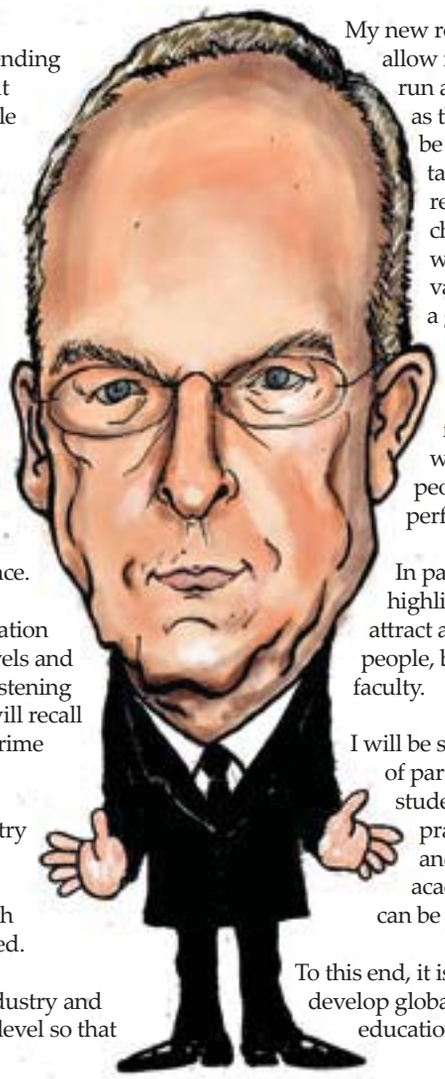
As a result of this impending change, I thought that it may be very worthwhile to explore the area of education once again, to see if I needed to do any recalibration with regard to the ideas that I started sharing with you just over a year ago with regard to my 'education, perception, liquidity' (EPL) theory.

I still believe strongly that it is education that will alter perceptions regarding Islamic finance.

I also believe that education takes place at many levels and needs to speak to the listening of the audience. You will recall that I indicated three prime levels.

The first is at the industry thought leader and scholar level so as to ensure momentum with fresh ideas is maintained.

The second is at the industry and interested practitioner level so that the ideas may be executed more easily. The third is at the general public level, starting with primary school children, so that as many as possible get the chance to understand the value proposition of Islamic finance.



My new role will certainly allow me to have a good run at levels one and two as the institution I will be heading is primarily targeting post-graduate research and producing chartered professionals who are ready to add value to the industry on a global basis.

My opening address to both faculty and students will cover the 4 Ps: people, participation, performance and process.

In particular, I will be highlighting the need to attract and retain the best people, both students and faculty.

I will be seeking for a spirit of participation between, students, staff, industry practitioners, regulators and other centers of academia so that the dots can be joined up.

To this end, it is critical that we develop global standards for education and qualification in Islamic finance, rather along the lines that the accountancy profession has done.

I will lay down clear expectations with regard to performance (I come from the school of thought where "you cannot manage what you cannot measure.")

I will also be ensuring that transparent processes are in place to support the first three Ps.

To this end, dear readers, as industry participants, I will need your help and contribution please in a couple of areas.

Here are two questions for you:

1. Firstly, I would like to hear what your priorities are with regard to producing competent industry professionals who can hit the road running and make an immediate contribution to your business. What skills do they need to possess? What, from your point of view, would make them really useful?

2. Secondly, with regard to research, what are the key topics that need to be investigated and researched by Master's and Doctoral students in order to make a direct contribution to the improvement of the Islamic finance industry?

I would really appreciate your input so that you can help me to assess the scale of the job in hand and to contribute to the industry that we all care so much about.

As ever, there is much to do and not a moment to lose.

First Gulf Bank second quarter results beat odds

First Gulf Bank (FGB) kicked off the second quarter 2011 earnings season on a high note when it beat analyst estimates with a 13% year-on-year growth in profit to AED890 million (US$242.3 million). Its results were boosted by an 11% rise in core banking revenues to AED1.55 billion (US$422 million) and a 17% increase in net interest and Islamic financing income to AED1.22 billion (US$322.15 million).

Analysts reportedly estimated that the bank would register an average of AED885.3 million (US$241.03 million) in profit for the period.

The bank offers corporate and consumer Shariah finance via Siraj, its Islamic banking arm, but does not provide segmental reporting for the business in its quarterly reports. For the full year 2010, the bank's Islamic financing amounted to AED5.77 billion (US$1.57 billion) against its net loans and advances portfolio of AED95.63 billion (US$26.04 billion), while income from Islamic financing stood at AED339.47 million (US$92.42 million) compared to interest income of AED6.24 billion (US$1.7 billion).

Despite the bank's small Islamic banking business, its second quarter results are significant as a possible indication of what to expect from its peers. In addition to the positive second quarter 2011 numbers, the bank also booked record profits of AED1.77 billion (US$481.9 million) in the first half of 2011 and a 4% year-on-year decline in provisions for bad debt to AED870.06 million (US$236.88 million).

The results came as the market expected FGB to be among banks most likely to be affected by the Central Bank of the UAE's new rules on retail financing, which came into effect on the 1st May this year, and amid projections from analysts that provisions will continue weighing down bank earnings this year.

Amid the continued uncertain environment following the recent financial crisis, it is worth looking at how FGB beat the odds this reporting season and whether its performance is a harbinger of better things to come from of the UAE banking sector.

Retail banking on the rise

In a statement accompanying the results, Abdulhamid Saeed, the managing director of FGB, said the bank is in a very strong position in terms of liquidity and capitalization and is on track to achieve its 2011 targets.

"Our balance sheet growth is a reflection of the improvement in the UAE banking sector indicators and increased stakeholders' confidence. Our financial position and asset quality are improving every quarter. Success at aligning our strategies with new market realities has helped us steadily improve the overall financial performance," he added.

Those "new market realities" include the central bank's new limits on personal financing fees and a cap on the amount that can be advanced to individuals. The new rules seem to have already impacted FGB, as its loans and advances grew at a slower pace of 3.13% in the six months to June, compared to 4.21% in the same period in 2010.

The bank also acknowledged that its fees and commissions shrank 28% quarter-on-quarter and 18% year-on-year to AED291 million (US$79.23 million) in the period under review due to the regulatory changes. However, this was offset by the higher net interest and Islamic financing income it recorded during the period.

There may also be further hope for the bank to withstand the stricter rules. As of the first half of this year, FGB's total assets of AED149.23 billion (US$40.63 billion) comprised AED61.63 billion (US$16.78 billion), or 41.3%, of corporate banking assets. While representing a slight decline from the AED62.71 billion (US$16.07 billion) recorded in the same period last year, this still makes up the majority of its financing portfolio.

In comparison, although retail assets grew slightly in the first six months to the 30th June this year from the previous corresponding period, at 24.18%, this still comprises just under a quarter of its total financing book.

In spite of this, FGB will have to be cautious as it navigates the tougher competitive environment. With its net interest income and income from Islamic financing rising 13.3% year-on-year to AED1.13 billion (US$307.65 million), the bank may need to diversify its business to provide a buffer for the central bank's new rules.

Ahead of the curve

Another feather in FGB's cap was a decline in its non-performing loans (NPL) ratio to 3.5% at the end of the period from 3.7% in the preceding quarter. Including its exposure to Dubai World, the bank's NPL ratio stood at 4.3% in the second quarter from 4.6% in the first quarter of this year.

"In general, we see a declining trend in our NPLs and we are very comfortable with our level of provisioning," said Andre Sayegh, the CEO of the bank, in a statement, adding that the bank's lower provisions for bad debt "reflects the market reality".

FGB has traditionally been ahead of the curve when it comes to NPLs, reporting 3.7% for the full year 2010 compared to the industry average of 8.3%. Hence, its standing may not be indicative of the wider industry's asset quality position.

In addition, while the bank is forecasting lower NPLs going forward, industry observers such as Moody's Investor Services projected in a recent report that UAE banks will still see rising bad debt as NPLs peak at more than 10% this year. As at the end of April this year, NPLs in the UAE were at 6.67%.

A rose among thorns?

Despite FGB's better-than-expected results, its performance may not be indicative of wider industry trends. Furthermore, with its numbers showing a significant impact from new banking regulations in the UAE, this shows that even banks with a smaller retail customer base are not shielded from the stricter environment. On top of this, although FGB holds a bright outlook for its NPLs, the consensus is that UAE banking industry bad debt will continue to rise at least for this year.

What the bank's numbers do show, however, is that even banks that are on a firm financial footing have to be wary of negative factors still weighing down the UAE banking industry. Sayegh said, "We would like to reiterate that we are confident that our economic growth targets for the coming quarters will be surpassed," but only time will tell if FGB will emerge as a rose among thorns at the end of 2011.

Where do China and Hong Kong fit in?

JASON KERN discusses whether Hong Kong is too far away from the Middle East and the more established Islamic finance centers of Asia to be a real player in the future.

The combination of Islamic finance and real estate investments is without question a powerful one.

With petrodollars fuelling ever-increasing liquidity in the Middle East, we have seen Islamic finance assets worldwide exceed US$1 trillion and some predict this number will eventually reach US$5 trillion within a few years. This deep pool of capital is looking for more investment alternatives, more equity product to diversify away from the steady supply of Sukuk and more geographic diversification outside the Middle East region.

At the same time, there is abundant evidence that investments in real estate, whether directly into hard property assets or through private funds or a variety of publicly listed vehicles, continue to be a significant alternative asset class for investors globally. In Asia in particular, capital issuance by property companies has been a very significant percentage of overall market issuance. The Middle East investors are no strangers to property investing and the largest sovereign wealth funds and family offices have a long history of investing in property abroad.

Real estate investment trust

When connecting the Middle East investors with Asian property, there are a wide range of different types of property and different structures with which to get access to the income generating and capital appreciation aspects of the real estate asset class. Arguably the real estate investment vehicle best suited for the traditionally risk-averse, fixed-income oriented Shariah compliant investor base is the real estate investment trust (REIT). The vehicle, which has been in existence for decades in the US and Australia, has been a vibrant part of the capital markets landscape in Asia for the last five years. There have been seven successful new IPOs of REITs in the past year in Asia alone, spanning Hong Kong, Singapore and Malaysia.

For investors of all types and in all regions, REITs offer a compelling hybrid combination of fixed-income yield and hard-asset backing along with equity growth and upside and have out-performed equities and bonds on a total return basis over long periods of time in the US and Singapore. Most importantly, REITs provide valuable exposure to real estate, a proven portfolio diversifier, in the form of a liquid traded security. In volatile markets such as those we are experiencing currently, it is important to note that REITs tend to hold their value better than residential developer stocks that tend to have more unpredictable cash flows and greater exposure to regulatory policy risk. Almost half of the 32 listed REITs in Hong Kong and Singapore currently trade at no worse than a 10% discount to net asset value (NAV) and many trade at a premium, whereas the median discount to NAV for the top 30 People's Republic of China (PRC) developers is over 50%.

> ***"China has yet to enact REIT legislation and Taiwan has a small and illiquid REIT market that has not been very appealing to global investors"***

Moreover, REITs are a natural fit with Islamic finance, which aims to build a stable future by investing in the real economy and putting capital to productive use for the benefit of society.

However, when attempting to adopt Shariah compliant standards to real estate investments of any kind, there is wide variance in terms of asset type acceptability and Islamic contracts adopted depending on geography, the intended investor base, and the scholars employed to opine on the overall structure. Hotel properties, for example, can be quite troublesome given the likely sale and consumption of alcohol, tobacco, and pork products in the food and beverage portion of the hotel operations. Retail malls similarly are likely to have food courts and restaurants generating non-halal income, not to mention convenience stores selling lottery tickets. Even office properties can be extremely challenging from a compliance point of view as many class A offices have lending institutions such as banks and insurance companies as tenants.

In fact, even if a given retail or office property presented an initially 'clean' tenant roster, the inclusion of that asset in any Shariah compliant structure would need to be pursued with caution so as not to restrict future leasing decisions by the property owner and thereby potentially reduce the asset's potential for income growth.

On the other end of the spectrum, real estate assets used for industrial/distribution purposes, rental apartments, healthcare, and other niche tenant uses have a much better probability of generating clean income and therefore a lower likelihood of limiting landlords in their attempts to actively manage tenant mix and maximize net property income for the benefit of investors.

It comes therefore as no surprise that the largest Shariah compliant REIT in the world owns a portfolio of entirely industrial assets. The Sabana Shariah compliant REIT was successfully listed on the Singapore Exchange in November 2010 and had a mere 0.3% of its rental income deemed as non-halal by its board of Shariah scholars.

Partly due to the purity of the income, as well as the commodity Murabahah financing structure in lieu of debt that was structured by the REIT's financial advisors, this IPO appealed to a wide array of Shariah compliant investors from across the Middle East, Asia, and Africa. Almost none of these investors had ever before bought REIT securities or invested in Singapore equities. The strong demand for a geographic market

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and corporate structure which was unfamiliar to the investors is powerful evidence of the yearning these investors have for well-structured Shariah compliant equity products.

It should also be noted that the majority of investors in the Sabana IPO were non-Shariah compliant investors from Asia, Europe, and the US: further proof that Islamic finance products can be desirable to both Muslim and non-Muslim investors.

Through this transaction, Singapore has taken a big step towards joining Malaysia, Indonesia, and Brunei as an Asian center for Islamic finance investment products. And more recently, Singapore has upped the ante by announcing new tax breaks for Islamic finance products that will ensure that such structures are not disadvantaged relative to conventional products.

Malaysia of course has a 20-year head-start on Singapore as an Islamic finance center and specifically in the real estate industry, the Bursa Malaysia already boasts three separate Shariah compliant REITs. It is worth noting that these structures conform under different standards and thresholds compared with GCC market norms in relation to Shariah compliant structuring.

Is China in the picture?

So the obvious question is: where does China fit in to this picture? Mainland China is clearly one of the top focus markets of global real estate investors. Strong GDP growth, wealth creation, urbanization, good infrastructure, and limited domestic alternative investment options are all macro-economic factors driving the continued enthusiasm of global investors for exposure to China's real estate.

For Shariah investors seeking more geographic diversification, the second largest economy in the world should be a prime consideration and Hong Kong is the most likely point of access into the mainland.

More than US$10 billion has been raised year-to-date in 2011 via the Hong Kong public capital market for mainland property companies. Many of these PRC companies raising capital today are focused on residential development, which may not be the top choice of the average Shariah compliant investors.

However, there is also a well established and growing Hong Kong REIT market. With the addition of the historic CNH-denominated Hui Xian REIT to the Hong Kong REIT scene in May, the total market cap of the sector is now over US$17 billion and the investor base is an eclectic mix of mainly institutional global investors.

Unfortunately, China has yet to enact REIT legislation and Taiwan has a small and illiquid REIT market that has not been very appealing to global investors. Therefore, the most likely strategy for getting Islamic finance for property started in Greater China is with REITs in Hong Kong.

Islamic REITS in Hong Kong

So is Hong Kong too far away from the Middle East and the more established Islamic finance centers of Asia to be a real player in the future? Again, the Middle East investors underwriting and investing in Singapore industrial assets would seem to indicate that physical distance is not a deterrent. To be clear, Singapore doesn't itself have a large enough domestic Muslim population to drive material retail demand for products listed there, so this is also no excuse.

Even though there exists a Hong Kong Islamic Index (HKII) consisting of dozens of mainland and Hong Kong property and manufacturing companies that are deemed to qualify for Shariah compliance, there is no equivalent of the Sabana REIT with its Shariah board of scholars inspecting the company's income streams and financing structures and periodically re-certifying it as Shariah compliant for strict GCC-based investors.

It has been three years since the Hong Kong government pledged to make Hong Kong a hub for Islamic finance, but the market has seen little activity since then, although a Sukuk law is expected soon.

There appears to be no good reason why Hong Kong could not follow Singapore's lead and bring real estate-related Islamic finance investment products to Northern Asia. All that is required to put Hong Kong on the Islamic finance map for real estate is a quality portfolio of qualifying assets, a reputable sponsor to champion the vehicle, and a regulatory body and tax regime willing to encourage the further spread of Islamic finance investment products across the region.

The mutual benefits to issuers, investors, and the economy as a whole of such a development are apparent.

However, the plunge into Islamic finance waters still needs to be made more often and with increasing confidence in order to evolve the market from bespoke one-off transactions to a higher profile aspect of the market that can become a sustainable avenue for capital deployment by Islamic investors.

Conclusion

The Middle East to Asia 'East to East' connectivity is growing in importance for both regions. Each region has Islamic finance hubs, hence there is an increasing relevance within financial services within and between the two regions.

As such there is the infrastructure to facilitate the growth of real estate-related Islamic finance investment products offered from Asia and with a focus on Middle Eastern Islamic investors.

For many high profile Asian names outside of Malaysia, Islamic finance is an exciting but mysterious unknown and for many Middle Eastern Islamic investors, Asia is a desired diversification target but with different market dynamics that need to be better understood.

However, the respective black boxes are not difficult to ultimately decipher and merely require counterparties to be motivated to take the time to understand and appreciate how cross-border and cross-cultural business is transacted.

Perceived barriers of entry into new markets are a key bottleneck for growth, but they need not be. The quicker that issuers and investors become comfortable with each other, the quicker the industry will see the rise of a new investment class that will constitute the next big thing in Islamic finance.

Jason Kern is the managing director and head of real estate & lodging advisory – Asia Pacific at HSBC. He can be contacted at jasonbkern@hsbc.com.hk.

Bright future for debt capital markets in the UAE

Strong debt capital markets capabilities in banks will play a pivotal role in achieving the necessary strength for the sector. ANVER JALALDEEN and ALI WAHAB analyze the advantages of transacting in the debt capital markets in the UAE.

The financial crisis that began in 2008 shook the foundations of the global economy. With multi-billion dollar bankruptcies, takeovers, nationalization of financial institutions, falling stock markets, depreciation of real estate asset values and so on, the world saw the biggest challenge in the era of globalization. No asset class was safe. The bubble in all asset classes burst in a way that was unimaginable.

Before the bubble burst, the GCC region's economies were riding a crest of confidence. The UAE in particular was the magnet that attracted fund inflows from all over the world. The UAE's freehold real estate assets were in high demand with prices matching those in London and Hong Kong. After all, Dubai was trying to place itself as an alternative financial center.

There were a few reasons for the growth that the UAE was witnessing. These included oil prices being above US$80 per barrel from 2006 onwards; increased inflow of residents and businesses to tap growth; the establishment of the Dubai International Financial Center; increased investment in infrastructure projects previously alien to the region; the development of trophy projects like the tallest building in the world and an increase in commercial and tourism capabilities. At the same time, turbulence in neighboring countries like Iraq, Iran and Pakistan saw capital and people shifting to the UAE.

With the US dollar depreciating in value against currencies like the euro, sterling and yen; and regional currencies like dirhams, riyals and dinars firmly pegged to the greenback, the region saw increased speculation on the fate of the peg. The hypothesis was based on the fact that the region is sitting on huge oil reserves whose value is appreciating and the growth in the regional economies made the currencies stronger against the greenback. Between 2006 and 2008, when the greenback continued its slide against the euro, sterling and yen, there was increased speculation that currencies like the dirham would de-peg against the US dollar or revalue against it. Such a scenario was a speculator's dream. Sell US dollars, convert into dirhams, and when the dirham de-pegs or revalues upwards one can convert back to US dollars and make substantial gains.

On top of this, there was an implicit guarantee on banking sector deposits. Though the exact figures are not known, it is estimated that more than US$100 billion flowed into the banking sector in the form of deposits in the country or investment in short-term instruments. The banks had to lend and the lending went into sectors which were in a development stage, i.e. real estate.

> ***"The spread between Libor and Eibor expanded from -81.6 bps to +136.7 bps in this period"***

After the speculation continued for nearly two years and the financial markets the world over wobbled with turmoil, it is estimated that the inflows turned into outflows from the UAE banking sector between July and September 2008. For example, the three-month Eibor moved upwards from 1.875% on the 6th June 2008 to 4.787% on the 29th October 2008. More importantly, the spread between Libor and Eibor expanded from -81.6 bps to +136.7 bps in this period. This means that liquidity tightened substantially. The Central Bank of the UAE stepped in and provided liquidity to banks worth AED70 billion (US$19.06 billion), still a far cry from the money that went out.

This was followed by defaults in the corporate sector and a pessimistic situation loomed for the banking sector. According to the central bank's published figures, credit facilities that grew from AED491.53 billion (US$133.82 billion) as of the end of 2007 to AED 924.38 billion (US$251.66 billion) as of the end of 2008, remained almost flat at AED958.58 billion (US$260.97 billion) as of the end of 2009.

On the other hand, the total credit had just grown to AED972.1 billion (US$264.65 billion) as of the end of 2010. In essence, confidence in lending during 2008 and 2010 while maintaining liquidity became an important consideration for banks.

Emergence of debt capital markets

With a generally dull operating environment and flat earnings, managements of financial institutions have been forced to look at opportunities in the capital markets to manage risks and ensure profitability. During the boom period when liquidity dictated terms in favor of borrowers and assets, the practice of assessing risk took a back seat and name lending became a necessity.

To illustrate, a global logistics provider issued its shares through an IPO at a premium of US$1.20 per share, listing the company at a PE of more than 50x. With IPOs hot in those days, the majority of investors did not look at the details. You had to be in the market to make money. Similarly, numerous institutions, corporates and investment companies borrowed heavily to invest in projects with little or no cash flows. When lending tightened at the end of 2008, a number of 'name' borrowers defaulted as they did not have the necessary cash flows from their operations and investments while fresh funding from banks stopped.

The Investment Dar Company of Kuwait, Saad Group and Al Gosaibi are some names that come to mind which defaulted in total debt of around US$24 billion. Sovereign-linked debt has had its share of problems as well, with Dubai World and related companies restructuring causing global reverberations around the end of 2009.

Now sitting at half year 2011, almost three years into the financial crisis, the situation has become much clearer,

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Table 1			
Countries	**Number of deals**	**US$ equivalent raised**	**%**
UAE	36	20,017,508,358	40.53%
Saudi Arabia	12	7,002,932,350	14.18%
Qatar	9	8,785,062,714	17.79%
Lebanon	5	2,965,000,000	6%
Morocco	1	1,346,892,047	2.73%
Kuwait	4	1,196,573,076	2.42%
Egypt	8	3,577,515,257	7.24%
Bahrain	4	3,433,320,889	6.95%
Jordan	1	750,000,000	1.52%
Oman	1	320,000,000	0.65%
Total	81	49,394,804,691	100%

allowing financial institutions and banks to strategize their moves forward. The debt capital markets have now become an integral part of the new strategy. Since January 2010, 81 bonds and Sukuk have been issued in the MENA region, raising nearly US$50 billion. The highest number of issuances has been from UAE-based issuers, raising US$20.01 billion in 36 deals, followed by Saudi and Qatari issuers. Table 1 shows deals distribution on a country basis between the 1st January 2010 and the 15th June 2011.

Looking at issuer types, we see a very balanced mix, with corporate issuances of nearly $17 billion, or 34%, of the total issuances. Sovereign issuers raised US$10.7 billion with non-GCC countries like Jordan, Egypt, Lebanon and Morocco raising US$6.56 billion.

Issuer type	Number of issuances	US$ equivalent raised
Corporate	25	16,877,305,825
Financial institution	24	7,287,615,383
Multilateral	2	1,250,000,000
Sovereign	16	10,711,892,047
Sovereign linked	14	13,267,991,436

Why debt capital market transactions are preferred

The advantages of transacting in the debt capital markets are many. Their advantages stand out as a means to an end of recovering confidence in the market. In the recent past, the increase in liquidity among banks and financial institutions has allowed better risk appreciation to marketable securities like bonds and Sukuk. The ease of entry and exit and lack of quality credit coming towards banks have caused an increased focus on bonds and Sukuk.

When a bond or a Sukuk is issued, it has to go through many acceptable standards including listing regulations, legal opinions about enforceability, rating agencies views on the credit and auditors comfort. On the other hand, in bilateral deals, some aspects are not as strictly followed as they would be in a capital markets transaction.

> ***"In essence, the debt capital markets are an ideal win-win situation for issuers and investors alike"***

Though the income through coupons may be slightly less than what one gets from a bilateral loan, the comfort of adherence towards standards and the possibility of exit through the secondary market have given impetus to bonds and Sukuk.

To illustrate the interest of the UAE and other GCC investors in debt capital market transactions, we saw major interest from conventional and Islamic institutions in Sharjah Islamic Bank's recent Sukuk. Out of 200 odd orders, nearly 60 orders worth 42% of the order book of US$3.63 billion came from regional investors. The Sukuk has done very well in the secondary market as well and has been in high demand, firstly for being a Sukuk which can be bought by Islamic investors and secondly because of a decent yield.

Prospects

We expect that the confidence level among the banks will increase as time passes and quality transactions make their way to the market. 2011 and 2012 are critical years for the banking sector, which will set the tone for the period up till 2018 for the regional markets.

We are seeing a healthy pipeline of corporate and quasi-government issuers thinking of coming to the market to raise funds for their financing needs or to repay existing facilities.

They also understand the advantages of approaching the capital markets over dealing with banks on a bilateral or syndicated basis.

There is another aspect which the prospective issuers will have to consider — transparency and provision of information to outsiders in order to analyze the credit and approve the same from a regulatory point of view. At the same time, advisors to issuers such as lead managers, legal consultants, auditors and Shariah advisors need to hold the hands of their clients and explain the advantages of bringing out the information in a format which is acceptable to investors and regulators.

In essence, the debt capital markets are an ideal win-win situation for issuers and investors alike. Banking has had its share of troubles in the recent past.

However, the foundations of a strong and vibrant banking sector lie in greater transparency and allowing access to transactions which are marketable. Strong debt capital markets capabilities in the banks will play a pivotal role in achieving the necessary strength and vibrancy for the sector.

Anver Jalaldeen is the vice-president, head of capital markets and direct investments, while Ali Wahab is the assistant manager of direct investments at Sharjah Islamic Bank. They can be contacted at anver.jalaldeen@sib.ae and Ali.Wahab@sib.ae respectively.

The risks of cross-border Sukuk in Indonesia

Indonesia has been actively issuing sovereign Sukuk since 2008. ARY ZULFIKAR discusses.

The Indonesian government has issued domestic and global Sukuk to finance its projects. This year, the country plans to issue its second global Sukuk, following the first global Sukuk which was issued in April 2009. According to reports, the first sale of the US dollar-dominated Sukuk was oversubscribed seven times, totaling US$4.7 billion.

The growth of Indonesia's capital market was shown in the 2009 annual report of the Indonesian Capital Market Supervisory Board, which also shows the growth of the country's corporate and sovereign Sukuk markets, as illustrated in Table 1.

Indonesia has been actively issuing sovereign Sukuk since 2008, either through book building or bidding. The country's issuance of sovereign Sukuk up to April 2010 is set out in Table 2.

The first issuance of US dollar-denominated sovereign Sukuk matures on the 23rd April 2014 and has a profit rate of 8.8%, which is paid every six months on the 23rd April and the 23rd October yearly. This issuance was the largest US dollar-denominated sovereign Sukuk outside the GCC.

The investors' geographical breakdown is as follows: Asia (32%), Middle East (30%), US (19%), Europe (11%) and Indonesia (8%); while the investors comprise fund managers (45%), banks (37%), retail investors (14%) and insurance and pension fund companies (4%).

Indonesian sovereign Sukuk

In accordance with Law no. 19 enacted in 2008, sovereign Sukuk can be in the following forms: (i) Ijarah; (ii) Mudarabah; (iii) Musharakah; (iv) Istisnah; or (v) other forms in accordance with Shariah principles.

> ***"The first issuance of US dollar-denominated sovereign Sukuk matures on the 23rd April 2014 and has a profit rate of 8.8%"***

The issuance of the Indonesian global Sukuk, which involved international book building, was issued under the concept of Ijarah, with the structure shown in Table 3.

The transaction documents needed for this transaction are:

a. Aqad Bay' (sale) between the GOI and a special purpose vehicle (SPV) where the SPV purchases the beneficial ownership of state-owned assets from the GOI (hereinafter referred to as 'underlying assets') in which the GOI undertakes to re-purchase of underlying assets and the SPV is obliged to sell such underlying assets to the government on the maturity date of Sukuk or on default with the agreed price of such assets.

b. Aqad Ijarah (lease) between the GOI and the SPV where the GOI leases back the assets with a certain period, which is the same period as the underlying Sukuk.

c. Asset maintenance agreement between the GOI and the SPV where the SPV appoints the GOI as an agent to conduct maintenance for the assets.

d. Sale undertaking whereby the SPV undertakes and agrees that it will sell the underlying assets only to the GOI on the Sukuk maturity date or if the Sukuk defaults.

e. Purchase undertaking whereby the GOI undertakes and agrees that it will purchase the underlying assets from the SPV on the Sukuk maturity date or if the Sukuk defaults.

Global Sukuk risk

In general, conventional or Shariah financial instruments issued by a corporation or government depend on three main issues: integrity, accountability and transparency.

When investors are interested in purchasing cross-border Sukuk, they must be fully aware of whether the issuer can maintain its commitment to carrying

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Table 1: Growth of Shariah investment fund

Products	2006	2007	2008	2009
Sukuk (Shariah bond)	IDR2,282 billion (US$266.68 million)	IDR3,174 billion (US$370.92 million)	IDR5,498.4 billion (US$642.56 million)	IDR7,015.4 billion (US$819.84 million)
SSBN (Sukuk negara)	—	—	IDR4,699.7 billion (US$549.22 million)	IDR20,328.99 billion* (US$2.38 billion)
Shariah investment fund	IDR723.4 billion (US$84.54 million)	IDR2,203 billion (US$257.45 million)	IDR1,8148.4 billion (US$212.08 million)	IDR4,629.22 billion (US$540.97 million)
Total	IDR3,005.4 billion (US$351.22 million)	IDR5,377 billion (US$628.37 million)	IDR12,012.9 billion (US$1.4 billion)	IDR31,973.61 billion (US$3.74 billion)
Growth		78.91%	123.41%	166.16%

Source: Bapepam-LK Statistics and www.dmo.or.id
** Inclusive of Foreign Exchange Sukuk Negara (Global) of US$650 million or about IDR6.11 billion (US$1 = IDR8,557) and untraded Sukuk.*

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Table 2: Sukuk issuance of the Republic of Indonesia

Date issue	Series	Issuance method	Coupon	Maturity date	Nominal (IDR billion)
25th August 2008	IFR-0001	Domestic bookbuilding	11.8%	15th August 2015	2,714.7 (US$317.25 million)
26th August 2008	IFR-0002	Domestic bookbuilding	11.95%	15th August 2018	1,985 (US$231.97 million)
Total 2008					4,699.7 (US$549.22 million)
25th Febuary 2009	SR-001	Retail domestic bookbuilding	12%	25th Febuary 2012	5,556.29 (US$649.33 million)
23rd April 2009	SNI-14	International bookbuilding	8.8%	23rd April 2014	7,030 (US$821.55 million)
7th May 2007	SDHI 2010 A	Private placement	8.52%	7th May 2010	1,500 (US$175.3 million)
24th June 2009	SDHI 2010 B	Private placement	7.83%	7th May 2010	850 (US$99.33 million)
24th June 2009	SDHI 2010 C	Private placement	7.89%	24th July 2010	336 (US$39.27 million)
29th October 2009	IFR-0003	Auction	9.25%	15th September 2015	200 (US$23.37 million)
12th November 2009	IFR-0003	Auction (reopening)	9.25%	15th September 2015	527 (US$61.59 million)
	IFR-0004	Auction	9%	15th October 2013	550 (US$64.27 million)
Total 2009		7 new series			16,549.29 (US$1,934.01 million)
21st January 2010	IFR-0003	Auction (reopening)	9.25%	15th September 2015	55 (US$6.43 million)
	IFR-0005	Auction	9%	15th January 2017	105 (US$12.27 million)
	IFR-0007	Auction	10.25%	15th January 2025	790 (US$92.32 million)
10th Febuary 2010	SR-002	Retail domestic bookbuilding	8.7%	10th Febuary 2013	8,033.86 (US$938.86 million)
3rd March 2010	SDHI 2012 A	Private placement	7.61%	3rd March 2012	3,342 (US$390.56 million)
11th March 2010	IFR-0003 IFR-0005 IFR-0007	Auction (reopening)	9.25%	15th September 2015	525 (US$61.35 million)
			9%	15th January 2017	14 (US$1.64 million)
			10.25%	15th January 2025	460 (US$53.76 million)
1st April 2010	IFR-0003	Auction (reopening)	9.25%	15th September 2015	300 (US$35.06 million)
	IFR-0006	Auction	10.25%	15th March 2030	320 (US$37.4 million)
15th April 2010	IFR-0003 IFR-0006	Auction (reopening)	9.25%	15th September 2015	150 (US$17.53 million)
			10.25%	15th March 2030	675 (US$78.88 million)
	IFR-0008	Auction	8.8%	15th March 2020	100 (US$11.69 million)
29th April 2010	IFR-0003	Auction (reopening)	9.25%	15th September 2015	200 (US$23.37 million)
		TOTAL			36,318.85 (US$4,244.34 million)

Source: www.dmo.or.id
Notes:
** SNI 14 was using exchange rate at closing date the 24th April, 2009 aquivalent with IDR*
** All series were using Ijarah Sale and Lease Back contract and tradable*
**SDHI series were using Ijarah Al Khadamat contract and non-tradable*

out its business in accordance with the prevailing laws and regulations.

This is what we mean by the integrity of the issuer. For example, if the issuer has a bad track record in financial issues or has failed in a previous commitment, whatever financial instruments which are to be issued by the said corporation or government will face negative responses from investors.

The investor must be educated on the reputation of the issuer. Economic security and stability of the respective countries are also of importance to the investor.

The financial instrument to be issued must be accountable as well. This means that the transaction is in accordance with Shariah principles and the underlying assets to be used for the global Sukuk have no legal issues and their values correspond with the total value of the global Sukuk. As a matter of fact, the investor has a legitimate claim to the underlying assets, thereby they should have no worries of losing their investment in the Sukuk.

In any capital market transaction, transparency of the financial instruments is a must. Any financial risk must be fully disclosed to investors.

In Indonesia, based on Law no. 19 year 2008, the GOI is obligated to pay the return and nominal value, issued both directly by the government itself and by the SBSN issuing company. Such payment is subject to prior approval of the House of Representatives during the ratification of the state budget.

Furthermore, under article 9 paragraph (3), the funds for the payment of return and nominal value for each Indonesian sovereign Sukuk shall be allocated from the state budget every fiscal year up to the expiry of the period of such obligation. Accordingly, investors are assured of the payment of the return and nominal value, providing legal certainty to the investor.

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Investors need to know the risk profile of Islamic financial institutions, which consists of:

(i) the financial risks, comprising credit risk, market risk and equity risk;

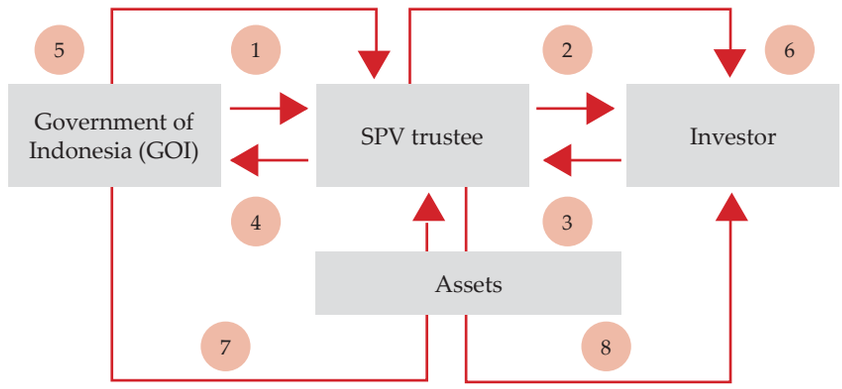
(ii) the business risks, comprising rate of return risk and solvency risk;

(iii) the treasury risks, comprising asset and liability management risk and hedging risk; and

(iv) the government risks, comprising operational risk, reputation risk, transparency risk, Shariah risk and fiduciary risk.

> ***"In any capital market transaction, transparency of the financial instruments is a must"***

Table 3: Structure of issuance of the Indonesian global Sukuk



1: Assets sale and purchase transaction between GOI (government of Indonesia) as the obligor to SPV as Sukuk issuer;

2: SPV issues Sukuk which will be sold to investor;

3: SPV receives the fund as a result of Sukuk issuance;

4: SPV pays to GOI with regards to the purchase of assets;

5: GOI leases such assets by paying a rent, with a certain period of lease and has the option to buy back the assets on the maturity date or in the event of default;

6: SPV as a trustee through the appointed agent, pays the service periodic payment to investor as a result of a rental payment;

7: On the maturity date or if Sukuk defaults, SPV is obliged to resell the assets to GOI and GOI is obliged to repurchase such assets from SPV;

8: SPV pays the principal amount of Sukuk to investor from the result of selling such assets.

One of the legal aspects of operational risk is the difficulty of enforcing Islamic contracts in a broader legal environment and the failure of internal control systems to detect and manage potential problems in the operational process and back office functions. The failure of fiduciary duty is related to the mismanagement of funds or in governing the business.

The Shariah risk is related to the structure and functioning of the Shariah boards at the institutional and systemic level.

These risks are divided into two types — the first is due to non-standard practices in respect of different contracts in different jurisdictions, and the second is due to failure to comply with Shariah rules.

In brief, for the legal certainty of the investor and in anticipating the failure of the payment of the nominal value and return of the international global Sukuk (cross-border Sukuk), the issuance of the international global Sukuk (cross-border Sukuk) must be backed by real underlying assets and a reliable governing law to be used in the respective country where the underlying assets are located.

Ary Zulfikar is a managing partner at AZP legal consultants. He can be contacted at ary@azp.co.id.

The heartbeat of Islamic banks

MUATH MUBARAK highlights why Shariah is the heartbeat of an Islamic financial institution and Shariah supervision should not be taken lightly.

Shariah has been translated as 'Islamic law' but in fact Shariah comprises not only Islamic law, it also includes the moralities, ethics and guidelines for a complete way of human life. In the field of Islamic banking and finance, Shariah plays a vital role.

Enhancing stakeholder value is the ultimate purpose for any business including Islamic financial institutions (IFIs). Their financial stability and growth are two strategic factors considered by their shareholders and their confidence level is dependent on these main components.

Likewise for an IFI, Shariah compliance is the key and stakeholders are very vigilant about this. IFIs offer Islamic finance services which are expected to be offered within the purview of Shariah irrespective of the region and size of the organization.

Shariah plays a vital role in this young and niche market to be the best alternative financial sector with interest-free economic policies for the nation's development.

In order to ensure the Shariah compliance of the institutions, a Shariah supervisory board (SSB) comprises Shariah scholars who are experts in advising the management and stakeholders.

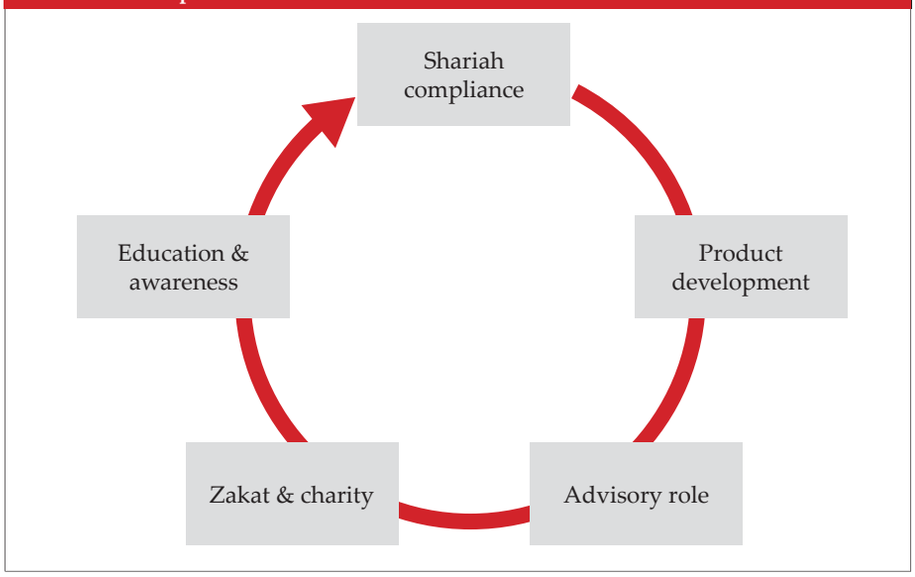
The SSB's main function is to ensure the Shariah compliance of the bank including the products and day-to-day operations.

Internationally, the AAOIFI and the Islamic Financial Services Board (IFSB) have issued a number of guidelines and standards.

The requirements for all Islamic banks and financial institutions to carry out business in line with the Shariah rules and guidelines are clearly stated by these regulatory standard setting bodies, which have gained global acceptance by different nations.

On a periodic basis, the SSB examines the overall operations and activities of IFIs which will result in the publication of an independent opinion regarding the Shariah compliance of its activities. This exercise is called the Shariah Compliance Audit (SCA). The main objective of the SCA is to ensure that the activities of IFIs do not contravene Shariah principles.

The roles and responsibilities of the SSB



> ***"The SSB's main function is to ensure the Shariah compliance of the bank including the products and day-to-day operations"***

In short, it is a set of activities which are carried out to evaluate the organization's system, processes, projects, transactions and other procedures, and ensure they adhere to Islamic laws and regulatory requirements of the respective jurisdiction's law.

This audit can even be carried out based on client requirements for administration, management and client base. The SCA is drawn up according to the financial reporting disclosure standard requirements. Further, it states whether the IFI's financial statements and other related reports are revealing accurate information for the interested parties and stakeholders.

The above diagram shows the role of the SSB towards the IFIs. The SSB can be a centralized as one for the whole nation or else can be individually formed by different Islamic banks. As per the advice of global standard setting bodies, there should be a minimum of three to five Shariah scholars in a SSB.

The modern world's more complex transactions and modern financial products must undergo a Shariah screening system or rather a purifying system before the SSB can endorse any relevant product.

Shariah supervision may be thought of as the single most important distinction between a conventional and a truly Islamic financial venture. The Shariah compliance framework may include the following important tasks:

- Ensure the business transactions are fully Shariah compliant.

Continued

Continued

- Maintain a system of compliance having special emphasis on Shariah in the light of existing jurisdictional laws, rules, regulations, policies and procedures related to Islamic banks.
- Uphold the highest transparency and maintain justice.
- Provide all necessary documents to Shariah compliance officials in performance of their functions to ensure Shariah compliance.
- Hold Shariah audits periodically and ensure all the products and services are adhering to Islamic laws.
- Provide adequate advice in corporate governance and decision making.
- The SSB is responsible for educating the interested parties about the Islamic rules and regulation in all activities.

As Shariah supervision is an integral part of the industry, it requires the rating of each entity in order to identify the Shariah compliance rating for them which will attract investors and increase general public confidence.

> ***"Shariah supervision may be thought of as the single most important distinction between a conventional and a truly Islamic financial venture"***

In order to meet the requirements of Shariah rating, the International Islamic Ratings Agency (IIRA) was established in July 2005 in Bahrain.

The main objective of the IIRA is to facilitate the development of regional and national financial markets and to improve their functioning as well as improve the quality of rating agencies. The IIRA is like other credit rating agencies but only the difference is it looks at the Shariah.

The IIRA offers Shariah quality ratings for the assessment of the level of compliance with principles of Shariah and provides rating for all types of issuers and issues.

Shariah is the heartbeat for an IFI and therefore Shariah supervision is not a matter to be taken lightly. The investors and general public confidence, in any sector, are always important considerations.

So every organization must make sure that their institution's heartbeat is functioning properly to stay alive in the spirit of Shariah, which is the core goal for any IFI.

Muath Mubarak is the director of studies and corporate strategy at First Global Knowledge Center, Sri Lanka and he can be contacted at muath2015@gmail.com or muath@firstglobal-group.com.

Restructuring Islamic debt: A niche micro-market in the making

MOHAMMED KHNIFER provides a detailed insight to Sukuk restructuring after defaults which many industry players are unaware of.

With the recovery of the Islamic debt market and the continuous default rate of junk and small Sukuk issuances, one should take notice of the growing niche market of restructuring debt in a Shariah compliant manner.

When I wrote an article almost a year ago on the confirmed default rate of Sukuk (21 cases in the last 21 months), no one paid attention as these default events were spurred from small firms facing difficulty in generating operating profits. In Asia, we have seen a new trend whereby boutique investment banks have become specialists in assisting those low credit quality issuers to tap the market, creating an unseen junk Sukuk market.

Every now and then we hear of a default event from those originators who obtained credit ratings. That of course will not disturb the healthy pipeline of Sukuk this year. Confidence has returned to the market after Nakheel managed to complete its debt restructuring. Under the proposal, trade creditors would receive repayment through 40% cash and 60% in the form of a US$1.63 billion Islamic bond, expected by the end of the first half.

Nonetheless, a few universal and boutique household names are making their mark in a growing business — Islamic debt restructuring.

When I initiated a series of research on defaulted Sukuk two years ago, many scholars informed me that we would first have to wait and examine the cases. In other words, they needed some time to come up with innovative Shariah restructuring plans. The problem was that they had never seen large scale default events before; hence their task was how to make the conventional restructuring approaches Shariah compliant.

Now for the first time, the Islamic finance industry has had a firsthand look at these details. Basically, there are three main approaches — haircut; extending the maturity of Sukuk addition by two or three years; and debt/equity SWAP.

After examining most of these options, I believe that the first approach does not guarantee the recovery of the principle. They will only recover 70%-80% without any profits. Approaches two and three also do not guarantee the recovery of the principle, but it depends on the flexibility of the agreement after cancelling the original contact.

Haircut

Haircut is when the capital providers (i.e. Sukukholders) agree to make a discount in order to get early settlement (Tanazul), according to AAOIFI standards.

Sometimes certificate holders are forced to go down the haircut route when the originator is in a severe financial distress, i.e. there is hardly any cash flow from the underlying assets of the Sukuk (asset-based type). Therefore, extending the maturity of the Sukuk is not an option.

Extending maturity

Certificate holders opt for this approach when the financial position of the company is too strong. Nonetheless, this will raise the issue of opportunity cost for the Sukukholders. Should the same situation happen with bonds, the originator will increase the interest rate on the coupon payment in order to compensate them for the opportunity cost. However, with Sukuk, this is not permissible. So, the question is how to come up with a Shariah compliant solution for the opportunity cost?

It depends on the nature of Sukuk. If it is a Sukuk Ijarah, then extension means extending the lease contract, which can be on new conditions which may include a higher rent. If it is a Sukuk Musharakah, then the term can be extended and the ratio of sharing profit may be changed.

For instance, Nakheel plans to issue bonds this year to settle its debt to contractors. The company said that trade creditors would be offered 100% recovery of their claims — 40% through cash payment and 60% through a publicly tradable Sukuk, paying a 10% return annually. In my view, Nakheel decided to pay this high rate of return in order to compensate the Sukukholders for the opportunity cost.

Debt-for-equity swaps

In a debt-for-equity swap, a company's creditors generally agree to cancel some or all of the debt in exchange for equity in the company. Debt for equity deals often occurs when large companies run into serious financial trouble, and often result in these companies being taken over by their principal creditors.

This is where we see Shariah restructuring innovation coming into play.

While we have 'hybrid/ clustered' Sukuk where debt is involved, most of these notes are equity as you take ownership in the underlying assets. In a case of default, you can convert equity (of the underlying assets) into another form of equity (of the originator) at a formula agreed by both parties.

Dr Mohamed Elgari concurs with my interpretation. He said: "Since the Sukukholders do own assets which can be sold to the originator or the third party, then they can use the value to purchase shares (i.e. convert to equity) of the originator who is now the purchaser of these assets." As we explore the restructuring approaches of any defaulted Sukuk, one should note the choice of replacing the old securities with a new issuance (i.e. refinancing). For example, you can issue the new Sukuk in order to repay or redeem the old Sukuk.

The Sukuk industry is on its way to maturity, despite the fact that there is still a need to educate investors on these sophisticated instruments.

Mohammed Khnifer is an Islamic investment banker and he can be contacted at mkhnifer1@gmail.com.

Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 28

Missed opportunities for Asian funds

Cover Story

Asian equities were still a hot favorite for global investors last year, with the region's stocks attracting an estimated US$100 billion through mutual funds, according to a report from US-based mutual fund research and consulting company Strategic Insight.

The figure, it stated, is based on evaluating the global funds industry and adding up all allocations to Asia, including Japan and Australia.

Despite the positive news, the report added that Asian mutual fund companies were beneficiaries to only a miniscule portion of that figure as most of the funds were dominated by fund managers operating outside of the region: mainly from Europe, the US and other domiciles.

The uptrend has seen a reversal of sorts in 2011 with a sell-off in emerging markets causing flows to date diminishing by 90% from last year. However, Strategic Insight explained that the decline experienced is merely in the short-term, with a positive outlook for the medium and long-term with about US$1 trillion forecast to be invested into Asian financial markets over the next decade.

According to the report, Europe-domiciled funds dominated the Asian investment space with about US$650 billion of assets invested in UCITs-regulated funds focused on the Asia-Pacific region, while US$450 billion were in Asia (excluding Japan and Australia). However, the report questioned whether Asia-based funds can benefit from the inflows as they only represented 7% of the US$30 trillion of worldwide assets under management despite accounting for 25% of the gross domestic product worldwide and 30% of global stock market capitalization. In 2010, Asia funds gained only 12% of the US$1 trillion of the net inflows to long-term (excluding money market) funds.

Therefore a concerted effort must be made for Asia-based asset management companies to attract investors to their funds. A compelling option would be through Shariah compliant funds.

The continuing effects of the global financial crisis have resulted in investors being more risk averse, but their risk appetite is slowly coming back. This is illustrated in Cerulli Associates' recent report, which saw an increase (albeit marginal) in global equity funds at 45.4%, up 0.3% from 2010.

The figures were more prominent in the Shariah space, where Cerulli also notes that global equity funds saw an increase to 58.7% as at March 2011 compared to 54.4% last year, while fixed income funds declined as much as 5.2% from 29.8% to 24.6%.

Shariah compliant funds have been regarded as more resilient during downward trending periods. This is apparent from the Islamic indices, which have not only outperformed conventional indices but also demonstrated lower volatility. For example, in 2010 the Dow Jones Islamic Market Asia/Pacific Index had an annualized price return of 17.5%, outperforming the Dow Jones Asia/Pacific Index of 15.8%.

Investors unfamiliar with Shariah compliant funds or asset managers trying to market such funds to non-Islamic investors have often termed them ethical funds due to their Shariah screening process which prohibits investments into certain sectors such as pornography, gambling and even financials. But the Shariah screening is much more than that as it provides investors with greater transparency as terms and conditions are clearly defined from the outset, thereby enhancing risk management strategies.

Investing into Shariah compliant funds does not however guarantee immunity against any mishaps. Ernst & Young reported that about 27 Islamic funds were liquidated in 2009, primarily due to their assets under management being too small to be viable. However, Shariah compliant funds are still a viable alternative and have been shown to offer lower volatility when put up against conventional funds.

Europe will probably be a good place for Asian fund managers to start promoting their Shariah compliant offerings, as it has the largest interest in Asia-focused funds.

In this issue...

UBL fund payouts

PAKISTAN: UBL Fund Managers, a subsidiary of United Bank, has announced payouts from its open-ended funds for the period ended the 30th June 2011.

Its United Composite Islamic Fund announced a final payout of 20.63 units for every 100 units held, giving an absolute return of 26.41%, while the United Islamic Income Fund announced a final payout of 7.52 units for every 100 units held.

Green light for dividends

PAKISTAN: Pak Oman Asset Management's board of directors has approved the dividends for Pak Oman Advantage Islamic Income Fund (POAIIF) and Pak Oman Islamic Asset Allocation Fund (POIAAF).

The payouts are: PKR1.98 (US$0.23) per unit at a par value of PKR50 (US$0.58) for POAIIF and PKR11.12 (US$0.13) per unit of par value of PKR50 for POIAAF.

New Islamic funds

MALAYSIA: Public Mutual, a subsidiary of Public Bank, has launched two new Islamic funds: Public Islamic Treasures Growth Fund (PITGF) and Public Sukuk Fund (PSKF).

PITGF is an Islamic equity fund, which seeks to achieve capital growth over the medium to long-term period by investing in small and medium-sized companies mainly in the local market, capitalizing on opportunities stemming from Malaysia's strong economic growth prospects.

The fund, targeting aggressive investors, may also invest up to 30% of its net asset value (NAV) in foreign markets such as South Korea, China, Hong Kong, Taiwan, Singapore, the Philippines, Thailand, Indonesia, Australia, Luxembourg and other permitted markets.

PSKF is an Islamic bond fund, which invests in a diversified portfolio of Sukuk comprising mainly corporate Sukuk that produces higher returns than Islamic money market deposits. It is suitable for investors with a conservative risk-reward temperament, seeking annual income with some safety of principal.

The Sukuk fund will invest at least 75% of its NAV in a portfolio of Sukuk such as sovereign and corporate Sukuk (listed and unlisted) of various tenures, while the remaining 25% will be used to invest in Islamic money market instruments. PSKF also may invest up to 30% of its NAV in foreign Sukuk from Singapore, Japan, Hong Kong, Australia, the UK and other permitted markets.

The initial price of PITGF and PSKF is RM0.25 (US$0.08) per unit and RM1 (US$0.33) per unit respectively, during the 21-day initial offer period from the 19th July. Both funds have a minimum initial investment of RM1,000 (US$332), and a minimum of RM100 (US$33) is required for additional investment to either fund.

Case Study: Lipper Leader Fund Ratings

Xav Feng discusses the intricacies of rating a fund using Lipper's methodology, explaining that it deals with much more than merely performance.

In a world where information is readily available at our fingertips, we can easily read about people's experiences. In the world of gastronomy we can read opinions from food critics and refer to the famous Michelin star system for a rating of a dining experience at a particular restaurant.

Mutual funds have existed for a long time as investment vehicles for the man in the street as well as for the investor seeking to capitalize on global investment themes.

There are thousands upon thousands of funds out there, many of them with similar investment objectives, and many of them that fill niche investment areas. While investors may be interested in investing in emerging market equities, for example, it is still often a daunting task to decide which particular fund is the most suitable. This is why a comprehensive fund rating system is so important.

Performance is not everything

When looking at a particular mutual fund product for the first time, the would-be investor might look at tables and graphs depicting the performance of the fund. However, as in all marketing materials, the good periods of performance are often played up, while periods when the fund did not perform as well may be downplayed (or omitted). Secondly, while past performance is not indicative of future performance, it is still true that a track record is extremely important, and investors want to be confident that a money manager has delivered in the past.

Investors who rate performance above all else tend to be the extremely aggressive sort – often choosing the fastest vehicle to get to their destination. For investors with a longer time horizon or who tend to buy into mutual funds at set intervals through regular investment plans, the historically best performing funds may not be the funds of choice.

Rather, these investors may want to look at how well the funds have preserved capital through market downturns or how consistently the funds have managed to outperform relative to their peers.

> ***"As in all marketing materials, the good periods of performance are often played up, while periods when the fund did not perform as well may be downplayed (or omitted)"***

Investment jargon can be complicated

Fund managers and fund management companies often generate on an internal basis an array of financial ratios to compare their fund against the competition. There are Sharpe ratios, information ratios, and Jensen's alpha; among other portfolio management ratios they examine internally.

Such information may be readily available to the retail investor in certain capital markets through the publication of monthly factsheets, or the information may be updated on the fund management company's website – a good thing if the investor is sophisticated and savvy enough to understand what the information means.

However, for many individual investors these ratios are unintelligible; it's too difficult to obtain and to understand these technical analyses.

Lipper Leader ratings system

As a professional fund data provider and fund research company, Lipper knows what most individual investors really need. Lipper created the Lipper Leader ratings system to help look at funds from different angles to meet investors' needs. Most people invest in order to build wealth, and it is with this in mind that they look at the most popular metric: consistent return, which identifies funds that provide year-to-year consistency and risk-adjusted returns relative to all other funds in the same peer group.

The metrics that Lipper identifies as important to an investor are explained briefly below:

Total return: By rating funds purely for total return (which includes income from dividends and interest as well as capital appreciation), this particular Lipper Leaders rating identifies funds that have performed the best historically, without taking into account the risk the fund managers have taken. Investors who are aggressive and who are less concerned about downside risk often look at funds rated high for this particular metric.

Total return is defined as the return after (net of) expenses and includes reinvested dividends. Total return is commonly used to evaluate performance. Fund managers use it in conjunction with fundamental or quantitative analysis when choosing stocks, and individuals who engage in momentum investing frequently use total return as their primary screen.

Preservation: As people near retirement age or as their willingness to take risk decreases, the preservation metric is often used to identify funds that have demonstrated an ability to preserve capital over time across different market conditions, compared to other funds in the same peer group.

Investors who use the ratings system to identify such funds are often better able to minimize downside risk and preserve capital. Lipper scores for preservation reflect funds' historical loss avoidance relative to other funds in the same asset class. The preservation model uses the

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sum of negative monthly returns over three, five, and ten-year performance periods.

Consistent return: One of the most popular metrics, consistent return combines the investment strategies of both return and risk tolerance, making it an extremely investor-centric rating, instead of just rating a fund based on its strategy or asset type. The consistent return metric simultaneously combines the fund's performance and historical risk; it awards a rating based on these two factors relative to all other funds in the asset class.

Typically; the greater the risk, the greater the reward. The consistent return metric seeks to identify funds that have delivered the best returns with the lowest amount of risk taken. Lipper scores for consistent return reflect funds' historical risk-adjusted returns relative to peers, measured in local currency. The consistent return measure is a richer risk-adjusted mutual fund return performance measure than others currently available in the marketplace.

It takes into account both short and long-term risk-adjusted performance relative to fund classification. The measure is based on the effective return computation. Effective return is a risk-adjusted return measure that looks back over a variety of holding periods (days, weeks, months, and/or years).

Expense: Lipper scores for expense reflect funds' expense minimization relative to other funds within the same Lipper global classification. A Lipper Leader for expense may be the best fit for investors who want to minimize their total cost; the measure can be used in conjunction with total return or consistent return scores to identify funds with above-average performance and lower-than-average cost.

Lipper leader key

Lipper leaders key

> ***"Many investors make the cardinal mistake of comparing funds that are as dissimilar as apples and oranges"***

Lipper Leaders methodology

Only the funds that stand out in each type of metric are awarded Lipper Leader status. It is through careful comparison of each fund relative to others in the respective categories that the top 20% of funds in each category are awarded the Lipper Leader status for any particular metric. The highest 20% of funds in each peer group are named Lipper Leaders (5), the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2, and the lowest 20% are scored 1.

The scores are subject to change every month and are calculated for the following periods: three-year, five-year, ten-year, and overall. The overall calculation is based on an equal-weighted average of percentile ranks for each measure over the three, five, and ten-year periods (if applicable), and the scores help to provide context and perspective for investors who want to make their own investing decisions.

Using ratings objectively

Comparing the diverse number of funds in the market is not as simple as one would think; there are many similar funds that still use different strategies. Many investors make the cardinal mistake of comparing funds that are as dissimilar as apples and oranges.

Ratings systems help to provide a certain amount of context to help investors, but one cannot look at a ratings system only on the surface in order to make investment decisions. Certain types of mutual funds are inherently more volatile than others. A very volatile equity fund such as an emerging market equities fund that may have a very high rating under the preservation metric might still be more volatile than, say, a fund that invests in the equity of utility companies – historically more stable.

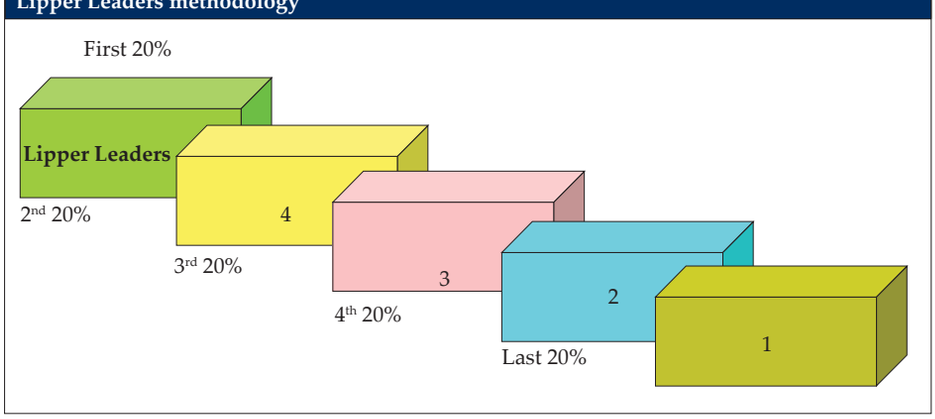
Conclusion

The Lipper Leaders fund rating system uses investor-centric criteria to identify the top funds in each category. Good funds will invariably get good ratings for these different criteria. Unlike depending on the taste of a film critic to make a decision about which movie to watch, the system allows the ultimate investing decision to lie with the investor.

The investor must first understand his investment style and risk horizon and then use the ratings system as a guide. Ratings systems may be a good reflection of how funds have performed in the past, but they cannot be used to predict how well a fund is going to do in the future.

Xav Feng is the head of Lipper Asia Pacific Research. He can be contacted at xav.feng@thomsonreuters.com.

Lipper Leaders methodology



BLME Umbrella Fund SICAV-SIF-USD Income-Class B

The Fund is Shariah compliant and aims to target a net return of three-month US$ Libor +1% per annum by investing in short-term Islamic money market instruments and longer-term Sukuk and Ijarah. Share Class B has been used, which was launched in March 2009 and is the most reflective of the fund's long-term performance.

What led to this fund being launched?
BLME identified there was a gap in the market for a Shariaah compliant money market/fixed income type product.

What are the key factors that drive the fund's performance?
Performance has been driven by the Sukuk market, careful credit selection and to a lesser extent, yield curve positioning. The fund has outperformed its benchmark since launch and is rated for 2011 in the top decile by Lipper Hindsight.

Who are your investors?
A combination of institutional and high net worth individuals from Europe and the GCC.

What specific risks does the fund take into consideration? And why?
One of the potential risks is the Sukuk market, particularly when holding assets further down the credit spectrum. These higher risk investments provide a good yield for the fund and we mitigate the potential risks through diversification and robust due diligence before and during the investment.

What are the sectors you are heavily invested in and why?
Due to the limited size of the Sukuk market we invest in Sukuk that fit our risk profile but also in commodity Murabahah with financial institutions. I also look into property and some Sukuk that are issued by financial institutions.

How often do you review this fund?
The fund is constantly monitored and reviewed.

What are the sectors you have recently exited and why?
We have exited some specific investments rather than a specific sector. As the Sukuk market is not as large as conventional bonds it is not possible to 'flag' a whole sector.

How has this change affected your portfolio of this fund?
The portfolio is a little higher quality in terms of rating than a month ago but generally the fund is performing the same.

What is the rate of return of this fund?
Current gross yield to maturity is around 2.75%, but I would be expecting this to rise once we put a few leases (Ijarah) into the fund.

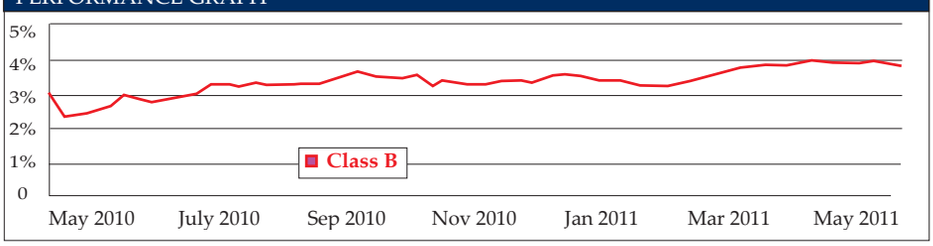
What is the market outlook for this fund?
Current market outlook for the fund is very positive. I aim to continue to improve the credit quality as value opportunities arise to do so.

How has this fund performed compared to your initial expectations?
When the fund was launched the target was Libor +1%: the fund has outperformed the benchmark consistently and significantly.

Has your strategy for this fund changed since inception, and if so how?
My strategy has certainly not changed and I have no plans to make any material changes in the medium-term.

Why should investors chose this fund over others?
This is simple to answer; the fund has consistently outperformed, it is highly diversified across names and sectors and it offers liquidity. The year to date performance of the fund has been rated by Lipper as 4th out of 823 funds.

PERFORMANCE GRAPH



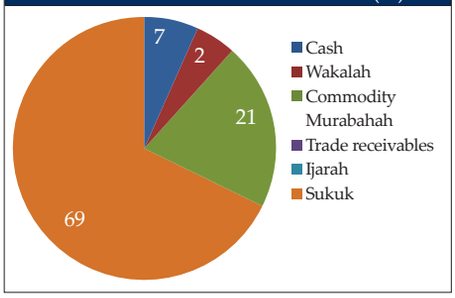
FACT SHEET

Fund manager	Jason Kabel
Trustee	n/a
Shariah advisors	Dr Abdulaziz Al-Qassar Dr Esam Al-Enazi
Benchmark (Index)	US$ Libor
Domicile	Luxembourg
Inception date	17th March 2009
Fund characteristics (as at the 28th June 2011)	**Fund Size** US$56 million **NAV per share** US$1,088.35 – Class B **Minimum Investment:** US$150,000 **Management Fee** 0.375% p.a. – Class B

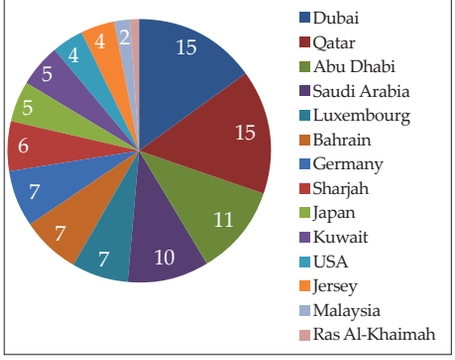
PERFOMANCE SUMMARY

	Class B
YTD Return	5.24%
Annualized return since Inception	3.93%
Cumulative return since inception	8.97%

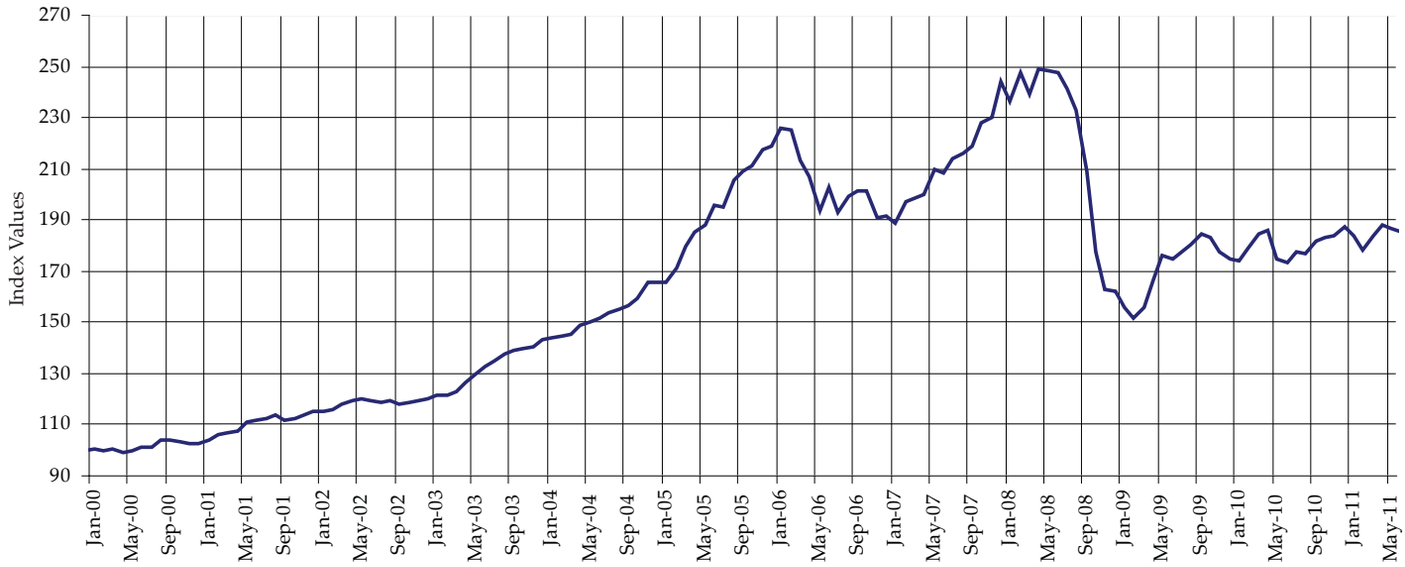
FUND PORTFOLIO COMPOSITION (%)



INDUSTRY ALLOCATION (%)



Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 Monthly returns for Asia Pacific funds

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	InterPac Dana Safi	Inter-Pacific Asset Management	3.03	Malaysia
2	AmIslamic Growth	AmInvestment Management	2.96	Malaysia
3	CIMB Islamic Sukuk	CIMB-Principal Asset Management	2.16	Malaysia
4	CIMB Islamic DALI Equity Growth	CIMB-Principal Asset Management	2.09	Malaysia
5	Public Islamic Enhanced Bond	Public Mutual	1.97	Malaysia
6	PB Islamic Equity	Public Mutual	1.76	Malaysia
7	Public Islamic Select Treasures	Public Mutual	1.67	Malaysia
8	Prudential Dana Dinamik (PRUdana dinamik)	Prudential Fund Management	1.67	Malaysia
9	Public Islamic Balanced	Public Mutual	1.52	Malaysia
10	Alfalah GHP Islamic	Alfalah GHP Investment Management	1.51	Pakistan
	*** Eurekahedge Asia Pacific Islamic Fund Index**		**0.14**	

** Based on 64.38% of funds which have reported June 2011 returns as at 19th July 2011*

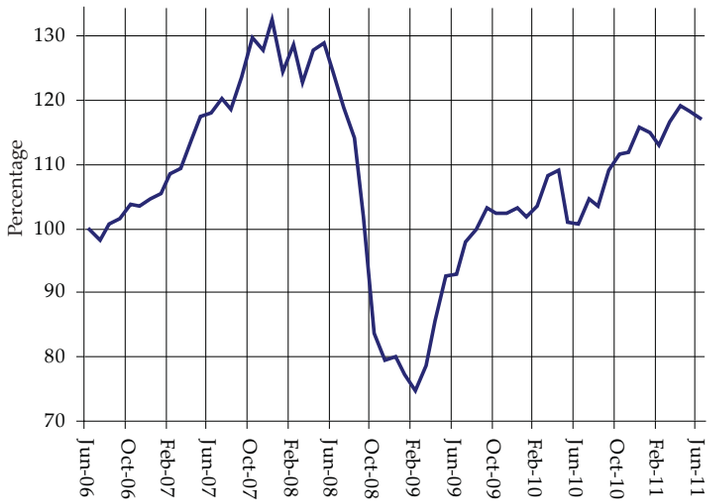
Top 10 Monthly returns for Middle East/Africa funds

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Al-Beit Al-Mali	Qatar National Bank	10.95	Qatar
2	Al-Hilal Islamic	Kuwait Investment Company	0.23	Jersey
3	Egyptian Saudi Finance Bank Mutual	Hermes Fund Management	0.11	Egypt
4	AlAhli US Dollar Sukuk and Murabaha	NCB Capital Company	0.10	Saudi Arabia
5	Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	0.08	Egypt
6	AlAhli Euro Murabahat	The National Commercial Bank	0.05	Saudi Arabia
7	Al-Mubarak SAR Trade	Arab National Bank	0.05	Saudi Arabia
8	Al Yusr Saudi Riyal Morabaha	Saudi Hollandi Bank	0.04	Saudi Arabia
9	Al Badr Saudi Riyal	Banque Saudi Fransi	0.04	Saudi Arabia
10	AlAhli Diversified US Dollar Trade	The National Commercial Bank	0.03	Saudi Arabia
	*** Eurekahedge Middle East/Africa Islamic Fund Index**		**0.78**	

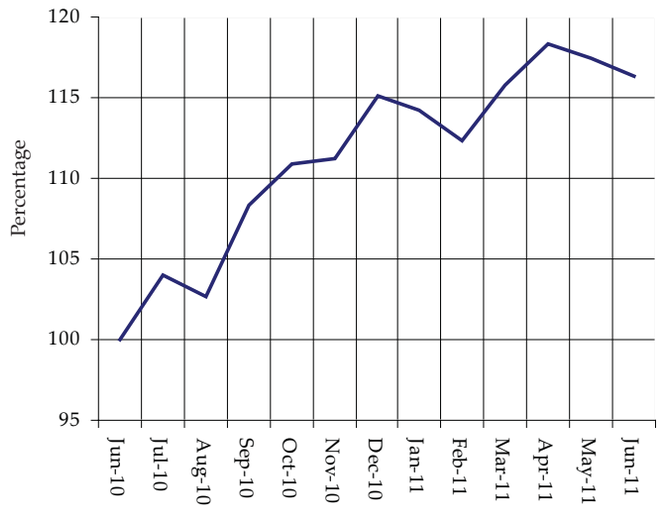
** Based on 71.43% of funds which have reported June 2011 returns as at 19th July-2011*

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 Equity Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Returns for Islamic Equity Funds

	FUND	FUND MANAGER	3-Month Return (%)	FUND DOMICILE
1	Global GCC Islamic	Global Investment House	20.24	Bahrain
2	Al-Beit Al-Mali	Qatar National Bank	12.46	Qatar
3	Al Rajhi Petro-Cement Sector	Al Rajhi Bank	8.73	Saudi Arabia
4	BNP Paribas Pesona Amanah	BNP Paribas Investment Partners	6.78	Indonesia
5	AlAhli Healthcare Trading Equity	The National Commercial Bank	5.89	Saudi Arabia
6	AmIslamic Growth	AmInvestment Management	4.70	Malaysia
7	AlAhli Europe Trading Equity	The National Commercial Bank	4.07	Saudi Arabia
8	Jadwa Saudi Equity	Jadwa Investment	4.07	Saudi Arabia
9	Public Islamic Sector Select	Public Mutual	4.02	Malaysia
10	Amanah Saudi Equity	SABB	3.71	Saudi Arabia
	*** Eurekahedge Islamic Fund Index**		**0.49**	

** Based on 68.73% of funds which have reported June 2011 returns as at 19th July 2011*

Top 10 Returns for Islamic Globally Investing Funds

	FUND	FUND MANAGER	3-Month Return (%)	FUND DOMICILE
1	SWIP Islamic Global Equity - Class A	Scottish Widows Investment Partnership	1.33	UK
2	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	0.28	Malaysia
3	BLME Umbrella Sicav - SIF - USD Income - Class B	Bank of London and The Middle East	0.13	Luxembourg
4	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	0.10	Saudi Arabia
5	Al Rajhi Commodity Mudarabah - SAR	Al Rajhi Bank	0.08	Saudi Arabia
6	Watani KD Money Market	National Bank of Kuwait	0.08	Cayman Islands
7	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.07	Saudi Arabia
8	Watani USD Money Market	National Bank of Kuwait	0.06	Cayman Islands
9	Commodity Trading - SAR	Riyad Bank	0.05	Saudi Arabia
10	Jadwa Saudi Riyal Murabaha	Jadwa Investment	0.04	Saudi Arabia
	*** Eurekahedge Islamic Fund Index**		**-0.29**	

** Based on 67.95% of funds which have reported June 2011 returns as at 19th July 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

20th July 2011

Family Takaful poised for growth, but value added proposition remains elusive

Cover story

Takaful operators in the GCC and Malaysia are growing at a rapid pace and are enjoying strong capitalization on a consolidated funds basis. According to research from AM Best, who compared the performance of 131 Takaful operators to those of conventional insurers within the GCC and Malaysia, the Family Takaful business is more profitable than general Takaful, and is growing at a faster pace. Family Takaful is also outpacing conventional life insurance, representing the greatest opportunity for profitable growth of Takaful operators.

AM Best believes Takaful will continue to be among the fastest growing segments of the GCC and Malaysian insurance markets due to Takaful's ability to increase insurance penetration in previously underrepresented areas. To ensure its longer-term viability, the Takaful sector needs to improve its ability to retain earnings within the Takaful fund and focus on product differentiation as opposed to competing on price alone.

The Takaful market has grown significantly in recent years, benefiting from the introduction of compulsory covers in many of the countries it operates, and increased understanding of the products and service offered.

In most cases, markets where Takaful is offered are enjoying strong GDP growth and increased consumer wealth which, in turn, has resulted in significant increases in insurance premiums for the market as a whole. As a result, most Takaful companies are competing with conventional insurers on pricing for the same business, rather than through a differentiated value proposition based on the ethical values of Takaful.

According to the report, competition within personal lines is likely to continue due to the recent economic turmoil. Customers are likely to continue to purchase the most cost-effective and necessary products, as opposed to paying for additional coverage.

Of greatest note is that while Takaful contribution volumes have increased sharply over the past few years, most Takaful companies that began operations in the past five years have fallen behind their original business plans.

Companies with overly optimistic growth targets have revised their projections downward as an influx of new Takaful companies coincided with the downturn in economic conditions.

Family Takaful still represents the industry's best opportunity. In general, life assurance is viewed as an opportunity for both conventional insurers and Takaful operators.

The Family Takaful business has proved to be more profitable than General Takaful business, offering higher margins and stability, and is growing at a faster pace, as this is a new market that is not served particularly well by conventional insurers.

Family Takaful premiums have grown particularly strongly in the GCC at an 86% compound annual growth rate between 2004 and 2009.

Family Takaful continues to represent the main growth driver in the Malaysian insurance market, showing average annualized growth rates of approximately 28% between 2005 and 2010. Family Takaful products currently dominate the Malaysian market with a 78% share of net contributions.

Family Takaful has also increased its presence over this six-year period. In 2004, the companies in these markets represented a scant 5% of the total Family Takaful. In 2009, this figure had more than doubled to 10.2%.

However the profitability of the Family Takaful business tends to be more volatile owing to more aggressive and concentrated investment portfolios.

This is not a consequence of the Takaful operators' risk allocation, but rather a result of their asset composition; with their investments concentrated in Sukuk and private equity investments, which were among the hardest hit by the global downturn.

In this issue...

Family Takaful growth

GLOBAL: Takaful will continue to be among the fastest growing industries in the Gulf and Malaysia, with Family Takaful providing the best opportunity for profit growth, according to AM Best.

Vasilis Katsipis, the general manager of life insurer ratings and emerging markets at AM Best's London office, said that while Family Takaful made up less than 25% of the contributions received, it offers higher margins and stability. This was based on the analysis of 131 Takaful operators and conventional insurers in Bahrain, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia and the UAE.

Katsipis added that Family Takaful, which is expected to be more profitable than General Takaful this year, has outpaced growth in the conventional life insurance market. Family Takaful recorded a compound annual growth rate of 22% from 2004-2009 compared to its conventional counterpart, which posted a 5% growth over the same period.

However, general Takaful has seen varied profitability in the Gulf, with the market in Malaysia showing more stable growth and combined ratios ranging between 74% and 93% from 2004-2009.

Mutual Halal Plan

NIGERIA: Niger Insurance is offering the Mutual Halal Plan, a life insurance scheme with a savings and investment plan based on Takaful principles and reciprocal guarantees, according to Justus Clinton Uranta, its managing director.

He added that there will be six plans to choose from: education (Al-Tadris), marriage (Al-Nikah), mortgage (Al-Binau), pilgrimage, retirement (Waqifl'amal) and Sallah.

Partnership to diversify

UAE: Takaful Emarat has announced a partnership with NCB Capital to offer a more diverse range of investment products to its customers.

Under the partnership, Takaful Emarat will offer its customers 21 Shariah compliant funds managed by NCB Capital.

Takaful venture

INDONESIA: WanaArtha Life, a national life insurance company, is considering entering the local Takaful sector.

According to Eddy KA Berutu, its president director and CEO, the company is currently studying the provisions, regulations, and demand of the Takaful market.

New trusted agent

UAE: The Dubai Road and Transport Authority (RTA) has appointed Dubai Islamic Insurance and Reinsurance Company (AMAN) as its new 'trusted agent'.

As a trusted agent, AMAN is allowed to renew its clients' vehicle registration on behalf of the RTA.

Takaful venture postponed

INDONESIA: Asuransi Jiwa Generali Indonesia, a subsidiary of the Italian Generali Group, has postponed its plan to tap into the local Life Takaful market this year.

Edy Tuhirman, its president director and CEO, explained that the company has chosen to focus on developing its newly started agent distribution channels, rather than establishing a Takaful unit this year.

The insurer had announced last December its plan to enter the market, by searching for potential partners, as it sees huge potential in the country's Takaful sector.

Legal and compliance issues in Takaful

The current scenario shows that existing re-Takaful is inadequate to meet the needs of Takaful operators. SALAHELDEN HASAN highlights some issues.

Re-Takaful

In conventional insurance, it is common for insurance operators to collectively share the risks they have taken. These risks are 'transferred' to an even larger pool of risks, managed by a larger insurance operator. This process is known as the reinsurance process. Reinsurance is a form of insurance in which the policyholders are insurance undertakings, which use reinsurance to reduce excessive concentration of risks. They pay a proportion of their premiums receivable to the reinsurer in return for the cover of a proportion of their risks in a specified category if these exceed prudent underwriting limits.

Obviously, the reinsurance industry is dominated by a small number of very large international reinsurance undertakings operations on conventional principles. There are only a few reinsurance undertakings operating on Islamic insurance principles (re-Takaful), and these are considerably smaller and operate only at national and regional markets.

Reinsurance has the same legal status as the initial insurance. As for commercial reinsurance, it is subject to the same rulings applying to standard commercial insurance, where the only difference is that individuals are replaced with insurance companies. Takaful operators have also been known to resort to reinsurance as a method of risk management. The issue is the reinsurance process is executed by conventional reinsurance companies, hence Shariah principles of Takaful are not observed. This is due to the lack of a sufficiently large Takaful operator to function as a re-Takaful company.

Views of Shariah scholars

Consequently, some Islamic scholars consider the practice of Takaful operators to reinsure with conventional reinsurers as permissible with certain conditions. The prohibitions were made 'exempt' due to necessity reasons as ruled by the Juridical Monitoring Agency for the Islamic Faisal Bank in Sudan (fatwa number 16 and 17). The determining factor here is whether the insurance companies will face adversity if they do not deal with re-insurance companies.

Some Muslim scholars also concurred with the fatwa which ruled that reinsurance is valid since it satisfies a need that cannot be satisfied otherwise, as determined by the bank's experts. However, the ruling is conditional on the following stipulations:

- That payment to reinsurance companies be kept to the minimum possible amount to satisfy the need, following the rule: "necessities are measured by their degree." The evaluation of the amount needed to satisfy this need is left to the experts to determine.
- That the Takaful company does not collect a profit commission, or any other commission, from the reinsurance companies.
- That the Takaful company does not keep any reserves with the reinsurance company for natural (heavenly) disasters, since keeping such reserves would lead to interest payments to the reinsurance companies.
- That the Takaful company should not be involved in determining the investments of the reinsurance companies. It should not demand any share in the profits they gain from such investments, nor ask about any losses they incur.
- That the contract with the reinsurance company be for the shortest possible period.
- That the Takaful company works towards the establishment of a re-Takaful company that would allow it to avoid dealing with conventional reinsurance companies.

The current scenario shows that existing re-Takaful is inadequate to meet the needs of Takaful operators. Therefore, it needs efforts to establish more re-Takaful companies with sufficient funds to support the needs of Takaful players today.

Legal and compliance issues

A regulatory framework is needed for Takaful to do well in an orderly and proper manner. This framework should ensure a level playing field for Takaful business. In the First Seminar on Regulation of Takaful (held in Jordan in January 2005) which was organized by the Insurance Commission of Jordan and the Islamic Financial Services Board, a joint working group from representatives of the two standard setting bodies was established. The working group is to assess the applicability of the existing International Association of Insurance Supervisors (IAIS) insurance core principles to the supervisory and regulatory standards for Takaful. Some of the IAIS core principles require adaptation to cater for Takaful.

Other main issues that require further work are corporate governance, financial and prudential regulation, transparency, reporting and market conduct, and supervisory review process. Lack of uniformity in Shariah decisions is another prevailing issue in Takaful. It requires national efforts to establish a national Shariah board. There is thus a need to develop standards:

- To solve the key aspects of differences between Takaful and conventional insurance.
- To provide benchmarks for use by Takaful supervisors in all jurisdictions adapting and improving existing regulatory regimes or, where necessary, establishing new ones.
- To address regulatory issues, such as risk management and financial stability, for the Takaful industry.
- To provide appropriate levels of consumer protection in terms of both risk and disclosure.
- To support the orderly development of the Takaful industry in terms of acceptable business and operational models, design and marketing of Takaful products.

The establishment of international standards for Takaful would also allow conformity in regulation across the different jurisdictions.

Salahelden Hasan is the Shariah coordinator at Takaful Emarat, UAE. He can be contacted at s.hassan@takafulemarat.com.

Q "What is the outlook for Islamic finance in China, Hong Kong and Taiwan, and what challenges does the industry face in those markets?"

A My broken record repeats: Aligning banking, company and tax laws are the keys to launching Islamic banking. These countries will struggle to execute if the legal and regulatory frameworks are not properly evaluated and suitable changes introduced. As civil law environments, this is always a greater challenge than in common law countries. After that comes the key question as to where is the market? It is not always true that if one builds something people will come. What will these countries do for market development? Without investment in this aspect, I cannot imagine much growth.

ABDULKADER THOMAS
CEO and President, SHAPE Financial Corp

A Financial institutions from China, Hong Kong and Taiwan have become increasingly aware of Islamic finance as a consequence of these countries, significant trade links with the Gulf. Imports are often financed by Islamic banks which have correspondent relationships with banks from Shanghai, Hong Kong and Taipei. It would be a natural progression for Asia-based exporting companies to attract Shariah compliant finance from the Gulf, both through managed funds and corporate Sukuk. There are no significant legal or regulatory constraints, and Singapore is likely to be seen as the model to follow for regulation.

Most of the exposure to Islamic finance in China, Hong Kong and Taiwan is likely to remain trade related. Development of retail Islamic banking is in its infancy in China, as although there are 65 million Muslims in the western part of the country, there is only one Islamic bank so far, which started operations last year.

Neither Hong Kong nor Taiwan have as large a Muslim population as Singapore, where Islamic finance market penetration remains very limited. The distribution of Islamic banking products through retail networks is unlikely in the immediate future.

PROFESSOR RODNEY WILSON
Director of postgraduate studies, Durham University

A As the Islamic finance industry grows and more banks, institutions, pension funds and individual portfolios look to diversify; markets such as China, Hong Kong and Taiwan will draw capital from the Islamic market provided they create products meeting the industry's needs. China has a significant retail Muslim market that can be catered to and seeing the growth of Islamic finance acceptance by ethnic Chinese in Malaysia can also be a model to be replicated in these markets.

OMAR KALAIR
President and CEO, UM Financial Canada

Forum: Next Question:

Next Forum Question:

"Malaysia recently issued a US$2 billion Sukuk, with one tranche of the program comprising a ten-year maturity. How significant was this issuance to the development of the Islamic debt capital markets, and what implications does it have for the market?"

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before Friday, the 29th July 2011.

Emad Yousuf Al Monayea, vice-chairman, MD and CEO, Liquidity Management House

He has more than 25 years experience in investments and corporate finance, in both the government and private sectors, and currently holds key board positions in a number of companies. He is a frequent guest speaker at leading international conferences and a key contributor for the development of the Islamic capital market. He holds a BS degree from Kuwait University and has completed the Executive Finance program of INSEAD, France.

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

In September 2007, I was called by our top management in Kuwait Finance House (KFH) to set up a specialized wholly-owned Sukuk house.

By the 30th December 2007, the main shareholders of Liquidity Management House for Investment (Liquidity House) announced the establishment of Liquidity House as a wholly-owned subsidiary of KFH.

In 2008, I was appointed as the CEO. Prior to this, I headed the international investment department of KFH since 2004.

I started my career with the conventional investment and finance industry with Kuwait Investment Authority, the sovereign wealth management arm of the Kuwaiti government, in 1984.

What does your role involve?

I have two distinct roles — vice-chairman and CEO. As CEO, my role is to set up 'challenging objectives' for my team.

I run the company with the highest ethical practice and governance standard, and project the company as the best managed institution.

This requires selecting people with a balanced skill set of conventional banking techniques and Islamic finance knowledge. As vice-chairman and board member, I ensure the smooth running of the company.

What is your greatest achievement to date?

On the personal front, it is sharing this life with my wife and children.

Career-wise, leading a fully dedicated professional team who have helped me place Liquidity House as one of the leading international Sukuk houses over a short period of time.

Which of your products/ services deliver the best results?

All of our products and services are well accepted in the market. However, in terms of specific asset classes, Sukuk is also well accepted in the conventional and Islamic capital markets.

What are the strengths of your business?

Being in the Islamic finance arena is the main source of my business strength. A strong leadership team right from the establishment of the company, has helped me build an organization with a unique identity and culture. The Liquidity House family members are enablers and differentiators in the Islamic debt capital market and strength of the company.

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

Our foundation is based on the Islamic banking spirit of our parent company, KFH. Liquidity House came into operations in the midst of the worldwide financial crises.

However, with combined experience of the leadership team from KFH, we were able to exceed market and shareholders, expectations.

What are the obstacles faced in running your business today?

The key obstacle facing my business is same as facing any other business. There were the credit crises of 2007-2009, followed by the sovereign debt crises in the Dubai market, East European market and political crises in the Middle East.

Hence, in general the volatility of extreme events makes the world business environment very unpredictable. This in turn has affected investors' confidence and creates obstacles in running a business.

Where do you see the Islamic finance industry in the next five years?

The global Islamic finance sector is predicted to be the world's fastest growing financial sector with an estimated potential of US$4 trillion.

The Sukuk market has turned out to be an important driver to raise finance under the Islamic mode of financing. Sukuk as an alternate source of financing will grow as complimentary to conventional finance in the global financial market.

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

I wish to see the Sukuk market playing the role of a real complimentary source of financing in the global financial market, where the sovereign wealth funds of the world hold at least 35% of Islamic assets and actively involved in the Islamic debt capital market activity.

Sarawak Energy

On the 23rd June 2011 Sarawak Energy issued the first tranche of RM3 billion (US$999.17 million) through its Sukuk Musharakah Program. The RM15 billion(US$4.99 billion) Sukuk Musharakah program is one of the biggest programs undertaken by a corporate with a credit rating of 'AA1' and the single inaugural issuance of RM3 billion on the 23rd June 2011 has been earmarked as one of the biggest issuances of the past decade.

SEB is the Sarawak State Government's wholly owned, vertically integrated electricity group with a monopoly over the generation, transmission and distribution of electricity in Sarawak.

SEB plays an integral role and enjoys strong support from both the state and federal governments.

These strengths are, however, moderated by demand risk arising in relation to the sizeable new generating capacity on the horizon and its expected impact on SEB's financial profile.

The group has emerged as a key facilitator of the state and federal governments' plans to tap Sarawak's vast energy resources via the development of the Sarawak Corridor of Renewable Energy (SCORE).

In fulfilling these aspirations, SEB's generating capacity is set to triple within a relatively short time, with Sarawak's electricity reserve margin expected to peak in 2012.

To keep pace with the state's new-found energy needs under the SCORE, the Group's debt load is projected to increase from RM2.51 billion (US$835.97 million) as of December 2010 to RM16.69 billion (US$5.56 billion) by December 2013, at which point its gearing level is envisaged to peak at 4.27 times.

In line with the expected lengthy gestation period for such endeavors, this will mark the beginning of a phase of weak financials, during which SEB's funds from operations debt coverage is anticipated to drop from 0.3 times as at the end of 2010 to a mere 0.06 times over the next few years.

With a size of RM500 million (US$166.52 million), the first tranche carries a maturity of five years with a profit rate of 4.4% per annum, while the second tranche of RM700 million (US$233.14 million) returns 4.7% per annum for seven years.

The remaining tranches comprise of longer dated maturities and were priced at 5.15% per annum for 10 years, RM1 billion (US$333.06 million); and 5.65% per annum for 15 years, RM800 million (US$266.45 million).

The proceeds from the Sukuk would be used by SEB to finance the group's capital expenditure requirements as well as to refinance certain existing borrowings.

According to Mike Chan, the officer-in-charge at RHB Investment Bank (RHB), it is "significant to note that the Sukuk program, with an overall limit of RM15 billion (US$4.99 billion) represents the single largest debt program ever established by a power utility company in the domestic market," further adding that the program was designed to cater to the funding requirements of SEB from now until 2016 and the high demand for the issue is clearly a reflection of SEB's high credit standing among investors.

According to a Q&A conducted with RHB: "The Musharakah structure which is based on a profit sharing basis is the most suitable Islamic structure for Sarawak Energy' s (SEB) financing requirements. [SEB's] business mainly involves the construction Shariah compliant assets making the Musharakah structure perfect for this venture."

Upon each issuance of Sukuk, the Sukuk holders will form a partnership to invest in the business of the company.

In addition, as a form of enhanced protection to the investors, the structure includes purchase and sale undertakings.

According to RHB they "did not encounter any major challenges which were of hindrance during the fund raising exercise," and geographically speaking, all investors were Malaysian entities.

Sukuk Musharakah program

RM15 billion (US$4.99 billion)

23rd June 2011

Issuer	Sarawak Energy
Issuance Price	At par, at a discount or at a premium to face value
Purpose of issuance	Proceeds from the program will be utilized for the following purposes: - To part finance the acquisition of Sarawak Hidro; to finance SEB Group's capital expenditure requirements; and to fund SEB's general corporate purposes
Trustee	Equity Trust
Tenor	Up to 25 years
Coupon rate / return	The expected rate will be determined and agreed prior to each Sukuk issuance
Profit payment	Semi-annually in arrears
Currency	Ringgit Malaysia
Maturity date	Multiple maturity dates for the Sukuk, based on when the relevant Sukuk are issued.
Joint Lead manager(s)	RHB Investment Bank / AmInvestment Bank
Principal advisor(s) / Lead Arranger	RHB Investment Bank
Joint Bookrunner(s)	RHB Investment Bank / AmInvestment Bank
Governing laws	Malaysian
Legal advisor(s)	Shook Lin & Bok
Listing	The Sukuk will not be listed on any exchange
Rating	'AA1' by RAM
Tradability	The Sukuk shall be tradable in the secondary market on a willing-buyer willing-seller basis.
Investor breakdown	Pension funds, asset management companies, financial institutions, insurance companies, private bankers and other institutions
Face value / minimum investment	Face value: multiples of RM1,000,000 (US$330,354) minimum issue size: RM5,000,000 (US$1,651,773)

ISSUER	SIZE	DATE ANNOUNCED
ACWA Power International	US$300 million	9th July 2011
Besraya	RM700 million	8th July 2011
Al Hilal Bank	TBA	7th July 2011
Almana Group	US$160 million	6th July 2011
Egypt	TBA	2nd July 2011
Tenaga Nasional	RM5 billion	3rd July 2011
Islamic Bank of Thailand	US$150 million	29th June 2011
Islamic Bank of Thailand	THB5 billion	29th June 2011
Kenchana Petroleum	RM700 million	16th June 2011
Kenchana Petroleum	RM350 million	16th June 2011
BRI Syariah	TBA	15th June 2011
Government of Palestine	US$50 million	6th June 2011
Bank Muamalat Malaysia and Tael Partners	US$100 million	1st June 2011
Adventa	RM150 million	26th May 2011
National Bank of Abu Dhabi	TBA	30th May 2011
Perusahaan Listrik Negara	US$2 billion	27th May 2011
Nakheel	AED4.8 billion	23rd May 2011
Jasa Marga, Indonesia	TBA	13th 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
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
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

IFN Correspondents

AFGHANISTAN: Dr Alam Khan Hamdard
chief of Islamic banking, Kabul Bank

AUSTRALIA: David Wood
partner, Mallesons Stephen Jaques

BANGLADESH: Md Sahmsuzzaman
executive vice president, Islamic Bank Bangladesh

BRUNEI: James Chiew Siew Hua
senior partner, Abrahams Davidson & Co

CANADA: Jeffrey S. Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

HONG KONG & CHINA: Anthony Chan
managing partner, Hammonds

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

IRAQ: Hadeel Hassan
senior associate, Al Tamimi & Co

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LEBANON: Mohamad Bakkar
managing partner, Bakkar Advocates & Legal Consultants

LUXEMBOURG: Marc Theisen
partner, Theisen Law

MALAYSIA: Nik Norishky Thani
head special projects (Islamic), PNB

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

NEW ZEALAND: Dr Mustafa Farouk
counsel member for Islamic financial institutions, FIANZ

OMAN: Anthony Watson
senior associate, Al Busaidy Mansoor Jamal & Co

PAKISTAN: Bilal Rasul
director (enforcement), SEC of Pakistan

QATAR: Amjad Hussain
partner & head, banking & Islamic finance, Eversheds

RUSSIA: Dr Adalet Djabiev
CEO, Al Shams Capital

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

SINGAPORE: Andrew White
associate professor, Singapore Management University

SRI LANKA: Roshan Madewala
director/CEO, Research Intelligence Unit

SWITZERLAND: Khadra Abdullahi
associate of investment banking, Faisal Private Bank

UAE: Neil D Miller
global head of Islamic finance, KPMG

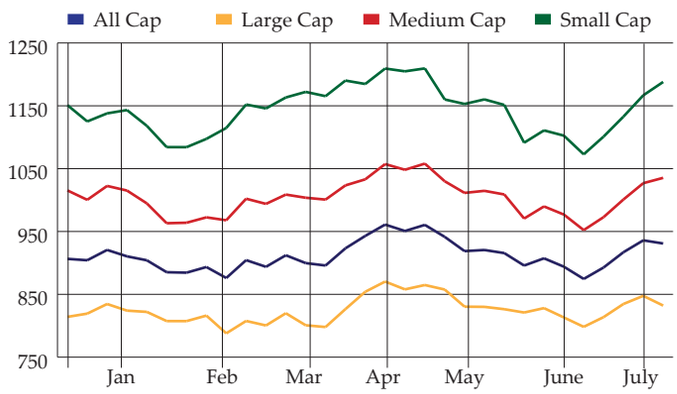
UK: Natalie Schoon
head of product research, Bank of London & The Middle East

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

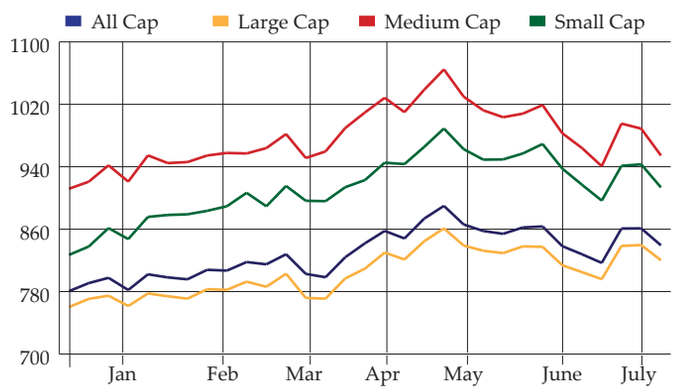
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

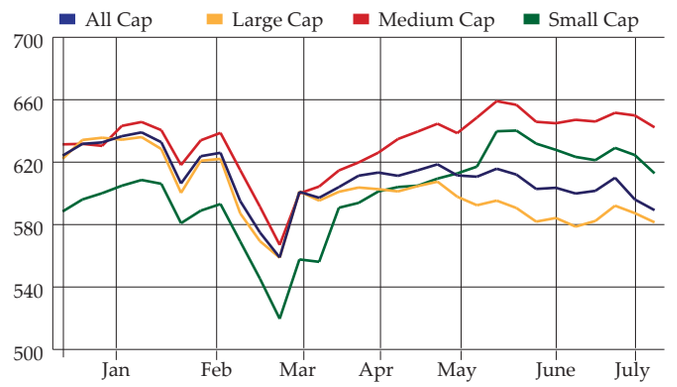
REDmoney Asia ex. Japan *6 Months*



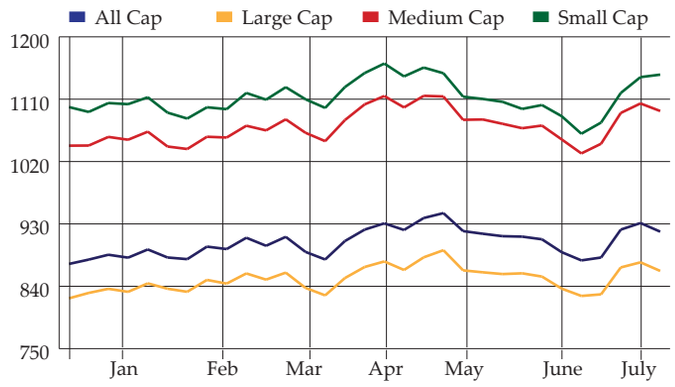
REDmoney Europe *6 Months*



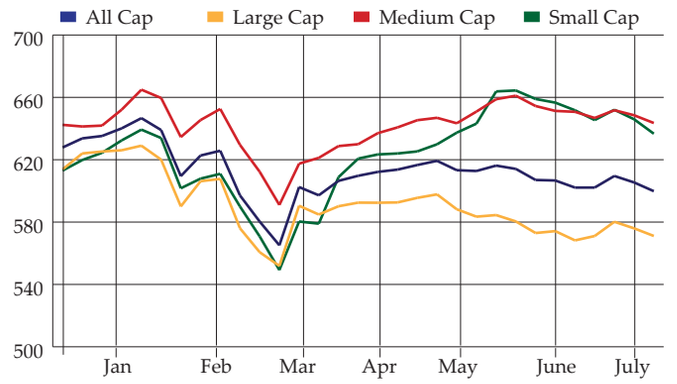
REDmoney GCC *6 Months*



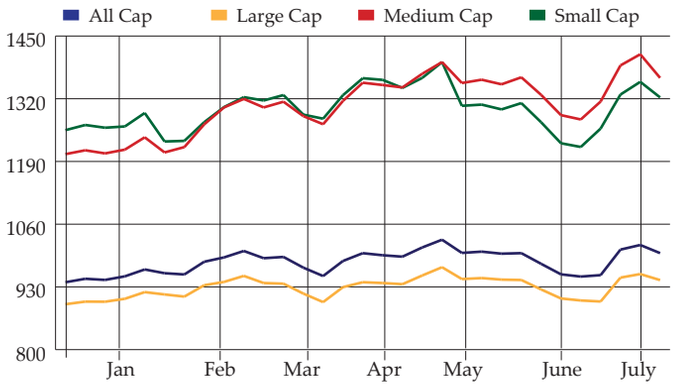
REDmoney Global *6 Months*



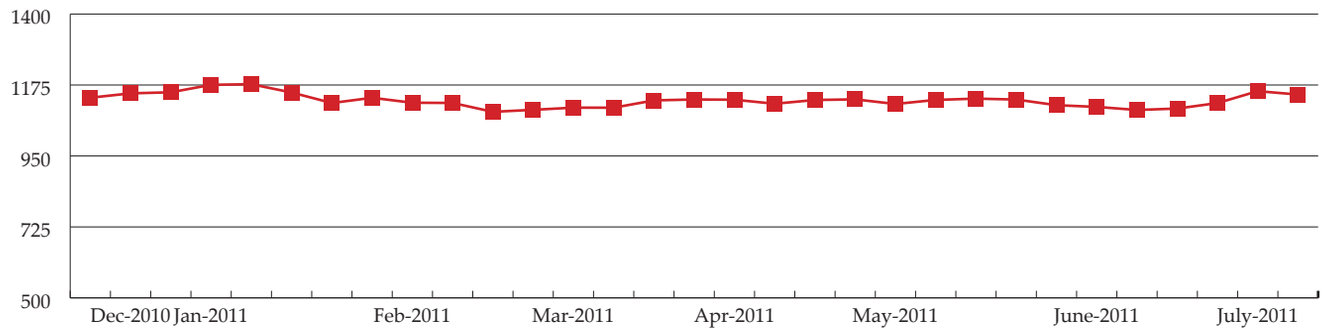
REDmoney MENA *6 Months*



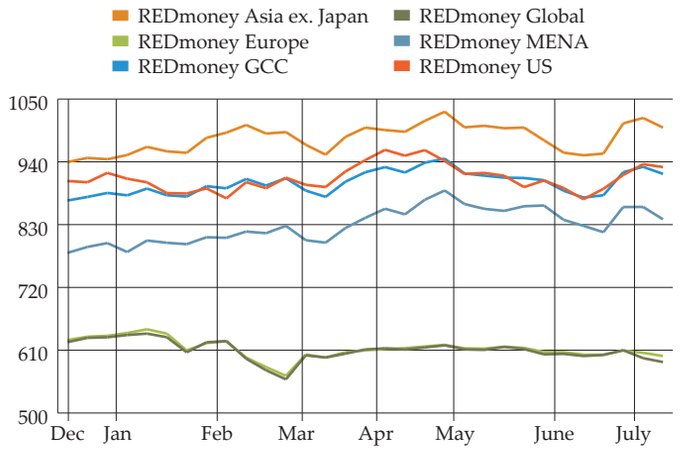
REDmoney US *6 Months*



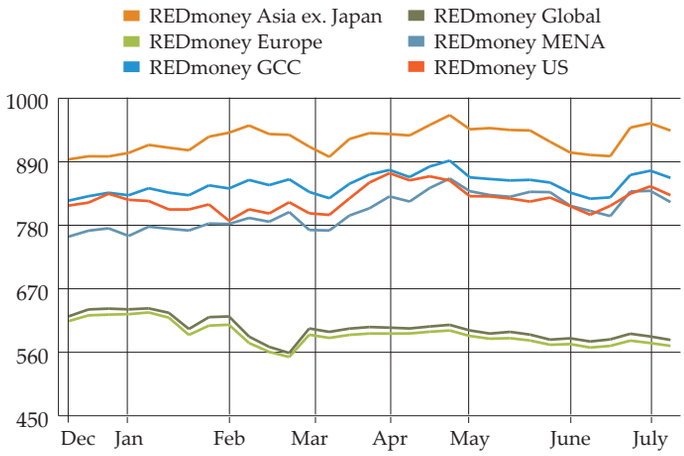
SAMI Halal Food Participation (All Cap) *6 months*



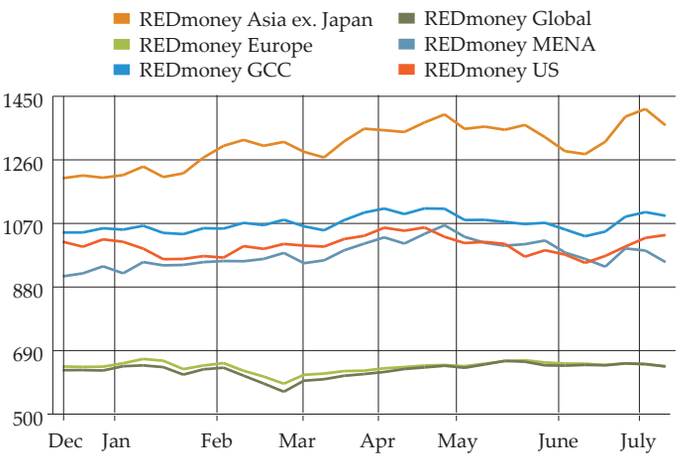
REDmoney Global Shariah Index Series (All Cap) *6 Months*



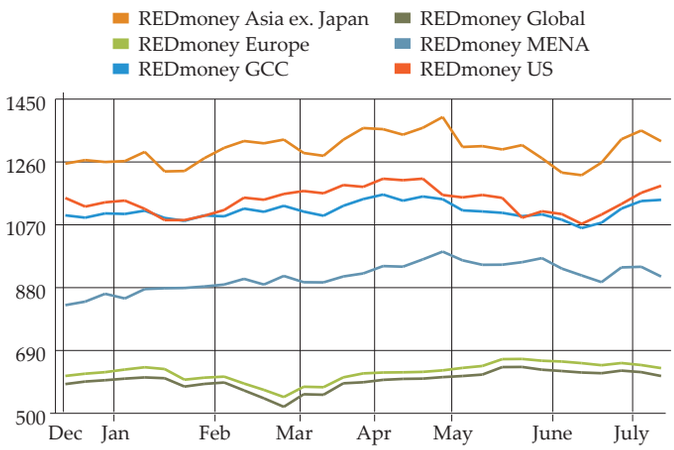
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



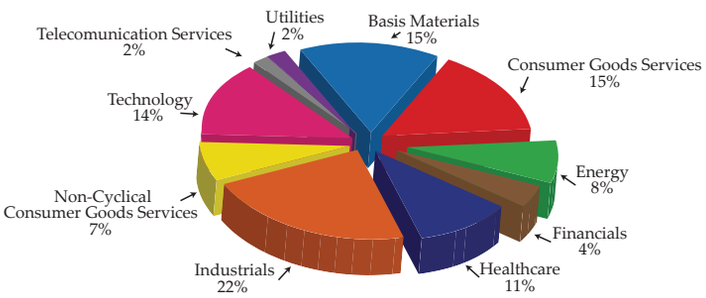
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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®

For further information regarding REDmoney Indexes contact:

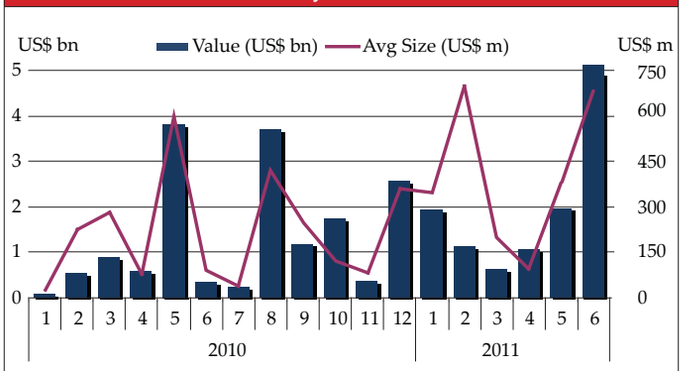
Andrew Morgan
Managing Director, REDmoney Group

Email: Andrew.Morgan@REDmoneygroup.com
Tel +603 2162 7800

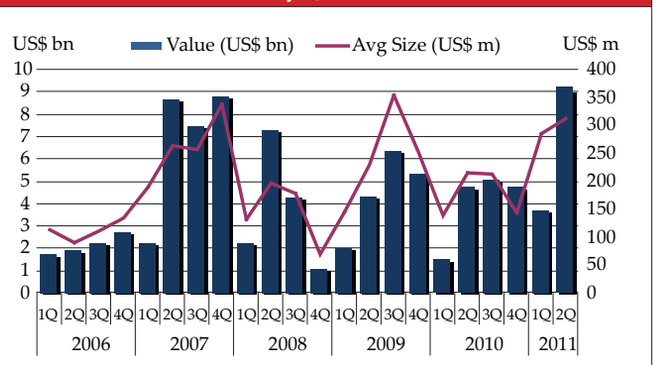
Most Recent Global Islamic Bonds

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
6th Jul 2011	Cagamas	Malaysia	Sukuk	Domestic market public issue	206	CIMB Group, Maybank Investment Bank
28th Jun 2011	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
17th Jun 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	1,910	CIMB Group, Maybank Investment Bank
16th Jun 2011	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	Maybank Investment Bank
14th Jun 2011	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	RHB Capital, AmInvestment Bank
13th Jun 2011	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	Deutsche Bank, Riyad Bank
8th Jun 2011	Bank Muamalat Malaysia	Malaysia	Sukuk	Domestic market private placement	133	DRB-HICOM, Maybank Investment Bank
2nd Jun 2011	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	Maybank Investment Bank
26th May 2011	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	HSBC
25th May 2011	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	229	CIMB Group, AmInvestment Bank, Maybank Investment Bank
18th May 2011	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
18th May 2011	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	Standard Chartered, HSBC
28th Apr 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	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 private placement	332	HSBC, CIMB Group
29th Mar 2011	Bank Aljazira	Saudi Arabia	Sukuk	Domestic market private placement	267	JPMorgan, HSBC
23rd Mar 2011	Maybank Islamic	Malaysia	Sukuk	Domestic market private placement	330	Maybank Investment Bank
23rd Feb 2011	Cagamas	Malaysia	Sukuk	Domestic market public issue	132	CIMB Group, AmInvestment Bank
8th Feb 2011	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	HSBC, RHB Capital, CIMB Group
28th Jan 2011	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank 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	Sukuk Murabahah	Domestic market private placement	3,460	4	HSBC, CIMB Group
2	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
3	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329	1	CIMB Group, Maybank Investment Bank
4	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275	2	Maybank Investment Bank
5	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	1,250	2	Standard Chartered, HSBC, CIMB Group, Citigroup, Deutsche Bank, BNP Paribas
6	Cagamas	Malaysia	Sukuk	Domestic market private placement	1,217	16	RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank, Standard Chartered Bank, AmInvestment Bank
7	Danga Capital	Malaysia	Sukuk Wakalah	Foreign market private placement	1,089	1	OCBC, DBS, CIMB Group
8	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
9	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank, Standard Chartered, AmInvestment Bank
10	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	792	2	CIMB Group, Citigroup
11	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	1	HSBC, Credit Suisse, QInvest
11	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750	1	Standard Chartered, HSBC, Barclays Capital
13	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
13	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
15	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
16	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
17	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
18	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	391	2	CIMB Group, AmInvestment Bank, Maybank Investment Bank
19	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361	1	Lembaga Tabung Haji, RHB Capital, CIMB Group AmInvestment Bank, Maybank Investment Bank
20	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
21	Konsortium Lebuhraya Utara-Timur	Malaysia	Sukuk Musharakah	Domestic market public issue	280	13	CIMB Group
22	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
23	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
24	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	240	2	Standard Chartered, DRB-HICOM
25	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	1	Maybank Investment Bank
26	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk	Domestic market private placement	195	1	HSBC, CIMB Group
27	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	193	3	OCBC, Public Bank, Affin Investment Bank
28	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177	1	AmInvestment Bank
29	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167	1	RHB Capital, Maybank Investment Bank
30	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	159	1	HSBC, RBS, Maybank Investment Bank
	Total				**22,788**	**101**	

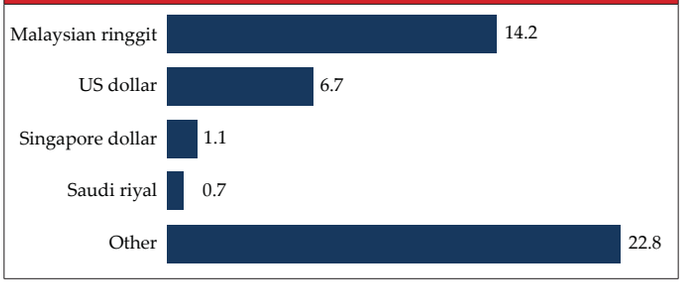
Top Managers of Islamic Bonds *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	5,320	28	23.3
2	CIMB Group	5,154	47	22.6
3	HSBC	3,562	17	15.6
4	AmInvestment Bank	1,386	22	6.1
5	Citigroup	1,297	7	5.7
6	RHB Capital	1,152	7	5.1
7	Standard Chartered Bank	1,062	8	4.7
8	RBS	522	4	2.3
9	OCBC	444	5	2.0
10	Deutsche Bank	427	2	1.9
11	DBS	363	1	1.6
12	QInvest	250	1	1.1
12	Credit Suisse	250	1	1.1
12	Barclays Capital	250	1	1.1
15	Riyad Bank	240	1	1.1
16	BNP Paribas	188	1	0.8
17	DRB-HICOM	187	3	0.8
18	Affin Investment Bank	155	4	0.7
19	JPMorgan	133	1	0.6
20	Lembaga Tabung Haji	131	3	0.6
21	Al-Rajhi Banking & Investment	122	2	0.5
22	Public Bank	68	4	0.3
23	Hong Leong Bank	52	3	0.2
24	KFH	50	1	0.2
25	Malaysian Industrial Development Finance	11	1	0.1
26	Mitsubishi UFJ Financial Group	6	2	0.0
27	OSK	6	1	0.0
	Total	**22,788**	**101**	**100.0**

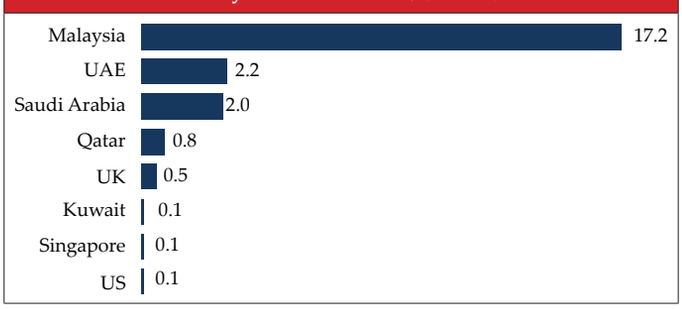
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	701	3	15.5
2	National Bank of Abu Dhabi	422	1	9.4
2	Union National Bank	422	1	9.4
4	Riyad Bank	224	2	5.0
5	HSBC Holdings	207	2	4.6
6	Abu Dhabi Islamic Bank	184	1	4.1
6	Al Hilal Bank	184	1	4.1
8	Al-Rajhi Banking & Investment	169	1	3.7
8	Saudi Hollandi Bank	169	1	3.7
10	Bank Al-Jazira	166	2	3.7
10	Public Investment Fund	166	2	3.7

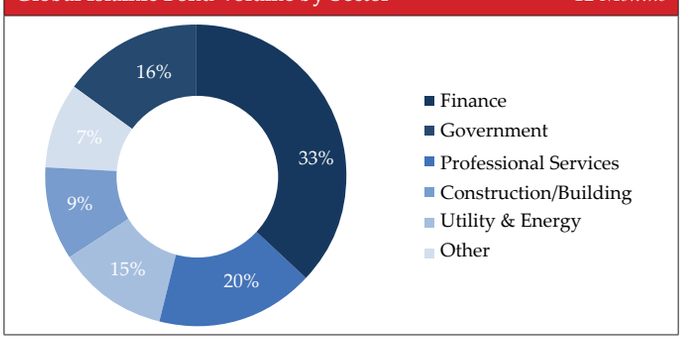
Islamic Bond Volume by Currency US$ (billion) *12 Months*



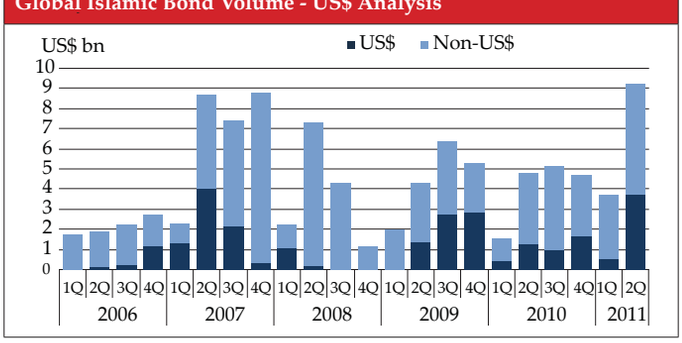
Islamic Bond Volume by Issuer Nation US$ (billion) *12 Months*



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$ (million)	No	%
1	Al-Jadaan & Partners Law Firm	2,509	2	26.7
1	Baker & McKenzie	2,509	2	26.7
1	Clifford Chance	2,509	2	26.7
4	Allen & Overy	567	1	6.0
4	Ashurst	567	1	6.0
4	SNR Denton	567	1	6.0
7	Al Tamimi & Co	57	1	0.6
7	DLA Piper	57	1	0.6
7	Norton Rose	57	1	0.6

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking *12 Months*

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	1,231	5	10.8
2	HSBC	1,171	7	10.3
3	Saudi National Commercial Bank	1,053	4	9.2
4	Banque Saudi Fransi	1,053	4	9.2
5	Arab National Bank	665	3	5.8
6	Maybank Investment Bank	660	5	5.8
7	Abu Dhabi Islamic Bank	654	3	5.7
8	Citigroup	332	3	2.9
9	AmInvestment Bank	307	3	2.7
10	Al Hilal Bank	300	2	2.6
11	Standard Chartered Bank	274	4	2.4
12	WestLB	270	4	2.4
13	Al Salam Bank	240	1	2.1
14	RBS	233	1	2.0
15	BNP Paribas	209	4	1.8
16	Arab Banking Corp	191	4	1.7
17	Saudi Hollandi Bank	185	2	1.6
18	National Bank of Abu Dhabi	153	2	1.3
19	Deutsche Bank	150	1	1.3
20	OCBC	131	3	1.2
21	DBS	131	2	1.2
22	Riyad Bank	129	1	1.1
22	Bank Al-Jazira	129	1	1.1
24	UOB	116	1	1.0
25	Union National Bank	92	1	0.8
25	First Gulf Bank	92	1	0.8
25	Bank of Baroda	92	1	0.8
25	Al Khaliji Commercial Bank	92	1	0.8
29	NBK Capital	88	1	0.8
29	Boubyan Bank	88	1	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	3,486	3	30.5
2	Abu Dhabi Islamic Bank	378	2	3.3
3	Citigroup	339	3	3.0
4	HSBC	308	2	2.7
5	Maybank Investment Bank	237	1	2.1
6	RBS	233	1	2.0
7	WestLB	225	3	2.0
8	BNP Paribas	98	2	0.9
9	Credit Suisse	50	1	0.4
10	Arab Banking Corporation	23	1	0.2
	Subtotal	5,377	14	47.1

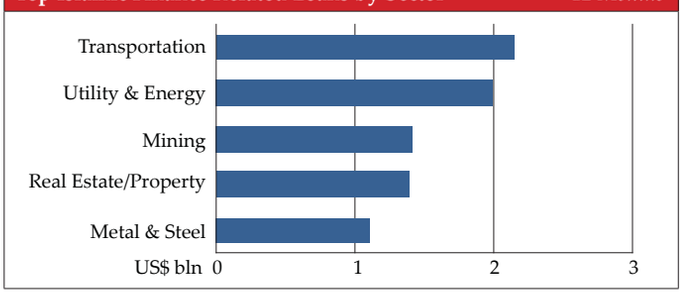
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
23rd Aug 2010	Saudi Arabian Airlines	Saudi Arabia	1,920
30th Nov 2010	Saudi Arabian Mining - Ma'aden Ma'aden Rolling	Saudi Arabia	1,913
25th Aug 2010	Emirates Steel Industries	UAE	1,700
13th Dec 2010	Saudi Electricity	Saudi Arabia	1,333
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
23rd May 2011	Natrindo Telepon Seluler	Indonesia	450
16th Nov 2010	Jambatan Kedua	Malaysia	383
14th Dec 2010	Majid Al Futtaim Properties	UAE	310

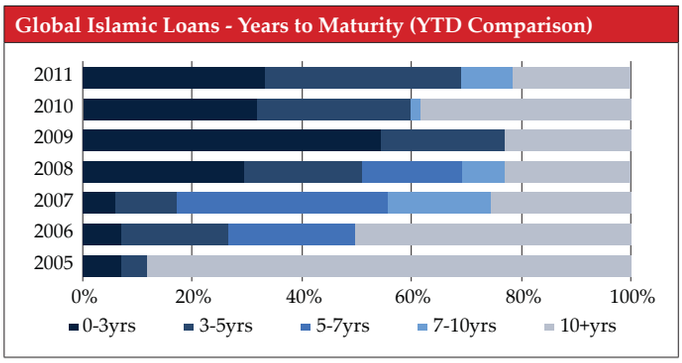
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	5,300	4	46.4
2	UAE	2,727	8	23.9
3	Turkey	881	5	7.7
4	Malaysia	851	3	7.5
5	Singapore	656	3	5.7
6	Indonesia	450	1	3.9
7	Bahrain	385	3	3.4
8	Kuwait	175	1	1.5
	Subtotal	11,427	28	

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

25th July 2011
3rd Sri Lanka Islamic Banking & Finance Conference 2011
Colombo (*UTO EduConsult*)

26th – 27th July 2011
2nd World Conference on Riba
Kuala Lumpur (*Thinkers Trends Resources*)

19th – 23rd July 2011
Sibos Toronto 2011
Toronto (Swift)

20th September 2011
IFN Roadshow Japan
Tokyo *(REDmoney events)*

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

22nd September 2011
IFN Roadshow Korea
Seoul *(REDmoney events)*

26th – 27th September 2011
The World Islamic Funds Conference
Bahrain (*MegaEvents*)

4th – 5th October 2011
2nd Annual Retail Banking Asia Pacific
Kuala Lumpur (*Fleming Gulf*)

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

18th – 20th October 2011
3rd Annual World Islamic Retail Banking
Dubai (*Fleming Gulf*)

30th October – 3rd November 2011
AIS Abu Dhabi 2011
Abu Dhabi (*Leoron Events JLT*)

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

30th October – 3rd November
AIS Abu Dhabi 2011
Abu Dhabi (*Leoron Events JLT*)

9th – 10th November 2011
Credit Risk Asia
Kuala Lumpur (*Fleming Gulf*)

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

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

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

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

21st – 23rd November 2011
The World Islamic Banking Conference
Bahrain (*MegaEvents*)

Islamic Finance *news*

Features Editor & Copy Editor Lauren Mcaughtry, Lauren.Mcaughtry@REDmoneyGroup.com
Associate Editor Scott Weber, Scott.Weber@REDmoneyGroup.com
Islamic Investor Editor Raphael Wong, Raphael.Wong@REDmoneyGroup.com
Supplements Editor Nazneen Halim, Nazneen.Halim@REDmoneyGroup.com
Senior Publishing Manager Sasikala Thiagaraja, Sasikala@REDmoneyGroup.com
Copy Editor Roshan Kaur Sandhu, Roshan.Kaur@REDmoneyGroup.com
Senior Reporter Ellina Badri, Ellina.Badri@REDmoneyGroup.com
Journalists Lai Pei Yee, Peiyee.Lai@REDmoneyGroup.com; Siew Han Liang, Han.Siew@REDmoneyGroup.com
Correspondents Kamal Bairamov, Shirene Shan
Forum Editor Christina Morgan, Christina.Morgan@REDmoneyGroup.com

Production Manager Hasnani Aspari, Hasnani.Aspari@REDmoneyGroup.com
Production Editors Mohd Hanif Mat Nor, Hanif.Nor@REDmoneyGroup.com; Norzabidi Abdullah, Zabidi.Abdullah@REDmoneyGroup.com
Senior Production Designers Mohd Hair Kadir, Hair.Kadir@REDmoneyGroup.com

Business Development Managers Andrew Cheng, Andrew.Cheng@REDmoneyGroup.com, Tel: +603 2162 7800 x 55; June Abu Zaid, June.Abuzaid@REDmoneyGroup.com, Tel: +603 2162 7800 x 56; Rizal Halim Dahlan, Rizal.Dahlan@REDmoneyGroup.com, Tel: +603 2162 7800 x 13

Subscriptions Director Musfaizal Mustafa, Musfaizal.Mustafa@REDmoneyGroup.com, Tel: +603 2162 7800 x 24
Subscription Sales Manager Nadjmuddean Mohd Ris, Mohammed.Nadjmuddean@REDmoneyGroup.com, Tel: +603 2162 7800 x 38

Subscriptions Executive Sivaranjani Sukumaran, Sivaranjani.Sukumaran@REDmoneyGroup.com, Tel: +603 2162 7800 x 41
Subscriptions Sponsorship Sales Manager Logeswaran Kuladevan, Logeswaran.Kuladevan@REDmoneyGroup.com, Tel: +603 2162 7800 x 64
Marketing Manager Thea Wong, Thea.Wong@REDmoneyGroup.com
Administration Executive Dhana Dorasamy, Dhana@REDmoneyGroup.com
Financial Controller Faizah Hassan, Faizah.Hassan@REDmoneyGroup.com
Deputy Publisher & Director Geraldine Chan, Geraldine.Chan@REDmoneyGroup.com
Managing Director Andrew Tebbutt, Andrew.Tebbutt@REDmoneyGroup.com
Managing Director & Publisher Andrew Morgan, Andrew.Morgan@REDmoneyGroup.com

Published By: REDmoney Group
21/F, Menara Park, 12, Jalan Yap Kwan Seng
50450 Kuala Lumpur, Malaysia
Tel: +603 2162 7800
Fax: +603 2162 7810

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