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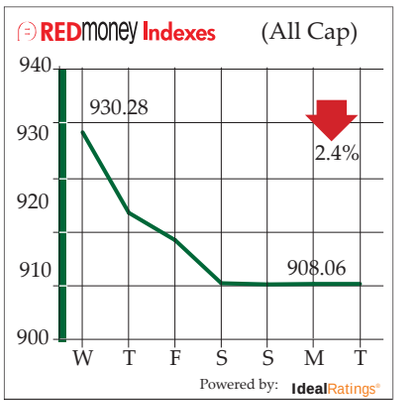

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Better the devil you know?

Cover Story

Commodity Murabahah is one of the most ubiquitous financing contracts in Islamic banking. It offers a plethora of opportunity from liquidity management to personal finance to structured products, and has long been relied upon by banks in the GCC and, more recently, Malaysia. Although the structure suffered the effects of the financial crisis, and has been the subject of intense scrutiny due to the questionable practice of Tawarruq, 2011 has seen a resurgence with movement into new markets, products, and asset classes. With the size of the global commodity Murabahah market now estimated to top US$1.2 trillion, Islamic Finance *news* takes a fresh look at an old favorite.

Controversy

The commodity Murabahah contract has been under the spotlight in the last few years due to the 2009 ruling by the OIC Fiqh Academy that commodity Murabahah was essentially organized Tawarruq and therefore deemed to be a "synthetic and fictitious" transaction impermissible under Shariah. As an alternative, the Fiqh recommended the use of Qard Hassan, a benevolent loan. However, as noted by Raja Teh Maimunah, the former head of global Islamic markets at Bursa Malaysia: "This is simply not a commercially viable option."

The vast majority of market players and many Shariah scholars accept that as a cash management tool and liquidity facility, the Islamic finance industry currently has no alternative. The use of commodity Murabahah is central to Islamic liquidity management, and is also playing a pivotal role in industry innovation, being used to develop personal financing products, Islamic derivative and structured products, and to back Sukuk structures. The industry, and its Shariah advisory boards, appear to have reached an uneasy consensus that although Tawarruq where possible should be considered a product of last resort, its use is acceptable.

Regulation

In fact, the use of Tawarruq in commodity Murabahah is largely dependent on region. While in the GCC tax structures mean that commodity Murabahah without using the Tawarruq structure is commercially viable (and thus widespread), in other countries there are different regulations. Rodney Ballard (*photo top right, page 3*), the head of trade finance at Bank of London and The Middle East (BLME), following the Fiqh ruling, explained that in European and OECD countries the tax treatment

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A time to take stock

Editor's Note

Ramadan is upon us once again and this time of year is as good as any to take stock of where we stand in an environment still plagued by economic uncertainty. In this spirit of contemplation, Islamic Finance *news* weighs in on some of the issues faced by the Shariah compliant financial industry while considering the optimistic prospects that lie in store.

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NGO World signs Islamic microfinance MoU with **Farz Foundation**

Amana Bank begins operations on the 1st August 2011

Local Islamic banks in Indonesia not keen to set up branches in Malaysia

Syarikat Prasarana Negara successfully prices its US$678 million dual tranche Sukuk

Islamic Microfinance Network offers membership to local and international organizations

Pakistan Bank Association to propose allowing Islamic banks to utilize central bank's discounting facility

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Global Takaful contributions expected to steadily grow

First Gulf Bank raises US$650 million through five-year Sukuk issuance

Bahrain Islamic Bank reports net profit of US$8.49 million for the first half of 2011

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Al Rajhi Bank plans to expand banking operations

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Mashreqbank reports 22% rise in first half profit for 2011 to US$150 million

Emaar Properties' second quarter net profit for 2011 down 69% to US$68 million

Al-Emar Bank to be launched in December 2011

BLME joins five-year US$130 million Islamic financing facility with **Boubyan Petrochemical Company**

Ahli United Bank's first half net profit for 2011 up 50.1% to US$70 million

Al Khaliji stops Islamic banking

Al Hilal Bank announces payment deferment scheme for Ramadan

Qatar Islamic Bank unveils Islamic banking program for local micro-enterprises

Bank Nizwa could commence operations by early 2012

Union National Bank reports US$114.04 million in second quarter profit

Dubai Islamic Bank reports 10% increase in net profit in the first half of the year to US$150.28 million

G Capital and **Gürmen Group** acquire Turkey-based **Adabank** for US$75 million

ISLAMIC INVESTOR

NCB Capital plans one-year campaign of Islamic fund launches

Public Mutual's market share of Islamic unit trust funds at 58%

Public Mutual declares distributions for funds for the financial year ended the 31st July 2011

Islamic income funds market grows 238% to US$231.46 million in the financial year ended the 30th June 2011

Oasis Group Holdings plans to expand to Europe

TAKAFUL

KFH's travel insurance experiences increased demand

Asuransi Jiwa Manulife Indonesia's Takaful unit posts 132% increase in premiums to US$941,397 as of June 2011

Association of Takaful Indonesia to ensure local Takaful agents are licensed by early 2012

Insurers and Takaful operators in Malaysia must advise customers on market value of private motor vehicles

RATINGS

S&P removes 'BBB' ratings on **Takaful International Company** from CreditWatch

AM Best Europe revises **Al Fajer Retakaful Insurance Company**'s outlook from stable to negative

Fitch affirms Kuwait's long-term foreign and local IDR at 'AA'

S&P assigns 'BBB-' long-term corporate credit rating to **Sabana**'s Islamic REIT

MOVES

Dubai International Financial Center names **Abdullah Mohammed Saleh** as new governor

Mashreqbank names **Farhad Irani** as head of retail banking

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puts Islamic banks at a disadvantage. "We don't promote the Tawarruq but because of tax reasons our scholars allow us to use it as the Murabahah structure generates a lot of taxes and stamp duties that we can't recover. This has been the only way to grow Islamic trade finance against conventional finance in Europe. If the Tawarruq was removed without providing an alternative to the Murabahah taxing structure, Islamic trade finance would disappear in Europe and the OECD."

Malaysia too, has decided that Tawarruq is permissible if regulated. Raja Teh (*left*) explained that at least as far as Malaysia was concerned, the prohibition was not due to the practice itself but rather its questionable execution. "The industry had suffered some reputational issues regarding rogue trades whereby commodities purchased for this purpose were either encumbered, i.e. they cannot be freely dealt with; the same commodities were being sold to several parties simultaneously; or, in some cases, simply didn't exist." As a result, since then there has been an industry-wide effort to standardize and regulate the market, kickstarted by the launch in August 2009 of the Bursa Suq Al Sila'. The platform is a continuation of the Commodity Murabahah House (CMH) initiative by the Malaysian International Islamic Financial Center (MIFC), first mooted in 2007; an international spot commodity platform which facilitates commodity-based Islamic financing and investment transactions. Raja Teh commented upon its inception that: "Instead of disallowing Tawarruq we set some rules. No one has ever regulated commodity Murabahah – what constitutes a proper commodity Murabahah trade, what makes it invalid – this is exactly the rationale of setting up Bursa Suq Al Sila'."

Liquidity management

Despite the debate surrounding its structure, commodity Murabahah fulfils a vital function in the Islamic money market, and is widely used across all major Islamic financial markets to manage liquidity. In fact, it has been described by Raja Teh as: "The one Islamic money market tool that can help provide liquidity in the Islamic banking system. There is no other instrument that is as widely used as commodity Murabahah, especially in the short-term money markets. Sukuk are generally of medium to long tenure whilst other contracts, for example Wakalah, may not appeal to some risk managers."

Malaysia has quite literally put its money where its mouth is. In March 2007, Bank Negara Malaysia launched the Commodity Murabahah Program (CMP), a cash deposit program to help Islamic institutions manage liquidity, and added Bank Negara Monetary Notes Murabahah to its stable of money management instruments. In 2009, Malaysia introduced two standardized interbank master agreements for Islamic deposit-taking and placement transactions (the Corporate Murabahah Master Agreement and Master Agency Agreement) to promote the uptake of commodity Murabahah as an interbank tool; as well as launching the Bursa Suq Al Sila' the same year.

Following Malaysia's example, several other financial exchanges have either launched or expressed interest in launching liquidity management services that incorporate Tawarruq or Murabahah components. The Bahrain Financial Exchange through Bait Al Bursa, its Islamic division, in March 2011 launched e-Tayseer, a fully automated platform for transactions in the supply, purchase and sale of assets for facilitating Murabahah transactions. e-Tayseer allows suppliers to place their assets onto the platform ready to be purchased by financial institutions. Financial institutions can then purchase these assets and conduct Murabahah transactions with counterparties to fulfil their liquidity management requirements. In January 2011 the Jakarta Futures Exchange also announced its intention of launching commodity Murabahah products by July, although no product has as yet come to market.

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CLOSING BELL

IKATAN AHLI EKONOMI ISLAM

INDONESIA: Ikatan Ahli Ekonomi Islam has appointed **Bambang Permadi Soemantri Brodjonegoro** as its new chairman, replacing Mustafa Edwin Nasution.

Brodjonegoro is also the current head of fiscal policy at the ministry of finance.

Murabahah financing

TURKEY: Aktif Bank has obtained a US$10 million two-step Murabahah financing facility from the International Islamic Trade Finance Corporation.

The facility will be used in trade finance transactions and will support trade within the OIC countries.

Increase in net profit

QATAR: Masraf Al Rayan has reported a 14% increase in net profit for the first half of this year to QAR691 million (US$189.74 million). Total assets grew to QAR48.93 billion (US$13.44 billion), an increase of 68% compared to the same period in 2010.

Total financing rose by 36% to QAR28.33 billion (US$7.78 billion) in the six month period ended the 30th June 2011, while customer deposits soared by 85% to QAR40.63 million (US$11.16 million).

GIC raises US$253 million

MALAYSIA: Gulf Investment Corporation (GIC) has reportedly raised RM750 million (US$253 million) by selling a five-year Sukuk based on the concept of Wakalah Istithmar at a yield of 4.9%.

The Islamic bond, which is part of the RM3.5 billion (US$1.8 billion) Sukuk medium-term notes program that GIC established earlier in Malaysia, will be issued on the 3rd August.

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Diversification

Eldred Buck (*left*), the managing director of Eiger Trading Advisors, confirms that: "Commodity Murabahah is seeing a recovery in demand from the much lowered levels of activity in 2009 and 2010." With its application now generally accepted, and its use increasingly well regulated, the market is once more starting to push the limits of the structure, expanding from a vanilla money market tool into a diverse range of instruments backing an increasingly wide variety of Islamic financial services including trade finance, personal finance and Sukuk. "Bank treasuries remain the most significant users [but] looking forward, the development of retail products is also spurring growth," says Buck. "We are seeing a real growth in specific transactions across a multitude of jurisdictions and products, from agricultural products to construction materials. There is definitely a very sharp move towards developing personal finance products backed by commodity Murabahah."

Along with the diversification of applications, commodity Murabahah structures are increasingly spreading into new asset classes for their underlying commodity base. Buck confirms that: "There is clearly a desire to diversify away from the traditional commodities." While Islamic banks in the Middle East have traditionally used contracts based on the London Metals Exchange (LME) to manage their liquidity positions, Malaysia took a step forward in 2007 by using its own abundant crude palm oil resources to back its commodity Murabahah monetary notes.

However, both of these commodity classes are subject to disadvantages including volatile price fluctuations and (in the case of LME contracts) forex fluctuations, and other potential asset classes have proliferated. "We are seeing a number of potential assets, particularly those that are held at a regional level, such as rice, steel and cement," comments Buck. Bahrain's e-Tayseer now offers multiple Shariah compliant assets including cars, car parts, industrial equipment, soft commodities and metals, while the Jakarta Futures Exchange plans to create commodity Murabahah products based on olein, coffee, and gold. In August 2009 RHB Islamic signed a groundbreaking agreement with Sedania Media Group and E-Pay to use mobile phone airtime as a commodity Murabahah asset class for its classical Tawarruq products (including its personal financing facility), asserting that the asset not only increases efficiency and reduces operating cost but is highly liquid and not subject to price or forex volatility.

There is no doubt that commodity Murabahah has its limitations. Yet the industry continues time and again to return to it as a stalwart fall-back option. Although alternatives have been promoted (such as the Ijarah lease structure to finance the purchase of equipment, Wakalah to replace Tawarruq, and Musharakah for project finance) none have yet gained enough traction to represent a realistic substitute. It looks as though for the time being, having survived everything the industry has thrown at it, commodity Murabahah is here to stay.

A time to take stock

Editor's Note

Ramadan is upon us once again and this time of year is as good as any to take stock of where we stand in an environment still plagued by economic uncertainty. In this spirit of contemplation, Islamic Finance *news* weighs in on some of the issues faced by the Shariah compliant financial industry while considering the optimistic prospects that lie in store.

Moinuddin Malim, the CEO of Mashreq Al-Islamic Finance Company and the head of Islamic banking at Mashreqbank, contributes a report on the regulatory issues in Islamic finance, suggesting the establishment of a global platform to regulate Islamic financial institutions.

Divergence is indeed a common challenge seen in Islamic finance, especially in the area of regulation. The interpretation of Shariah rules can lead to tricky situations and Dr Hussain G Rammal, a lecturer at the University of South Australia, contributes a report on the role of Shariah supervisory boards and their tendency to vary between countries.

In spite of these difficulties, Islamic finance has continued to maintain a steady growth momentum. We take a look at some promising markets this week, with Syria International Islamic Bank contributing an article on the development of Islamic finance in Syria and Prime Bank sharing the progress of the industry in Bangladesh.

Our Islamic Investor section features an article by the Association of the Luxembourg Fund Industry on the benefits Luxembourg offers for Islamic funds, while Munich Re Retakaful contributes a feature for our Takaful section. Insider discusses the outlook for Bahrain's Global Banking Corporation.

IFN also sat down for an exclusive interview with Mohamed Azahari Kamil, CEO of Asian Finance Bank, who gives us an insight into the bank's outlook for this year. Our other IFN reports are on the world's first Takaful framework to be launched by Malaysian authorities, the second quarter performance of the Malaysian capital market and the optimistic prospects for Saudi's small Islamic banks.

Our IFN Correspondents have written on the new home financing product to be launched by Bank Islamic Brunei Darussalam and on the development of Islamic finance in Russia and CIS countries, Sri Lanka, the UK, and Kazakhstan.

We get to know Pervez Said, the president and CEO of Pakistan's Burj Bank, in our Meet the Head section; while our case study on Sipchem's US$479.97 million Sukuk Mudarabah rounds up our issue this week.

As we kick off the fasting month, we hope you enjoy this issue of Islamic Finance *news* and wish our Muslim readers Ramadan Mubarak.

AFRICA

Travel and education

EGYPT: The National Bank for Development (NBD) and Abu Dhabi Islamic Bank (ADIB) have launched a new banking product to provide Shariah compliant financing for travel and education.

Ijarah Services Finance offers up to EGP200,000 (US$33,563) for travel financing and EGP150,000 (US$25,172) for education financing, to be repaid over a period of up to 60 months through equal monthly installments.

ASIA

Microfinance for NGO World

PAKISTAN: NGO World has signed an MoU with Farz Foundation to implement a Shariah compliant poverty alleviation program using Farz Foundation's Islamic microfinance methodology. The partnership will begin in August.

The foundation will supply its advisory services and Islamic microfinance institutional development facilities and help NGO World set up a Farz Methodology livestock project as a tool for poverty reduction.

New Islamic bank

SRI LANKA: Amana Bank, the country's first licensed Islamic commercial bank, began operations on the 1st August 2011.

The bank will offer Shariah compliant products and services including current accounts, savings accounts, children's savings accounts, term investment accounts, home financing, SME banking, corporate banking, trade services and treasury services.

Domestic expansion

INDONESIA: Indonesian Islamic banks are not interested in establishing branches in Malaysia, preferring instead to focus on the local market in order to expand their businesses.

Ventje Rahardjo, the president director of BRI Syariah, said that currently the bank has no plans to open a branch in Malaysia, adding that Indonesia's

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Another Sukuk success story

MALAYSIA: Syarikat Prasarana Negara (Prasarana) has successfully priced its RM2 billion (US$678 million) dual tranche Sukuk following a bookbuilding process which closed on the 26th July.

"This issuance marks the third Islamic issuance undertaken by Prasarana, which is a testimony to Malaysia's significant presence in the Sukuk market, both locally and globally," said Shahril Mokhtar, its group managing director.

The Sukuk, which comes under its RM4 billion (US$1.36 billion) nominal value government-guaranteed Sukuk program, will be used to partly finance future light rail transit projects and infrastructure developments.

The Islamic bonds were structured on Ijarah principles, involving the sale and leaseback of Prasarana's railway assets, which the firm will buy back upon the maturity of the Sukuk.

The Islamic bonds carry a semi-annual profit rate of 4.15% per annum for the RM800 million (US$271 million) 10-year tranche and 4.35% per annum for the RM1.2 billion (US$407 million) 15-year tranche.

According to Prasarana, the Sukuk issuance was four times oversubscribed by a wide range of investors, including government agencies, financial institutions, fund managers, insurance companies, corporate accounts and offshore investors.

CIMB Investment Bank and Maybank Investment Bank were the joint lead arrangers and joint lead managers, while the co-manager was Bank Islam Malaysia.

The RM2 billion Sukuk was originally arranged in 2009. However, the global financial crisis forced Prasarana to postpone the issuance.

Prasarana held its first Sukuk issuance exercise in September 2009 when it successfully issued RM2 billion in medium-term notes which carried a semi-annual profit of 4.85% per annum for the 15-year tranche with a nominal value of RM500 million (US$170 million) and 5.07% per annum for the 20-year tranche with a nominal value of RM1.5 billion (US$510 million).

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Islamic banks will work intensively to tap the domestic market which still has considerable potential.

Meanwhile Rizqullah, the president director of BNI Syariah, said that the bank will have to study the benefits of entering the Malaysian market, which is larger than Indonesia's, before setting up a branch there.

However, he said that Malaysia could be a potential market to develop the bank's business, especially its remittance services.

Opening its doors

PAKISTAN: The Islamic Microfinance Network (IMFN) has opened its membership to local and international organizations which are involved in the Islamic microfinance sector.

These Islamic institutions are entitled to become permanent members of IMFN, while conventional microfinance organizations can join as observer members in order to learn about Islamic microfinance. The membership is also open to academicians and Shariah advisors.

Established in 2009, IMFN combines the efforts of all its members to tackle poverty alleviation issues as well as developing and implementing guidelines that adhere to Shariah principles.

Upcoming proposals

PAKISTAN: Pakistan Bank Association's committee for Islamic banking is preparing recommendations to allow Islamic banks to utilize the central bank, the State Bank of Pakistan (SBP)'s, discounting facility. The proposals will be sent to the SBP and the finance ministry.

The facility, which commercial banks use as a 'lender of last resort', is not allowed in Islamic banking.

However Irshad Ahmed Aijaz, the Shariah advisor at Bank Islami, said the Pakistan Bank Association's committee is currently preparing recommendations to permit Islamic banks to utilize the discount window.

He said that although Islamic banks had previously not felt the need for the facility due to their strong deposit base, the growing popularity of Islamic finance in the country has made pre-planning necessary.

He also said that all Islamic banks in the country are jointly working on this project and added that the banks could benefit from the discounting facility by partnering with the central bank.

Murabahah in the pipeline

INDONESIA: CIMB Niaga is expected to launch its commodity Murabahah deposit product by the end of this year, according to Badlisyah Abdul Ghani, the head of Islamic banking at CIMB Group.

The product will be offered by CIMB Niaga Syariah and is awaiting approval from Indonesian regulators.

Profit jumps 92%

PAKISTAN: Meezan Bank's half-year net profit for 2011 grew 92% to PKR1.38 billion (US$16 million) from PKR719 million (US$8.3 million) in the same period last year.

During the period, earnings per share rose to PKR1.72 (US$0.02) from PKR0.9 (US$0.01), while deposits grew 13% to PKR148 billion (US$1.71 billion).

GLOBAL

GCC bond market slowdown

GLOBAL: The National Commercial Bank (NCB) has reported that the GCC bond market remained stifled by the political unrest during the second quarter of 2011, despite the economic recovery and landmark bond issuances in the region.

NCB explained that: "Even as a number of landmark issues provided some encouragement, neither the issuer numbers nor issuance volumes changed."

As a result, the regional markets are far from regaining the momentum they experienced during the fourth quarter of 2010, although various structural drivers suggest that this could happen quickly once market conditions normalize.

The GCC Sukuk market witnessed a stronger recovery compared to its conventional counterpart. The IDB, HSBC Bank Middle East and Sharjah Islamic Bank headed Sukuk issuances while Mubadala, Emirates Airline,

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Takaful expected to thrive

GLOBAL: Global Takaful contributions are expected to reach US$12 billion at the end of this year compared to US$9.15 billion in 2010, and could achieve US$25 billion by 2015, according to Ernst & Young.

Ashar Nazim, the executive director of the Islamic Financial Services Group (IFSG) at Ernst & Young, said that these targets can be achieved if the Takaful industry continues with its 2009 growth rate of 31% or higher.

The growth in global Takaful contributions is largely attributed to growth from the MENA region and Malaysia as the Takaful industry is presently concentrated in those regions, Nazim explained. He added that the future growth markets for Takaful are expected to be in Indonesia and the Indian subcontinent, followed by the African subcontinent and CIS countries.

Malaysia is the leading contributor in the global Takaful market at US$115.8 million followed by the GCC at US$6.35 million, according to Nazim. The MENA region is expected to catch up with Malaysia through Family Takaful as there is a lack of market penetration in the region at only 5% compared with Malaysia's 77%.

Family Takaful provides the best opportunity for profit growth in the MENA region as it offers higher margins and stability, according to AM Best in a report earlier this month.

Milliman, an independent actuarial and consulting firm, has also predicted a 250% increase in global Family Takaful contributions within the next five years, estimated to reach US$4.3 billion by 2015.

Abid Shakeel, the MENA advisor of IFSG, added that legislation in Islamic countries could contribute significantly to Takaful growth. Shakeel cited that compulsory insurance could be the primary driver for Takaful growth in the GCC. For example, Saudi Arabia's compulsory medical insurance has sustained its Takaful market despite most GCC markets experiencing reduced Takaful growth.

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and the Government of Dubai led conventional issuances in the Middle East.

NCB added that the UAE accounted for less than three quarters of the total bond and Sukuk issuances from the Middle East in the second quarter, while Bahrain was the only other GCC market to witness any bond market activity during the quarter, aside from a small corporate offering in Oman.

In addition, Saudi companies and financial institutions, with the exception of the Jeddah-based IDB, were notably absent from the report.

Meanwhile, initial public offering (IPO) activity gained pace in the second quarter, although total IPO value still only reached US$346 million, as compared to US$409.2 million a year earlier. The UAE and Saudi Arabia were the main contributors to IPO issuances in the Gulf.

Data provided by Dealogic revealed that there were five Sukuk issuances from the Middle East worth US$2.4 billion during the first half of 2011. These issuances (from the UAE and Saudi Arabia) formed 18.6% of global Sukuk issuances.

MIDDLE EAST

Debut Sukuk oversubscribed

UAE: First Gulf Bank has reportedly raised US$650 million through its debut issuance of five-year Sukuk.

The Sukuk, priced at 200 basis points over five-year midswaps with a profit rate of 3.79%, attracted US$3.8 billion-worth of subscriptions from over 200 investors. Most of the demand originated from the Middle East.

Citi, HSBC and Standard Chartered Bank were the mandated bookrunners, while Dubai Islamic Bank and National Bank of Abu Dhabi were senior co-managers.

BisB back in the black

BAHRAIN: Bahrain Islamic Bank (BisB) reported a net profit of BHD3.2 million (US$8.49 million) in the first half of 2011 compared with a net loss of BHD5.7 million (US$15.12 million) in the same period last year.

The bank also recorded a net profit of BHD1.7 million (US$4.51 million) for the second quarter this year, against a net loss of BHD6.9 million (US$18.3 million) for the second quarter of 2010.

New co-branded credit card

SAUDI ARABIA: Samba Financial Group has collaborated with Azizia Panda United, a supermarket chain, to launch the Samba-Panda Islamic credit card.

The card will provide customers with additional benefits whenever they make purchases from Panda or Hyper Panda stores.

Eyes on expansion

JORDAN: Al Rajhi Bank is planning to expand its banking operations in Jordan, spurred by the growing opportunities in the country, said Tareq Aql, its regional manager.

Aql explained that Jordan needs more Islamic banks as the Shariah compliant services offered by the current banks only represent between 15% - 18% of the country's banking market.

He added that Al Rajhi believes there are opportunities for a more sophisticated banking system in Jordan, given the country's strategic location and political stability.

Strong growth

QATAR: Commercial Bank of Qatar has reported a 17% increase in net profit to QAR956 million (US$262.53 million) in the first half of this year, contributed by strong growth in profit from Islamic financing and financial investments.

Net income from Islamic financing and investments surged 52% from a year earlier to QAR60.72 million (US$16.67 million) in the six months ended the 30th June 2011.

Total assets increased by 18% to QAR67.7 billion (US$18.59 billion) in the first half of 2011 compared to the previous year's QAR57.4 billion (US$15.76 billion).

Net profit for the second quarter grew by 24.9% to QAR509.6 million (US$139.94 million) from QAR408 million (US$112.04 million) in the previous corresponding period.

World's largest Islamic REIT

GLOBAL: Sabana Real Estate Investment Management, the manager of Sabana REIT, the world's largest Islamic REIT to date, has announced a distributable income of SG$13.85 million (US$11.53 million) for the second quarter of 2011, outperforming its quarterly forecast of SG$13.7 million (US$11.41 million) by 1.1%.

Net property income was announced at SG$16.54 million (US$13.77 million), 0.3% more than its forecasted value of SG$16.5 million (US$13.74 million).

The allocation represents a distribution per unit of 2.18 Singapore cents (1.82 US cents), 1.4% higher than its forecast of 2.15 Singapore cents (1.79 US cents). Its annualized distribution per unit amounted to 8.74 Singapore cents (7.28 US cents).

Total assets under management were SG$850.4 million (US$708.1 million). The main contributor to its revenue was its high-tech industrial segment which accounted for 58.7% of the REIT's revenue.

Sabana REIT, which raised almost US$500 million in its initial public offering (IPO), owns a portfolio of 15 properties in the chemical warehouse and logistics segments, general industrial segments, high-tech industrial segments, warehouse and logistics segments.

However, Malaysia-based Axis REIT Management is also vying for the top spot as it plans to launch what it hopes will be the world's largest Islamic REIT. Originally slated for June, Axis Global REIT was shelved to this month purportedly because of the destruction of two buildings in its portfolio due to the earthquake in Japan in March.

It was initially aimed towards investing and managing 33 properties located in Australia, Hong Kong and Japan. The properties were reported to be logistics-related including warehouses and showrooms.

Axis Global REIT was to be the largest free-float REIT in Malaysia with 98% of its REIT units to be offered during its IPO, according to reports earlier this year. A new listing prospectus reflecting the change in the composition of assets is being resubmitted to the Securities Commission Malaysia for approval.

Profits surge

UAE: Mashreqbank's net profit for the first half of 2011 rose by 22% to AED551.6 million (US$150 million) from AED453 million (US$123.3 million) a year earlier.

During the period, total customer deposits including Islamic deposits grew to AED52 billion (US$14.1 billion) from AED51.2 billion (US$13.9 billion) as at the 31st December 2010, while total assets rose to AED85 billion (US$23.1 billion) from AED84.8 billion (US$23 billion).

However, net interest income and income from Islamic banking products after distributions to depositors fell 11.6% to AED1.03 billion (US$280 million).

Emaar's profit plunges

UAE: Emaar Properties (Emaar)'s second quarter net profit for 2011 has dropped 69%, due to a writedown of its Dubai Bank investment and the handing over of fewer homes.

Emaar posted a net profit of AED250 million (US$$68 million), as compared to AED802 million (US$218 million) in the same period last year. This amount includes AED172 million (US$47 million) charge to cover Emaar's 30% stake in Dubai Bank. The total number of homes delivered in the second quarter by Emaar decreased to 244 from 612 units in the same period last year.

New development bank

QATAR: A new development bank, Al-Emar Bank, will reportedly be launched in the country in December this year during a meeting of the Organization of Islamic Conference (OIC).

The bank will finance private sector projects in OIC countries through Shariah compliant joint ventures, as part of a 10-year plan by the Islamic Chamber of Commerce and Industry to localize small and medium-sized projects and curb unemployment.

The bank is expected to be established with an initial capital of US$10 billion, with plans to increase this to US$100 billion at a later stage.

US$130 million financing

KUWAIT: The Bank of London and The Middle East (BLME) has signed an agreement to participate in a five-year US$130 million Islamic financing facility with Boubyan Petrochemical Company (BPC).

The facility, which consists of a US$70 million and KWD16.5 million (US$60.34 million) tranche, will be used to finance BPC's expansion and business development plans.

Boubyan Bank was the lead arranger while other participating banks included Ahli United Bank and Kuwait International Bank.

Profit leaps 50.1%

KUWAIT: Ahli United Bank reported a 50.1% increase in net profit to KWD19.1 million (US$70 million) in the first half of 2011 through its operating income of KWD37.2 million (US$136 million).

Hamad Abdul Mohsen Al-Marzouq, its chairman and managing director, attributed the profit growth to the bank's strong performance due to its diverse sources of income, increased banking activities and proper risk diversification.

Al Khaliji closes windows

QATAR: Al Khaliji has reported a decrease in net income from its Islamic financing activities and has stopped providing its Islamic banking facilities due to Qatar Central Bank's directive towards conventional banks to close their Islamic windows, according to Christiaan De Beer, its group chief financial officer.

The bank announced a 122% increase in net profits in the first half of this year to QAR249 million (US$68.38 million) from QAR112 million (US$30.76 million) for the same period last year. Its second quarter net profit rose by 141% to QAR130 million (US$35.7 million).

RATINGS

Off the watch list

BAHRAIN: Standard & Poor's Ratings Services (S&P) has removed its 'BBB' long-term counterparty credit and insurer financial strength ratings on Takaful International Company from CreditWatch, where they had been placed with negative implications on the 24th February.

At the same time, S&P affirmed these ratings at 'BBB'.

However, the outlook is negative, reflecting Bahrain's sovereign credit ratings ('BBB'/negative/'A-3').

Moving backwards

KUWAIT: AM Best Europe has revised the outlook of Al Fajer Retakaful Insurance Company (Al Fajer Re) from stable to negative.

AM Best also affirmed the re-Takaful operator's financial strength rating of 'B++' (Good) and issuer credit rating of 'bbb+'.

The revision is based on the fragile level of risk-adjusted capitalization within the re-Takaful fund and Al Fajer Re's weak overall underwriting profitability.

Sound ranking

KUWAIT: Fitch Ratings has affirmed Kuwait's long-term foreign and local currency issuer default ratings (IDR) at 'AA'. The outlook on the long-term ratings is stable.

The rating are based on the country's strong sovereign and external balance sheets that will continue to strengthen, even if oil prices drop.

Good kick-off

SINGAPORE: Standard & Poor's Ratings Services (S&P) has assigned its 'BBB-' long-term corporate credit rating to Sabana's Islamic REIT. The outlook is stable.

S&P also assigned an 'axA-' ASEAN scale rating to Sabana.

The rating on Sabana is based on its moderate leverage, with good access to diversified funding channels and stable cash flows.

Charitable month

UAE: Al Hilal Bank has announced a payment deferment scheme during Ramadan (August) where monthly installments due between the 26th July and the 10th August will be postponed for a month without any charges or additional profit.

The scheme is offered to customers with personal or auto financing accounts, and whose salaries are transferred to the bank.

Micro-enterprises program

QATAR: Qatar Islamic Bank has launched an Islamic banking program for local micro-enterprises.

The program aims to provide financial solutions that meet the needs of these enterprises and enable them to develop their businesses by financing their fixed assets and working capital.

Islamic bank imminent

OMAN: Bank Nizwa, the kingdom's first standalone Islamic bank, could begin operations by the end of this year or early 2012.

The bank, which received approval from the Central Bank of Oman in May, is expected to have a capital base of OMR150 million (US$390 million), according to Hamood Sangour Hashim Al Zadjali, the executive president of the central bank.

Al Zadjali added that Bank Nizwa will float 40% of its capital through an IPO, although he did not mention a time frame for the offering.

Steady performance

UAE: Union National Bank has reported a 23.2% year-on-year increase in its net profit to AED418.89 million (US$114.04 million) in the second quarter and a 22% growth in net profit to AED878.7 million (US$239.23 million) in the first half.

Net interest income and income from Islamic financing for the second quarter rose 22% to AED595.5 million (US$162.13 million) and 19.1% to AED1.12 billion (US$304.92 million) in the first half.

DIB growing steadily

UAE: Dubai Islamic Bank (DIB) has reported a 10% increase in net profit in the first half of the year to AED552 million (US$150.28 million). Net profit for the second quarter also increased by 10% to AED331 million (US$90.11 million) compared to AED301 million (US$81.95 million) in the same period in 2010.

Total assets grew from AED90.1 billion (US$24.53 billion) in the first half of 2010 to AED102.9 billion (US$28.01 billion) this year, signifying a 14% increase. Total revenue grew by 20% to AED1.8 billion (US$490.05 million) in the first half of 2011 compared with the previous year's AED1.5 billion (US$408.37 million).

The bank's financing to deposit ratio also surged by 71.3% in the six month period ended the 30th June 2011. Its capital adequacy ratio was reported to be at 17.5%.

Adabank takeover

UAE: G Capital, a subsidiary of Gulf Finance House (GFH), has partnered with Gürmen Group to acquire Turkey's Adabank from the Turkish Savings Deposit Insurance Fund for US$75 million.

Esam Yousif Janahi, the executive chairman of GFH, said that Turkey represents a key market for GFH and that the acquisition of Adabank will serve as a platform for further cooperation between the GCC and Turkey.

Coming up...

Volume 8 Issue 31 – 10th August 2011

Meet the Head
Samir Kouradine, CEO, Real Economy Partners, France

IFN Correspondents
Afghanistan: The birth of a Murabahah trade financing product; by Dr Alam Hamdard, chief of Islamic banking at Kabul Bank.

Brunei: Bank Islam Brunei Darussalam launches Islamic debit card; by Muhd Jamil Abas Abdul 'Ali@James Chiew, legal advisor at Abrahams, Davidson & Co.

UAE: Islamic finance activity; by Neil Miller, partner and global head of Islamic finance at KPMG.

Yemen: Latest updates; by Moneer Saif, head of Islamic sector at CAC Bank.

Features
Current challenges of Islamic finance; by Murat Yoluker, compliance manager at KBH Kaanuun.

Takaful regulation in a conventional set-up: Is this viable/acceptable?; by Abass Mohamed, product development manager at Takaful Insurance of Africa (Kenya).

MOVES

DIFC

UAE: Dubai International Financial Center has appointed **Abdullah Mohammed Saleh** as its new governor, replacing Ahmed Humaid Al Tayer.

Saleh is also the current chairman of the Dubai Financial Services Authority.

MASHREQBANK

UAE: Mashreqbank has appointed **Farhad Irani** as its new head of retail banking.

Irani was previously the general manager of Paypal Asia, based in Singapore.

World's first Takaful framework

The Malaysian central bank, Bank Negara Malaysia (BNM), could potentially become the first regulator in the world to implement a risk-based capital framework (RBC) for Takaful operators by next year. The conventional insurance industry introduced a similar framework in 2009, imposing a 130% minimum supervisory capital adequacy ratio to operators.

Taking into account Shariah requirements, the Takaful RBC states that Takaful operators are to provide Qard, or an interest-free loan, from the shareholders' fund to the participants' risk fund in the event of a deficit in the Takaful fund.

The exposure draft of the framework has been released to gain market feedback, and industry players are confident of the framework being implemented on time, without any delays.

The Takaful RBC framework will require operators to have a minimum supervisory target capital of 130%; ensure that the board of directors and senior management are responsible for setting up an individual target capital that reflects the Takaful operator's risk profile and risk management practices; and prohibit payment of dividends if the target capital level is not met.

Reflecting the conventional insurance framework, risk-based capital charges must be determined at a fund level and comprise of risk capital charges, liability risk capital charges, and operational risk capital charges.

While most players are optimistic about the RBC, with a couple of Takaful operators already in the process of aligning their business with the framework, some have voiced concern over the fact that the capital resources recognized in a particular Takaful fund are limited to the amount of capital required for the fund; which is set at 130%, and not 100%. Thus, any capital in excess of 100% would have to be met by the shareholders' fund. According to consulting firm Milliman, such treatments may be viewed as penal, particularly for operators with robust Takaful funds where excess capital requirements can easily be met by the surplus held within those funds.

There are currently 11 Takaful operators and three re-Takaful operators in Malaysia, with another re-Takaful operator expected to commence operations this year. Industry experts predict a 20% growth in the Family and General Takaful business, with the inclusion of three new Family Takaful operators into the market.

According to a spokesperson at the Malaysian Insurance Institute, the insurance industry as a whole is projected to grow by 12% this year, supported by the Malaysian government's various stimulus plans, legislative initiatives, and historically low interest rates.

Asian Finance Bank to focus on corporate banking business

Asian Finance Bank (AFB) has moved towards a corporate and investment banking focus as it looks to approve RM2 billion (US$674.08 million)-worth of financing and disburse up to RM1.5 billion (US$505.56 million)-worth this year.

According to Mohamed Azahari Kamil, its CEO, the bank has already approved RM1.4 billion (US$471.86 million) in financing so far in 2011.

"The bank will also be lead manager for a RM200 million (US$67.39 million) syndicated financing facility for the development of a property project in the heart of Kuala Lumpur," Kamil told Islamic Finance *news* in an exclusive interview recently, adding that the deal is expected to be signed this month.

AFB, which has been negatively impacted by bad debt from its Malaysian small and medium-sized enterprise (SME) clients, will now focus on "very strategic deals" involving public listed and government-linked companies, with some transactions already in the pipeline, said Kamil.

The bank has also set a RM108 million (US$36.38 million) limit for financing to each deal. "Our pricing has to be very fine because we have to compete with established institutions," he said, adding however that the bank will not be targeting "desperate credits".

He added that while disbursement of financing to SMEs is much faster than to larger corporates as there are fewer procedures involved, the bank is not suited to the SME market as it lacks the human capital to manage the individual needs of smaller companies.

Meanwhile, Kamil also clarified that the bank's RM30 million (US$10 million) in provisions booked last year was offset by RM17 million (US$5.72 million) in fee-based income. Additionally, of the bank's RM13 million (US$4.38 million) in non-performing financing (NPF), it has recovered RM2 million (US$673,627)-worth. Hence, the balance of RM11 million (US$3.7 million) in NPF is marginal compared to its total financing and advances assets of RM721.03 million (US$242.85 million), he said.

> ***"Asset quality improved in the first half as we revamped credit processes and targeted higher level corporate clients"***

He also said as at the end of July this year, the bank has increased its financing and advances asset base to around RM1 billion (US$336.81 million) and did not book further provisions as at the second quarter.

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"Asset quality improved in the first half of this year as we revamped credit processes and targeted higher level corporate clients," he said.

On another note, AFB will continue acting as a bridge between Malaysian and Indonesian companies with opportunities in the Middle East.

As for possible acquisitions, Kamil said the bank is always on the lookout for good investment opportunities but has not identified any as yet. It was earlier reported that Qatar Islamic Bank, AFB's major shareholder, was looking at acquiring a bank in Indonesia this year, with expectations that the purchase would be made via AFB.

However, Kamil said AFB is now focused on working closely with its partners in Indonesia, which provide a good stepping stone for its expansion in the market. The bank currently has a representative office in the country and is cooperating with Bank Muamalat Indonesia on syndication deals.

Going forward, Kamil is "very positive" on the bank's performance this year, with 2012 showing "a lot of potential" for growth. The bank is also planning to open one branch each in the Malaysian states of Penang and Sarawak this year, but is waiting to build up the asset base of each branch to RM100 million (US$33.68 million) before commencing operations.

Saudi minnows set to shine this year

Saudi Arabia's small Islamic banks could be set to shine this year as robust public spending boosts economic conditions and the banking industry sees continued improvements in asset quality.

With banks such as Al Rajhi Bank recording total assets of SAR184.8 billion (US$49.2 billion) last year, Alinma Bank and Bank AlBilad, which each had assets of less than SAR30 billion (US$8 billion) in the same period, are comparative minnows in Saudi's Islamic banking market. However, operational improvements coupled with the kingdom's healthy economy have set the stage for the smaller banks to hold their own.

Optimism on the two banks' performance comes amid a positive outlook for the Saudi banking industry, with Global Investment House (Global) projecting a 17.8% year-on-year increase in net income and a 33.1% decline in provisions for the market this year.

"The banks' strong fundamentals, coupled with attractive business potential driven by innate domestic demand, offer significant growth potential," said Global in a recent research report.

A study of Alinma and Bank AlBilad's recent financial results do indeed show something to smile about. For the second quarter ended the 30th June 2011, Alinma reported an astronomical year-on-year growth in net income of 3,300% to SAR102 million (US$27.2 million), with net income from investments and financing activities increasing 75% to SAR283 million (US$75.46 million).

Abdulmohsen Al-Fares, CEO of Alinma, said the results showed the solid growth in the bank's activities, including the expansion of products and services to its retail and corporate clients. The bank also recorded a 167% increase in its financing portfolio to SAR22.5 billion (US$6 billion), while its total assets broke the SAR30 billion mark at SAR32.5 billion (US$8.67 billion).

> ***"Strong fundamentals and innate domestic demand offer significant growth potential"***

Alinma's performance has been improving since the first quarter of this year, following a 97.5% year-on-year decline in net income in 2010.

"Global expects this year is going to be relatively better for the bank as its business expands, with net income increasing by 8.6 times year-on-year in 2011 and the bank recording a compounded annual growth rate from 2010 to 2014 of 156.3%," said Global.

Meanwhile, Bank AlBilad has shown a return to steady growth after it booked a SAR248 million (US$66.13 million) loss in 2009. According to Global's projections, the bank could record a net profit of SAR354 million (US$94.39 million) this year after it made SAR92 million (US$24.53 million) in profit last year.

In the first quarter of this year, the bank recorded net profit of SAR55.45 million (US$14.79 million) against SAR52.58 million (US$14.02 million) in the previous corresponding period on higher total operating income.

Although net fee and commission income declined to SAR95.28 million (US$25.41 million) in the first quarter, from SAR100.18 million (US$26.71 million) in the same period last year, this was offset by a double-digit increase in net income from investing and financing assets to SAR164.93 million (US$43.98 million).

One hiccup which remains on its books is increasing impairments on financing and other assets, which rose to SAR51.02 million (US$13.6 million) from SAR43.34 million (US$11.56 million) in the first quarter of last year.

However, the bank is expected to have reached its peak in provisions and could report a marked decline in expenditure this year.

"The highs of provisions to net financing income at 46.3% and provisions to net income at 313.6% are expected to decrease significantly to 26.6% and 56.3%, respectively, in 2011," said Global.

While Alinma and Bank AlBilad may need more time to catch up with the more established Saudi players, the banks' prudent operations and improving performance mean the growth of these small banks will be worthwhile to watch.

Malaysian Islamic market cements dominant position

Malaysia's capital market saw a second quarter pickup buoyed by higher interest in all sectors of the market. During the second quarter, the Securities Commission Malaysia (SC) received a total of 45 corporate proposals, up from 35 proposals in first quarter of 2011; 16 of which were equity applications, while the remaining 29 were for private debt securities (PDS).

Out of the 16 equity applications, 10 were initial public offering (IPO) applications with a total potential market capitalization of approximately RM13.36 billion (US$4.53 billion).

The SC also approved nine IPOs in the second quarter which are expected to have a combined potential market capitalization of RM17.04 billion (US$5.74 billion) and are expected to raise a total of RM5.48 billion (US$1.85 billion).

The number of PDS approvals also increased, with 26 approvals this quarter compared to 17 in the first quarter. The total funds approved to be raised from ringgit-denominated PDS increased by 150% to RM34.3 billion (US$11.59 billion) in the second quarter of 2011 compared to RM13.7 billion (US$4.63 billion) in the first quarter.

Approved foreign currency-denominated Shariah compliant PDS by foreign corporations totaled only US$400 million from two issues, down from the US$850 million raised from the market in the second quarter of 2010.

However, approved ringgit-denominated Shariah compliant PDS increased with 14 issues combining to a total of RM24.59 billion (US$8.31 billion), up from the seven issues totaling RM6.87 billion (US$2.32 billion) in the second quarter of 2010.

This dominance of ringgit-denominated securities highlights the strength of the Malaysian capital market; however, a greater number of dollar-denominated securities would go a long way to opening up the well-developed domestic market to both regional and international investors.

Meanwhile, the SC also approved 31 applications for new collective investment schemes, a marked increase from 16 approved in the first quarter of 2011, with one approval given for the establishment of a Shariah compliant real estate investment trust (REIT) from Axis, who subsequently postponed the REIT's launch due to the impact of the Japanese earthquake and subsequent tsunami which damaged several of the trust's underlying properties.

The Malaysian capital market has a lot to be upbeat about, having provided a substantial share of the global Islamic finance market's growth worldwide in 2011. Second quarter global Sukuk alone recorded its largest ever quarter with issuances totalling US$9.2 billion, up 93.7% from US$4.75 billion over the entirety of 2010, according to data from Dealogic. The first half of 2010 saw only US$3.69 billion issued.

Out of the US$9.2 billion, US$3.68 billion-worth was US dollar-denominated and US$5.52 billion-worth was non-dollar-denominated.

Malaysia also cemented its position as the leading Sukuk issuer, increasing its market share of global Sukuk to an impressive 77.3% up from 2010's first half total of 58.7%, as Saudi Arabia and the UAE markets remained stagnant in light of the ongoing economic and political situation in the Middle East. The combined total of both countries remained at a relatively similar level to the previous year at US$2.39 billion from five issues, a slight increase on the US$2.46 billion issued in the previous year from three issuers.

2011 has also seen new sectors entering the market. While the first half of 2010 was dominated by the energy sector and sovereign issuances, the first half of 2011 saw an increasingly diverse investment atmosphere tempting other sectors to issue Sukuk.

The beast stirs

It is impossible to describe the contrasts and complexities of the African political, economic and social situation within the constraints of these pages.

The African continent has long remained an underachiever in terms of its economic potential, and years of constant fighting and perhaps to some degree neglect, has ravaged its people. However, as the world turns, so do peoples' perceptions, and these days Africa is seen as a diamond in the rough, with growing optimism surrounding its fiscal and political future.

Recent political upheavals, mostly in the north, affecting Egypt, Tunisia, Libya and Sudan, could work both ways in affecting international interest in the continent's investment landscape; and for now economic pundits choose to be positive about its growth prospects. Islamic finance players have also begun to turn their attention towards Africa, seeing vast potential in areas such as microfinance and trade finance.

Long-term involvement and backing from 'AAA'-rated financial institutions such as the Islamic Development Bank (IDB) via the Special Program for the Development of Africa (SPDA), in which the IDB has committed US$4 billion, are expected to elevate the continent's social and economic standing and are aimed at providing a platform to boost its growth.

At a recent SPDA meeting the IDB vice president of operations, Birama Boubacar Sidibe, highlighted the significant positive elements seen across Africa: including strong economic growth, rapid progress of the Millennium Development Goals leading to a drop in poverty across many African countries, increased investments in the private sector, and a high return on investments; as well as providing a robust climate for market-oriented, pro-poor reforms which has led to prudent economic policies. "The IDB has acknowledged that the situation in Africa is not what we had envisioned: the urgent need to provide much needed resources and the participation of member countries to help sustain and further develop the growth of the African continent is a major factor for us and we are here to discuss ways to bolster our relationships and share knowledge and ideas," he stated.

In this issue of IFN Supplements, we traverse the vast continent of Africa and explore the opportunities that lie ahead for Islamic finance in the region. From Takaful to investment prospects and regulatory updates, we endeavor to reveal industry perception towards the region. Indeed, many see Africa as the next Islamic finance haven, considering the growing saturation of the GCC and Asian markets, and a general lackluster response in North America and Europe, excluding the UK. Africa, they suggest, is the sleeping giant which when awoken could allow the Islamic finance industry to achieve its full potential.

This is an extract from the Africa IFN Supplement published on the 1st August 2011. For full access see our homepage at www.islamicfinancenews.com.

The development of Islamic finance: Russia & CIS overview

Russia, Azerbaijan, Kyrgyzstan, Turkmenistan, and Uzbekistan

By Adalet Djabiev, IFN Correspondent

The Russian Federation and the CIS countries are latecomers to Islamic finance, but like other markets, interest is growing considerably. Russia and the CIS countries have huge natural resources including oil, gas, cotton and minerals.

The Muslim population of the CIS countries, including Russia, is about 150 million. Russia is also an observer member of the OIC while the Central Asian CIS republics are all members of both the OIC and the IDB Group.

Islamic finance in Russia still remains a new phenomenon. However, it has begun to develop in the last few years. The absence of an enabling legislation and a regulatory framework to facilitate Islamic financial products in Russia remains a major obstacle.

According to Alexey Ulyukaev, the first vice-chairman of the central bank, the development of Islamic banking in Russia is currently irrelevant. He said: "I think this issue is not the first, and not the second, or even third relevant. There are real problems in the financial sector's supervision and regulation that we have to deal with."

Nevertheless, over the past few years, many positive developments have taken place in Russia.

In 2000, Moscow-based Badr-Forte Bank fully transferred its activities to provide Islamic banking services. The bank had a Shariah board and was a member of a number of Islamic financial institutions including the General Council of Islamic Banks, AAOIFI and the Association of Islamic Financial Institutions Development.

At the end of 2006, the license of Badr-Forte was withdrawn by the central bank. Among the unofficial reasons for the withdrawal were politics and a redistribution of the spheres of interest.

In 2006, IFC Linova was established in Kazan to carry out consulting services in Islamic finance. In 2009, the IFC company Al Shams Capital was established in Moscow to provide Shariah compliant finance and investment services.

Tatarstan

The Republic of Tatarstan is a Muslim dominated autonomous region in Russia. The government received a presidential blessing to open up to the sector, and became a frontrunner in attracting Islamic investors.

Tatarstan announced an issuance of sovereign Sukuk in 2011.

In 2010 the Tatarstan International Investment Company was established to accommodate investments into infrastructure projects in Tatarstan.

Major Russian banks VTB (Vneshtorgbank) and Gazprombank work on Islamic financial products which are originated outside Russia.

VTB Capital, working on the Sukuk issuance through its Dubai entity, has repeatedly delayed the issue. The current situation in VTB could cause another delay.

Russian regional banks, such as Ellipse Bank and Express Bank, have also started to provide some quasi-Islamic banking products and services, acting as they believe on the principle of "Islamic windows".

In 2010, a limited liability partnership called Yumart Finance and Company, which operates on Islamic principles, was established in Tatarstan.

A financial house named Amal was also launched in February 2011 in Kazan to provide Shariah compliant services. Over the past few years, there have been a number of international Islamic finance forums in Moscow, Kazan and Istanbul with the participation of the Islamic Corporation for the Development of the Private Sector (ICD), Islamic Research and Training Institute, AAOIFI, central banks and other reputable organizations.

In the Russian region of Bashkortostan, non-financial institutions have begun to provide some Islamic financial services under the current legislation.

Experts of the Finance Academy under the government of the Russian Federation are working on a draft law on Islamic finance. IFC Al Shams Capital initiated the process of introducing Islamic finance in Russia.

Azerbaijan

Azerbaijan, an oil-rich Caspian country with a vast Muslim population, is reaching out to Islamic finance. There are no specific regulations or standalone Islamic banks, but some products, as well as Islamic microfinance, could be implemented within the current legislation.

The International Bank of Azerbaijan is currently working on its Islamic window. Its Islamic banking activities are planned for autumn 2011.

Despite the absence of legislation, Kauthar Bank operates on the principles of Islamic finance through the voluntary waiver of interest-based instruments and products.

Bank Nikoil has also announced provision of some Islamic banking products. However, in the opinion of some leading experts, the Shariah compliance of these products is questionable.

Kyrgyzstan

Kyrgyzstan is a country which has a dominant agricultural sector. The vast majority of its population are Muslims.

In 2006, an MoU was signed by the IDB, Kyrgyz Republic and OJSC EcoBank with regards to the introduction of the Islamic banking industry and financing in the Kyrgyz Republic.

The parliament made some amendments to the banking law allowing for equal conditions for the functioning of Islamic and conventional banks.

The country is also establishing an Islamic microfinance institution and mulling over projects to introduce Sukuk and Takaful.

Turkmenistan

The banking system, which was reduced substantially after the 1998 financial crisis, includes 12 national banks. These institutions have the same basic division of responsibility as in the Soviet era.

In 2011 the Turkmenistan Investment Company was established with the government's participation and the ICD.

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The company will carry out its activities in accordance with Shariah.

Uzbekistan

Uzbekistan is a country which adopted economic policies to keep the government in direct control of the economy. In the last 13 years, Uzbekistan has only attracted US$700 million-worth of foreign direct investment.

The natural resources include minerals like gold, copper, lead, and zinc. The vast majority of the population is Muslim.

In 2005 the ICD, a member of the IDB Group, and the National Bank of Uzbekistan, signed an agreement of cooperation to further develop Uzbek's private sector. The ICD launched in 2010 in Uzbekistan providing Shariah compliant leasing services.

Tajikistan

Tajikistan remains a very rural and segmented society with more than 70% of the population living in rural areas. The presence of Islamic banking and finance structures has been limited to national infrastructure projects sponsored by the IDB.

For the time being, the central bank and the ministry of finance are interested in Islamic finance development. However, the full establishment of an Islamic banking system remains to be seen.

Dr Adalet Djabiev is the CEO of Al Shams Capital and he can be contacted at ad@alshamscapital.com.

Sri Lanka: Tapping its true potential

Sri Lanka

By Roshan Madawela, IFN Correspondent

In Sri Lanka, the Islamic finance industry is currently awaiting the official launch of the first central bank licensed Islamic bank, Amana Bank; expected to commence operations sometime in August 2011. The island also expects to devise Islamic finance-specific regulations this year following ongoing consultations with the industry, although the first commercial bank on alternative finance has been licensed on existing rules.

The growth in Islamic finance in recent years has been driven by renewed awareness of faith-based concepts and the internationalization of the financial markets.

However, practitioners say that in Sri Lanka, where Islamic finance is still evolving, there is a dearth of investment avenues for new banks. At the moment a commercial bank operating on Islamic finance principles has no income-earning assets in which to invest money set aside for liquidity requirements.

The money must be kept in cash, while competing commercial banks can invest in interest-earning treasury securities. Countries like Malaysia have issued government bonds tied to specific projects, called Sukuk which are yet to appear in Sri Lanka.

In the pipeline, Sri Lanka's Commercial Bank of Ceylon also said it is starting an alternative banking service compliant with Shariah law, with a three member committee of scholars to ensure compliance. The bank will offer deposit products such as Mudarabah savings accounts and Mudarabah investment accounts along with asset products such as Murabahah, Musharakah, diminishing Musharakah, Ijarah leasing and import financing.

Meanwhile Crescent i-Fund, the first-ever open-ended Shariah compliant fund investing primarily in Sri Lankan equities, was recently granted approval by the Securities and Exchange Commission of Sri Lanka. A joint initiative by Comtrust Asset Management and Adl Capital, the fund is expected to fill the vacuum created by the paucity of investment opportunities in the country's stock market for the Shariah conscious investor.

In another new initiative, Amana Takaful, the pioneer of the Takaful way of insurance, has announced the launch of Sri Lanka's first Shariah compliant Unit Linked Insurance Plan.

The product, branded Amana Takaful Prosper, is the first of its kind, where the customer will be able to obtain Takaful (insurance) cover as well as enjoy choice of Shariah compliant investment options.

Meanwhile Amana Global, a fully-owned subsidiary of Sri Lanka's Amana Takaful, has signed a deal with the Islamic Banking and Finance Institute of Malaysia (IBFIM) to offer training in Islamic finance. The growing acceptance of Islamic finance as a viable option for businesses and individuals alike means there is a need for more competent people and awareness of the products.

Last month, Amana Bank signed a Technical Advisory Service Agreement with its strategic partner Bank Islam Malaysia, an Islamic financial services provider in Malaysia, at an event held in Kuala Lumpur recently. At the ceremony Bank Islam was also presented with its share certificate confirming its 20% stake in Amana Bank.

Speaking to the gathering at the ceremony Zukri Samat, the managing director of Bank Islam Malaysia, said: "Sri Lanka was chosen not only to capitalize on our existing presence and familiarity with the business environment, but more importantly due to its favorable economic prospects and the tremendous untapped potential of its promising Islamic financial service industry."

According to the findings of the study conducted by KPMG, Sri Lanka (2011) in association with the RIU (Research Intelligence Unit), the total number employed directly in the sector was 860 workers. Of these, the Takaful sector accounts for some 59.3%, followed by banking and finance which make up 32.7% of the total workforce. Education follows with a total workforce of 30%.

However, when considering the indirectly employed and those on the periphery who work on both Islamic and conventional finance, the total number working in the sector is likely to be a lot higher according to the report.

Roshan Madawela is CEO/director at the Research Intelligence Unit. He can be contacted at roshan@riunit.com.

Summer in the city

UK

By Dr Natalie Schoon, IFN Correspondent

Despite the fact that the weather is leaving much to be desired, summer holidays have clearly begun in Europe, showing in a reduction in the amount of business currently being undertaken. All has not been completely quiet though.

It was first reported in late June that Standard Chartered Bank (StanChart) had an interest in gaining a controlling stake in Bank Muamalat, the oldest Islamic Bank in Indonesia, signifying the British bank's interest in further expanding their Islamic finance offering. Although the transaction has yet to be finalized, it transpired in early July that StanChart might be the only remaining bidder for the stake.

Gatehouse Bank filed their annual report for the year ending 2010 showing significant improvements compared to 2009, mainly resulting from an increase in operating income and a decrease in operating cost. In addition, contrary to 2009, no provisions were made.

Although market circumstances have not necessarily worked in favor of the bank, the reported loss was significantly lower (47%) than the previous year, providing a positive trend for the bank. The bank also recently announced the completion of its first US student accommodation, further diversifying its real estate investment portfolio.

GNL Insurance, a joint venture of Gatehouse Bank and Paul Napier approved by the Financial Services Authority in the UK in April 2011, has signed Chartis UK as its first client. The focus of GNL Insurance is strongly on the commercial client segment, recognizing that penetration in the UK retail market is difficult to achieve due to the fact that the market segment is dominated by a small number of large insurance operators.

In early July, IFN hosted a successful issuers and investors' forum in London facilitating two days of panel sessions focused on current trends in Islamic finance in Europe. Over the two days around 300 unique market participants came together to discuss the current trends, business opportunities and challenges faced within the Islamic finance industry in Europe.

As an integral part of their strategy and business development plans, Bank of London and The Middle East (BLME) announced the appointment of Julie Yim as the head of treasury sales. In addition, the funds recently launched which were mentioned in the previous updates were, as to be expected, subject to a relatively slow start.

However, similar to the existing fund, they have outperformed their benchmark during the latest period; clearly showing that Shariah compliant funds are a viable asset class.

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Islamic banking in Kazakhstan: The next level

Kazakhstan

By Timur Alim, IFN Correspondent

After 2009, when the legislation on Islamic banking was approved by the Parliament of Kazakhstan, further initiatives were proposed.

New changes are designed to address gaps in the legislation of Islamic finance, in particular, the issuance of government Islamic securities. The principal idea is to show Kazakhstan's commitment to playing a leading role in the development of Islamic finance regionally.

The first change was initiated by the finance ministry, by issuing the first government Sukuk to establish a benchmark in the market.

This should help companies which are willing to issue Sukuk to price them accordingly. In view of this, the Senate proposed that the Republic's roads or public areas may be subject to sub-lease in the issuance of government Islamic securities that are defined according to the bill as Islamic lease certificates.

Secondly, all companies theoretically can issue Sukuk, on the condition that they comply with regulatory requirements.

Al Hilal bank, the first Islamic bank in Kazakhstan, is constantly working with all supervision authorities to improve local regulations on Islamic banking.

Among the recent developments was the general agreement of the National Bank of Kazakhstan to accept commodity Murabahah as an Islamic mode of finance and more importantly to initiate required changes to the tax code of Kazakhstan.

These decisions were made when the banks jointly identified some gaps in the current Islamic banking law. Currently, Al Hilal bank and the tax authorities are negotiating changes, mainly related to VAT, which need to be implemented in order to equalize the tax burden with conventional forms of financing.

During the World Islamic Economic Forum in Astana, some important initiatives were proposed by the president of Kazakhstan. One of them was creating the G10, which is supposed to be an equivalent of the G8. Its only difference is that the G10 will consist of only Islamic countries.

Kazakhstan will also host an international Islamic conference on a regular basis to encourage an open dialogue with investors and regulators.

The Spiritual Administration of Muslims of Kazakhstan has also become active in this direction. Recently they announced the establishment of the first government zakat fund. This fund is voluntary and based on the waqf model.

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Global Banking Corporation set for a comeback in 2011?

Like many financial institutions across the Middle East, Bahrain's Global Banking Corporation (GBCorp) did not escape the whirlwind that was the recent financial crisis. After recording a full year of losses in 2010, the investment bank's losing streak continued into the first quarter of this year.

According to its 2010 annual report, GBCorp adopted a new strategy which is expected to bear fruit this year. Its financial results indicate that the bank may have reached bottom at the end of last year but come the 31st December 2011, will the bank indeed see a reversal of fortunes?

Coming full circle?

Flashback to June 2007 and GBCorp's future was full of promise. Although relatively small, with a paid-up capital of US$250 million, the bank has been busy since its inception. In 2008 it formed Global Energy Financial Services Company, its energy-focused subsidiary set up to identify and structure investments in the oil and gas and power sectors.

The following year, it announced the development of Marsa Al Seef, a residential and commercial project in Bahrain; while it also undertook a commercial, residential and mixed-use development project, Makkah Hills, in Saudi Arabia.

At the end of 2009 the bank established Diyafa Holding Company, in which it owns 90%, to leverage opportunities in the hospitality, food and beverage, retail and business service sectors.

Unfortunately for GBCorp, the financial crisis emerged amid the bank's efforts to establish its presence and grow. Although the bank remained resilient in 2008, reporting a net profit of US$21.2 million and total assets of as much as US$455.9 million, it was eventually impacted by the global financial crisis in 2009.

During that year, the bank posted a loss of US$18.8 million and saw its asset base shrink to US$197.66 million. It attributed the decline in total assets to the utilization of its investor funds into key projects.

GBCorp remained in the red as last year came and went, but it implemented a new strategy which gave rise to optimism for 2011. In the bank's 2010 annual report Saleh Al Ali Al Rashed, its chairman, said its revised measures include a focus on corporate finance, private equity, energy, asset and wealth management and investment placement, advisory services and establishing a recurring income base.

"By adopting strategic measures coupled with a clearer cost structure, a profitable year is anticipated for 2011," he said.

> ***"By adopting strategic measures coupled with a clearer cost structure, a profitable year is anticipated for 2011"***

Challenges remain

The bank's first quarter ended the 31st March 2011 results show a loss of US$6.76 million, larger than the US$2.96 million loss it recorded a year earlier but almost three times less than the US$19.45 million loss it posted just a quarter prior. While a definite improvement and a sign that the bank's losses may have bottomed, the way forward will hardly be easy for GBCorp.

First, it has to contend with shrinking income, which in the first three months of this year amounted to US$683,000 compared to US$1.85 million in the previous corresponding period. Its income for the first quarter of this year was hampered by a US$281,000 loss from investment securities and a US$41,000 share of losses from joint ventures. In addition, its rental income from investment property was, at US$666,000, 36% lower than in the same period of 2010.

On the flipside, the bank saw some success in bringing expenses down in the first quarter of 2011, spending almost US$400,000 less to US$4.45 million from the previous corresponding period. However, it still booked US$3 million in impairment allowances, holding back any hope for growth in the opening quarter of this year.

Additionally, the bank has seen its asset base decline to US$167.21 million as at the 31st March 2011, from US$181.39 million as at the 31st December 2010. Its total equity also decreased in the same period to US$148.49 million from US$155.25 million.

The bank also has some way to go to improve its cash flow. Although cash and cash balances rose to US$29.29 million in the first quarter from US$26.64 million a year earlier, this was a decline from the US$39.36 million-worth of cash it held at the beginning of the first quarter.

Although it achieved higher income and fees during the period, amounting to US$1.23 million against US$824,000 in the first quarter of last year, this was offset by a US$4.35 million payment for investors' funds and a US$3.51 million cash outflow for expenses and project costs.

Having booked a negative cash flow from operating, investing and financing activities in the first quarter, the management of its cash flow poses a further challenge for GBCorp.

Hope floats

With such difficulties left to hurdle, can GBCorp deliver on its expectations to achieve a healthy 2011? Only time will tell if the new measures the bank has put in place will contribute to its turnaround this year. However, given that it has diversified its portfolio, the outlook could be promising.

The bank also, in May, appointed Oscar Silva as its new CEO. With 28 years of experience in investment banking and asset management, focusing on emerging markets, Silva could herald hope for the bank's next stage of growth. Coupled with the bank's new business plans, GBCorp may be well positioned to make a meaningful return to Bahrain's banking scene this year.

As noted in its annual report for last year: "2010 was a year of introspection, followed by consolidation – of resources, business activities and planning. Today, with GBCorp's leaner and stronger operations, coupled with a carefully reconstructed economic shock-resilient business model, the bank is ideally positioned for a long-term sustainable flourish."

Islamic finance: Regulatory issues in the UAE

MOINUDDIN MALIM highlights the regulatory issues facing the Islamic finance industry and believes that a common platform should be established to regulate Islamic financial institutions globally.

The world discovered very late that Islamic financial institutions (IFIs) were not immune to global financial crises. While Islamic finance was not overtly exposed to the sub-prime crises, derivatives, or multiple securitizations, it has its own issues for which they need to go back to the drawing board.

The issues which have caused concern for IFIs are more pertinent to the way these institutions are organized and how they have or have not adopted the best practices when it comes to asset concentration, risk management, liquidity management, governance, service standards, training, quality, etc.

However, these issues are not widely faced by all IFIs in general but are more obvious where these institutions lack prudent management or clear strategic directives from the board of directors. These issues are further compounded in jurisdictions where the regulators have limited appreciation of the complexities of regulating Islamic entities.

Additionally, one of the key aspects that every regulator needs to understand, following the lead from Malaysia, is that IFIs cannot always be efficiently regulated under the same framework as the one they use for conventional institutions. It is time for the regulators, practitioners, scholars, lawyers, etc. to stop experimenting and adapt a model which is working well, such as the one followed in Malaysia, without sacrificing the sanctity of Shariah standards.

Regulatory issues

When the going was good, not a lot of emphasis was given to developing the core competencies of Islamic banking and finance. Even today, while a lot is done, a core limitation faced by Islamic finance is the ability to provide a full suite of products and services, training Islamic resources, risk management, operational efficiencies, transparency and discipline. The main dilemma faced by IFIs is that in high growth periods, while they exorbitantly lent out their balance sheet, they chose to ignore efficiency ratios, high cost of liquidity, maturity mismatches, asset allocation models, etc. A prudent regulatory framework would have limited these excesses, which were selectively ignored by most financial institutions.

Additionally, the idea of having too many regulations versus no or limited regulations also does not help. These things only surface in an economic downturn and look very rosy in the up-market. These excesses would have been only avoided with prudent management or regulations. Prudent regulations may not be popular during an up-market, but they are vital to keep entities in compliance. This is especially true in the case of IFIs, which have a tendency to avoid responsibility by claiming to be part of an industry in an infantile stage. It is time to grow up.

> *"A prudent regulatory framework would have limited these excesses, which were selectively ignored by most financial institutions"*

Islamic banking windows

The main competition to the IFIs is from the Islamic windows of conventional banks, whether domestic or international, as they have to adapt their Islamic offering under a standardized platform where each concept, product or service has to go through a series of checks and measures in addition to Shariah, including but not limited to risk, operations, compliance, legal, marketing etc. This makes Islamic windows better equipped to understand and deal with risk; more efficient, better service providers; and more focused on delivery.

Today, banks with Islamic windows in the UAE share 10% of the total Islamic finance industry and this percentage is growing at a faster rate than the actual growth rate of pure IFIs. This ratio is substantially higher in Saudi Arabia and Qatar (where Islamic banking windows are now scheduled to close due to the Central Bank of Qatar's directive).

While there is a common understanding among all regulators on how to regulate, monitor and manage conventional financial institutions, why can't the regulators especially in Muslim countries constitute a common regulatory framework and policy guideline on how an IFI should operate as a fully fledged bank or a window?

The route selected by Malaysia after experimenting with other models is an example every regulator needs to take guidance from. Why is it that every regulator needs to experiment with Islamic finance and why is it that every time it is the customer that has to suffer? Why can't every regulator set up a parallel yet separate regulatory framework similar to Malaysia?

The only justification or rationale one can draw is that perhaps the regulators themselves are not convinced of the legitimacy of the Islamic finance or they are just doing it due to customer or authorities' pressure and/or they do not have the time and appreciation to fully understand Islamic finance

There were times not long ago when the IFIs based out of the UAE and Islamic windows of global banks were leading Islamic debt capital market activities. The UAE was leading in terms of US dollar-denominated Sukuk. The lack of development in regulations has meant that banks have not developed much-needed sophistication and specialization, resulting ultimately in the markets not being encouraged to tap this avenue for raising capital.

Simply put, in the current environment, on one hand borrowers will always be at the mercy of banks to provide

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financing for all of their needs and on the other hand, depositors (especially retail) will always be at the mercy of the banks to invest their free cash flows with them and provide low returns instead of the investors directly investing in any fixed income instrument or alternative channels for investments.

The GCC countries, due to their position as economic power hubs based on rich oil and gas reserves, have never pushed organizing their domestic debt capital markets until recently when Saudi Arabia introduced the Tadawal Exchange where issuers were encouraged to list Sukuk/bonds. However, similar efforts are lacking elsewhere. While the UAE's ADX, DFM and Nasdaq Dubai allow the listing of Sukuk and bonds, one finds the basic regulatory framework lacking the push to encourage more domestic issuers to use this platform to issue domestic commercial paper in the form of a Sukuk or a bond.

A complete overhaul is required of the existing regulations, including the establishment of localized rating agencies to support the market, similar to countries like Malaysia. Unless the UAE develops an active domestic debt capital market, it will never be able reach the sophistication and financial acumen where every investor is able to create their own investment portfolio based on their risk appetite and where every issuer is able to put together an optimal capital structure with diverse sources of funding.

Next step

In the UAE and a few other jurisdictions, the next wave of growth in Islamic finance will come from the Islamic windows of conventional banks as they aggressively push forward to retain their customers from switching to 100% Islamic banks. There is a large segment of the population, whether retail or wholesale banking customers, who have now become more comfortable with Islamic banking products, services and terminology. Additionally, those days are gone where Islamic finance was more costly than conventional finance.

Today, if all remains equal, there are no differences in service standards and delivery platforms between Islamic and conventional banks, with both types of products and services being priced the same. Therefore, the choice of selecting whether to go with Islamic or conventional products and services is truly left to the preference of the customer.

It is also seen in all markets including the UAE that Islamic finance is not just limited to those who are the followers of this faith: rather it has also become acceptable with people of all faiths. It is difficult to ascertain the one single reason, why non-Muslims are also attracted to this industry. However, one of the many reasons is that there is no ambiguity in Islamic documentation, they expect Islamic finance to be more fair and they expect no hidden charges.

> ***"The legal framework available to foreclose on property is far more tedious and cumbersome for Islamic home financing than conventional"***

It is important to closely examine how Islamic products and services have emerged based on consumer demand, and how these are regulated, to make sure that development is based on the preference of the customer not on price, service quality or delivery platform.

A closer examination reveals that there are still basic issues unaddressed when we start flipping from page to page in the book of Islamic finance in comparison to conventional finance.

In an attempt to allow an IFI to function while not particularly focusing on the regulatory framework, it has been seen that attempts have been made at times to encourage Islamic finance to comply with the same norms as conventional finance and at times a totally divergent view is taken.

The regulators and authorities need to have clarity of purpose, if they want Islamic finance as part of mainstream finance. Then they need to bring about regulations which bring Islamic finance at par with conventional finance.

A case in point is home financing, which was started in Dubai by two IFIs, namely Amlak and Tamweel, prior to anyone taking a serious commercial interest in this business. This is not a new product from a global perspective, where the industry is highly developed, mature and regulated, and has also witnessed two major downturns due to the sub-prime crisis.

One would argue that as this product was started by Islamic entities, the regulation built around this product should benefit both the financiers and obligors. One could also assume that Islamic finance will have an edge in terms of regulatory framework or at least be at parity with conventional financing products for the same.

However, if one closely examines this product being marketed by both IFIs and conventional financial institutions, we notice the way different authorities and regulators have positioned and created policy frameworks for this product, making Islamic offerings inferior to conventional products, especially if there is any stress or event of default where the financier needs to repossess the property.

The legal framework available to foreclose on property is far more tedious and cumbersome for Islamic home financing propositions than conventional ones. Without going into details, it can take six to nine months longer for an IFI to foreclose in case of a default than for a conventional provider of similar product.

Conclusion

While it is time for IFIs to grow up and show maturity rather than become complacent under the banner of being part of an infantile segment of the financial world, it is also time for the regulators to unite and establish a common platform to regulate IFIs globally.

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Islamic banking in Bangladesh

MD TOUHIDUL ALAM KHAN discusses why Islamic banking is gaining momentum in Bangladesh.

Islamic banking in Bangladesh will celebrate its golden jubilee in 2033, on the eve of 50 years of banking. The present shape of Islamic banking in the country is being modernized in terms of this changing scenario, in tandem with the forecast for the world economy in 2033. Realizing the importance of this, the central bank, Bangladesh Bank, recently introduced new guidelines for Islamic banking.

The central bank stated that as Islamic banking has become a part of mainstream banking in Bangladesh, it is necessary to introduce the guidelines to bring greater transparency and accountability. With this circular, Islamic banks now have a legal framework recognized by Bangladesh Bank and the government. Islami Bank Bangladesh, the first Islamic bank in the country, has gained the premier position among the private banks in terms of deposits, investment, export and import and remittance collection in the country.

Islamic financial institutions in Bangladesh

Islami Bank Bangladesh started its Islamic banking operations in 1983. Now, there are seven Islamic banks out of the 47 banks in the system and 15 banks with Islamic operations.

In addition to the 47 banking institutions there are 29 non-financial institutions (NFIs) in the country. Two of these, Islamic Finance and Investment and Hajj Finance Company, operate on Islamic principles.

Investment-deposit position under Shariah compared with conventional banking

The total figure of deposits under Shariah financing is BDT669.54 billion (US$8.95 billion) out of total bank deposits of BDT3.46 trillion (US$46.28 billion) and the Islamic investment position is BDT646.47 billion (US$8.64 billion) out of total bank credit of BDT3.79 trillion (US$50.78 billion) as at the 31st December 2010. Islamic banking constituted 19% of deposits and 17% of advances of the country's total banking system in 2010.

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Bank data as at the 31st December 2010 (figures in US$ million)

No.	Name	Year of banks / Islamic banking establishment	Number of branches	Deposits	Investments	Profit/ loss
Fully fledged Islamic banks						
1	Islami Bank Bangladesh	1983	251	3894.16	3904.87	152.86
2	ICB Islami Bank	1987	33	171.12	193.85	N/A
3	Al- Arafah Islami Bank	1995	78	842.25	762.03	24.2
4	Social Islami Bank	1995	64	601.6	494.65	23.4
5	Export Import Bank	2002	53	1186.1	1247.6	81.15
6	Shahjalal Islami Bank	2001	63	840.51	820.72	51.74
7	First Security Islami Bank	1999	66	748.66	681.82	16.18
Local banks with Islamic branches/windows						
1	AB Bank	2004	1	96.37	93.58	2.13
2	Dhaka Bank	2003	2	32.18	29.41	2.1
3	Jamuna Bank	2001	2	33.42	26.74	2.34
4	Prime Bank	1995	5	163.02	151.58	10.13
5	South East Bank	2003	5	132.75	82.42	4.92
6	The City Bank	2003	1	12.03	8.69	0.6
7	The Premier Bank	2003	2	75.95	27.53	1.79
8	Standard Bank	1999	2	0.27	N/A	N/A
9	Trust Bank	1999	5	17.38	10.7	N/A
10	Bank Asia	2008	5	44.12	33.42	1.35
11	Pubali Bank	1997	1	0.53	0.13	N/A
12	Sonali Bank	2010	5	0.49	0.48	N/A
13	Agrani Bank	2010	5	1.18	0.37	0.0013
Foreign banks with Islamic branches/windows						
1	StanChart Saadiq	2004	1	13.37	13.37	2.67
2	HSBC (Amanah)	2004	1	2	1.74	1
	Sub Total (US $)			122.3	117.86	5.2
Non-Islamic banking financial institutions						
1	Islamic Finance & Investment Company	2001	6	34.12	47.77	2.9
2	Hajj Finance Company	2006	2	7.49	9.22	0.17
	8	3112	4263	230		
Sub total (US$)		**41.6**	**56.99**	**3.07**		
Grand total (US$)		**8,951.07**	**8,642.69**	**381.63**		

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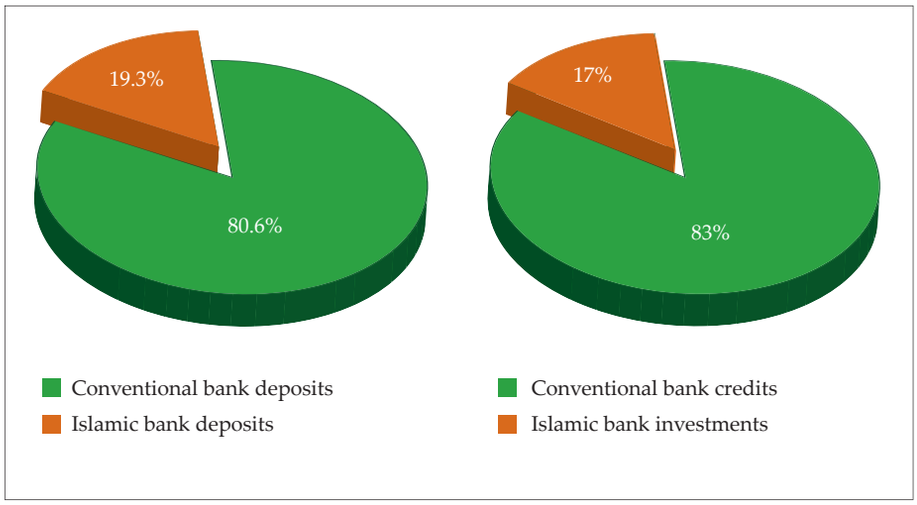
First Shariah-based syndication financing in Bangladesh

A total of three syndication deals have been concluded in the country. In 2006, Prime Bank Bangladesh acted as the lead arranger of the first Shariah-based syndication deal for a pharmaceutical project in which three Islamic banks participated.

Three years later, Prime Bank arranged funds through another syndication deal for a ceramic tiles manufacturing project where six Islamic banks participated. Islami Bank Bangladesh also participated in this deal.



Why is Islamic banking gaining momentum in Bangladesh?

The country's Islamic finance boom can be attributed to a number of factors. Bangladesh is the world's third largest Muslim-majority country, with Muslims making up more than 80% of the nation's population of 148 million. As the religion prohibits earning or paying interest, Islamic banking makes it possible to operate interest-free business, contributing to its growth momentum in Bangladesh.

The growth rate of Islamic banking in the country is 15%-20%, while for conventional banks it is 10%-15%. Islamic finance is one of the fastest growing sectors in the financial industry in Bangladesh.

The industry, at present, has been growing at 20% per annum. The growth follows a guideline for Islamic banking released by the central bank in November 2009 which allowed the introduction of either new fully fledged Islamic banks or the conversion of conventional banks into Islamic. The new regulations also restricted further banks with dual operations.

Despite the restriction, the industry is growing and industry watchers feel that if the rate of growth continues, Islamic banking in Bangladesh will become the mainstream system within the year 2025.

In a recent seminar Dr Atiur Rahman, the governor of Bangladesh Bank, said: "The strengths of Islamic banking served well to protect Islamic banking during the global financial crisis while many conventional banks and financial institutions collapsed, including some with global stature and renown. The profit and loss sharing nature of liabilities of Islamic banks is a good safeguard against solvency risk, while prohibition of financial speculation serves well in keeping their books free of speculative assets and derivatives that proved toxic and worthless in the crisis.

"These strengths of Islamic banking are now attracting conventional banks in increasing numbers, including large global ones, into Islamic modes of financial services." It was also concluded from the seminar that by 2025, the market share of Islamic banking will rise to 55% and it will become the country's mainstream banking system.

Kawsar Ahamad, the executive officer of Prime Bank, who also looks after the investment portfolio of all of the bank's Islamic branches, opined that one of the challenges faced by Islamic banking in Bangladesh is that: "In a mixed economic and financial system such as that in the country, where both the conventional and Islamic banking systems prevail, sometimes bank-to-bank transactions and international transactions may not be done in compliance to the full Shariah system."

Another challenge facing the growth of Islamic banking is inadequate Shariah compliant working capital modes of finance. Hence proper attention from the government and all other regulatory bodies, especially the central bank, is required to boost Shariah compliant banking.

Conclusion

The absence of a Shariah compliant money market system is also a hindrance for the growth of Islamic banking in the economy. Besides this, Ahamad feels deeply that a profit-based model is the prime need instead of an interest-based model in pricing and designing Islamic financial products.

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Islamic finance in Syria: Four years of achievements

In spite of the short time since Islamic banks came into existence in Syria, they have achieved very good results, and are on par with most major indicators. ABDEL QADER EL-DOUWEK discusses.

The year 2000 saw the beginning of a new phase of economic reform in Syria, with a framework to develop the performance of various sectors of the economy and its components and a large package of legislation aimed at creating an investment-conducive environment and strengthening the role of the private sector in economic development.

The law of private banks and joint No. 28 of 2001 allowed the establishment of private banks, after a long period of control of public banks in Syria.

This was followed by Legislative Decree No. 35 of 2005, under which the judge allowed the establishment of Islamic banks. By the end of 2010, there were 14 private banks, including three Islamic banks. The first Islamic bank in Syria was set up at the end of 2007, and in spite of the existence of only three Islamic banks, their market share continues to increase.

Progress of Islamic banks

It should be noted that the role of the Islamic banks is in investing a huge amount of previously un-utilized savings. In spite of its short period of work, the share of Islamic banks in the market has shown continuous growth, with Islamic banking sector deposits making up 16.4% of the total private bank sector deposits at the end of 2010, recording a growth of 28% at the end of 2010 compared to 2009.

The percentage of Islamic finance out of the total finance provided by the private bank sector was 16% at the end of 2010, recording a growth of 29% at the end of 2010 from a year earlier. The assets grew to SYP100 billion (US$2.11 billion) at the end of last year compared with SYP74 billion (US$1.56 billion) in 2009, with a growth rate of 34%.

Syria International Islamic Bank (SIBB)

In spite of the short time since Islamic banks came into existence in Syria, they have achieved very good results, and are on par with most major indicators. SIIB, for example, which entered the market more than four years ago, has proven itself to be a strong competitor to the private Syrian banks.

SIIB in 2010 achieved distinctive profits that enabled it to maximize the equity of shareholders and establish its presence in the Syrian banking market. The bank stands on a solid base, opening 23 branches and offices, allowing it to attract more than 150,000 customers.

> ***"The first Islamic bank in Syria was set up at the end of 2007, and in spite of the existence of only three Islamic banks, their market share continues to increase."***

The excellent performance of the bank is derived from its commitment to work according to Shariah rules and regulations. It has also set up a healthy capital base and strong strategies and policies. The bank uses the optimal and proper methods of financing and investment, geographic studies, and action plans that have been implemented on the ground. The products and services offered by SIIB in 2010 are:

1) Personal funding: Retail/product/ personal funding, Murabahah;

2) Products and services/deposits: Unrestricted deposit investment accounts;

3) Types of unrestricted investment deposit accounts;

4) International trade finance services;

5) Financing via Murabahah credits;

6) Musharakah Thabita;

7) Musharakah Mutanaqisah ending with the client ownership;

8) Credit cards;

9) E-banking.

Furthermore, as at the end of 2010, SIIB's total assets increased to SYP77.5 billion (US$1.64 billion); investments through Wakalah amounted to SYP14.7 billion (US$317 million) and its net income amounted to SYP746 million (US$15.8 million) while paid-up capital reached SYP7.5 billion (US$158 million).

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Challenges of Shariah supervision in Islamic financial institutions

DR HUSSAIN G RAMMAL discusses the roles and responsibilities of Shariah supervisory bodies, which tend to vary from one country to another.

An important part of the governance structure of Islamic financial institutions is the role of the Shariah supervisory board (SSB). The SSB consists of a number of Shariah advisors whose purpose is to ensure that the operations of the financial institution are in conformity with Shariah requirements. Hence they act as advisors to the management committee members and ensure compliance through appropriate checks and balances of the institution's financial transactions.

But the role of the Shariah advisor goes beyond fulfilment of just these duties. As the commercial Islamic banking system is still in its infancy, the lack of knowledge about the sector remains a real concern. This knowledge gap means that many customers and bank staff have questions about the Islamic financial system and often utilize the services of the Shariah advisors to seek clarity.

The advisors therefore are indirectly involved in educating the financial institutions' staff and the wider community about the features of the Islamic system and how they relate to Shariah.

Members of the SSB are compensated by financial institutions for their services. However, the Shariah advisors are seen as representatives of the regulatory bodies of the country (such as the central banks) and are expected to take appropriate action against the financial institution if a breach of the rules is detected.

If the breach is found to be unintentional, then the SSB can declare the related transaction to be null and void and would ask the bank to pay a fine to a charity. However if the breach is deliberate then the SSB would need to inform the central bank so that appropriate action can be taken.

Issues

A major concern for the industry is that the roles and responsibilities of the SSB tend to vary from one country to another. There also remain inconsistencies in the way new products are evaluated and approved which has led to organizations 'selecting' advisors who they believe would support the introduction of their financial products. The AAOIFI has made attempts to clarify the role of the Shariah advisors and has set standards for the appointment and composition of SSBs.

> ***"Other related areas of concern are the issues of training Shariah advisors, and the establishment of appropriate educational infrastructure"***

These standards state that the authority to appoint SSB members should be vested in the annual general meeting of all shareholders of the institution; and specify the minimum number of advisors required in a SSB.

However, the central banks of many Islamic countries are yet to incorporate the AAOIFI standards and tend to have their own regulations regarding the minimum qualifications required to perform the duties of the Shariah advisor, the minimum and maximum number of advisors in each institution, and whether the authority to approve products and procedures lies with the individual banks or the central banking authority.

With no standard application of rules, Shariah advisors in some countries are permitted to offer their services to more than one financial institution. As these advisors are seen as internal advisors rather than external advisors, being employed by more than one financial institution is seen as a direct conflict of interest.

So why do these inconsistencies exist? The answer to this issue lies in the limited pool of qualified Shariah advisors available worldwide. The number of Shariah advisors has been increasing over the last decade. However many of these are inexperienced and require the guidance and support of experienced advisors.

According to a report published by Britain's Financial Services Authority in 2007, the shortage of appropriately qualified scholars raises concerns over the ability of SSBs to conduct their duties with rigor. Some industry experts suggest that there are only about 60 scholars in the world that are qualified and experienced enough to advise the financial institutions that offer Islamic financial products.

Therefore, one way institutions are overcoming this shortage is by hiring scholars and advisors who are already performing their duties in other organizations.

Other related areas of concern are the issues of training Shariah advisors, and the establishment of appropriate educational infrastructure. The commercial launch of the Islamic banking and finance system was undertaken without proper investment in the infrastructure that is necessary for its sustained growth.

While large Islamic banks overcome this issue by employing the services of experienced Shariah advisors, some small and medium-sized Islamic financial institutions fulfil their obligations by hiring the services of those advisors who fulfil the minimum qualification criteria set out by the central banks.

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These advisors do not have the necessary knowledge about the finance industry or the experience of working with commercial enterprises.

> ***Governments need to support their industries by investing in appropriate educational infrastructure and establishing higher educational institutions that can provide specialized training in Islamic banking and finance***

Such is the case in countries like Pakistan where the minimum requirement laid out by the central bank is that the advisor should be trained in religious education. Many advisors add to this knowledge by undertaking additional training related to banking and finance, and economics, which means that in the short-term the lack of financial knowledge remains an issue.

Another issue faced by the industry is the lack of educational infrastructure. This is especially the case in many Islamic countries where Islamic banking and finance-related courses are yet to be made available through the higher education system.

While countries like Malaysia have made attempts to address this issue, the number of institutions offering Islamic banking courses in the UK outnumbers similar institutions in Iran, Pakistan and many other Muslim-majority countries.

Future direction

In the aftermath of the global financial crisis, the issues of governance, transparency and accountability have become more important than ever before. For Islamic financial institutions, the SSB is an important part of the governance structure that legitimizes the operations of the institution and therefore adds to credibility of the sector.

The concerns about the multiple SSB membership of advisors, lack of proper training, and shortage of advisors need to be urgently addressed. In the short-term, financial institutions have overcome the shortage of scholars by hiring experienced advisors who operate in multiple organizations.

But there are concerns that the industry has not planned for appropriate replacement when these experts retire. The industry collectively needs to find ways of addressing this concern.

The role of the AAOIFI has expanded from being a regulatory agency to also providing educational support. There is a need for the creation of a standardized educational program for the training of Shariah scholars, and the AAOIFI and the central banks have the opportunity to work together to achieve this.

Such a program should be used universally in the training of advisors and will therefore allow the sector to overcome some of the inconsistencies in application found across countries.

Governments need to support their industries by investing in appropriate educational infrastructure and establishing higher educational institutions that can provide specialized training in Islamic banking and finance. Investing in such facilities would ensure that the educational institutions are able to produce qualified advisors who can respond to the demands of the Islamic finance industry.

In the long-run such a move will allow countries to work towards adopting the Shariah supervision framework and regulations proposed by the AAOIFI. Education and training is the key to the long-term growth of this sector and will lead to the development and application of good governance practices.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 30

China remains an attractive frontier

Cover Story

In August last year, the IMF officially ranked China as the world's second largest economy, taking possession of the title Japan has held for over 40 years. Following the introduction of market-based economic reforms in the late 1970s, the country has become the world's fastest growing major economy, the world's largest exporter and second largest importer of goods.

China is also the world's largest car market and biggest energy consumer and is the most populous state in the world, with over 1.3 billion citizens. Analysts predict that the economic superpower is slated to become the world's biggest economy, taking the top spot from the US between 2020 and 2030.

Two stock exchanges operate independently in China – the Shanghai and the Shenzhen Stock Exchange. As at the end of 2010, Shanghai's bourse had 1,500 listed securities and 894 listed companies, with a combined market capitalization of CNY17.9 trillion (US$2.77 trillion) and a total of 98.51 million trading accounts.

There are currently 11 Islamic/Shariah compliant funds that have investments in Chinese markets. The bulk of these funds are heavily concentrated in Hong Kong stocks, China's H-shares (Chinese stocks listed in the Hong Kong Exchange) as well as the Taiwan market. Prior to 2002, foreign investors were only allowed to purchase these types of shares.

A-shares, comprising of stocks of mainland China-based companies trading on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, were previously only available to domestic investors as the Chinese authorities wanted to exercise tight capital controls to restrict the movement of assets in and out of the country.

In 2002, the Chinese authorities launched a tightly regulated Qualified Foreign Institutional Investor (QFII) program that permitted foreign investors to buy and sell yuan-denominated A-shares in the two bourses. The China Securities Regulatory Commission website listed 68 QFIIs as at the end of September 2009. The advantage given to QFIIs is that they are provided with stocks from a wider choice of sectors that are not available in the H-share market; such as automotives, utilities, precious metals and minerals.

As of June, there were over 1,300 A-shares listed in the two stock exchanges, compared to 134 H-shares.

One manager of an institutional Islamic fund was quoted as saying that the preference was towards H-shares that are listed in Kong Kong as there was a lack of transparency in the Shanghai market as well as being a mainly 'retail-driven' index.

The first Shariah compliant fund to offer direct access into China's A-shares market was the HwangDBS AIIMAN A20 China Access Fund (Vol 8, Issue 27). The fund leverages its investments through five QFII holders to obtain exposure to China's domestic equities.

China's economy has not been spared from the side effects of its exponential growth. A major concern is its rising inflation rate and over the last nine months, authorities have raised interest rates five times as well as increasing banks' required reserve ratio as much as nine times. Such stringent measures have created little impact and the country's inflation rate has soared to 6.4%, a three year high.

The other concern suggesting a slowdown in China's economy comes in the form of July's data from the Chinese government's official Purchasing Managers' Index (PMI), which dropped 0.2 points from 50.9 in June. HSBC China PMI painted a bleaker picture with a fall from 51.6 to 49.3, the lowest since March 2009. The PMI tracks business conditions in factories before the release of the official monthly output data.

Despite the softening economy, analysts still expect China to experience continuous growth in the long-term due to its robust domestic demand. The slower growth is expected to lower the inflation rate to reasonable levels and cause the market to move back up. Perhaps now is the right time for more Islamic funds to invest in China's A-shares market and capitalize on the uptrend ahead.

In this issue...

NCB Capital campaign drive

SAUDI ARABIA: NCB Capital is planning a one-year campaign of Islamic fund launches in order to capitalize on the increased demand for mutual funds as well as the growing private wealth management segment.

Four Islamic funds will reportedly be invested in various sectors in the kingdom including real estate, equities, and small and medium-sized enterprises (SMEs). The SME fund will be structured as an Islamic private equity fund.

Public Mutual's stable growth

MALAYSIA: Public Mutual has reported a 58% market share of the Islamic unit trust fund sector as its net assets under management rose 21.7% year-on-year to RM44.4 billion (US$15.02 billion) in the first half of 2011.

The firm recorded a 24% increase in pre-tax profit in the six months to the 30th June 2011, with its net assets accounting for 44% of Malaysia's market for mutual funds.

Distributions declared

MALAYSIA: Public Mutual has declared a net distribution of RM286 million (US$97 million) for 10 of its funds for the financial year ended the 31st July 2011.

Its Public Islamic Opportunities Fund generated a return of 11.3% for the one-year period ended on the 15th July with a gross distribution of 3 sen (1.02 US cents) per unit.

Public Islamic Select Enterprises Fund had a gross distribution of 2 sen (0.68 US cents) per unit as well as a return of 26.88% for the same period.

The Public Islamic Select Bond Fund and the Public Islamic Income Fund recorded returns of 4.77% and 5.67% respectively with gross distributions of 5 sen (1.7 US cents) and 3.5 sen (1.19 US cents) per unit.

Strong growth rate

PAKISTAN: The value of Islamic income funds increased by 238% to PKR20 billion (US$231.46 million) in the financial year ended on the 30th June 2011, according to InvestCap Research.

This contributed to the 25% asset growth of the mutual fund industry to PKR250 billion (US$2.89 billion) in the period under review, compared to a decline of 2% in the financial year ended the 30th June 2010.

Oasis in Europe

SOUTH AFRICA: Oasis Group Holdings is planning to set up an office in London to tap into the European market.

The company, which currently has an office in Dublin, is looking to attract institutional investors from the UK and Europe.

The group, which manages about ZAR30 billion (US$4.4 billion)-worth of assets, offers both conventional and Shariah compliant funds. Its Islamic offerings reportedly comprise a total of 63 Islamic domestic and offshore funds

Growth of Shariah compliant funds in Luxembourg

PIERRE OBERLÉ looks at the special benefits Luxembourg offers to Shariah compliant fund promoters, and reviews the latest developments in this area.

Luxembourg's strengths in conventional investment funds make Shariah compliant investment funds a natural next step. Over the past 20 years, the Grand Duchy has become the leading center for global fund distribution and Europe's number one fund domicile in terms of assets. It now also ranks in the top five domiciles for Islamic funds.

The development of UCITS and implications for Shariah compliant investments

While Luxembourg's success in the fund industry is a result of its business model, it is above all the success story of a truly European idea: the UCITS framework, which celebrated its 25th anniversary last December. On the 16th December 2010, the Luxembourg Parliament ratified UCITS IV, making Luxembourg once again — as in 1985 and 2002 — the first EU country to incorporate the new rules into national law.

UCITS stands for 'Undertaking for Collective Investment in Transferable Securities', and derives from a European directive of the 20th December 1985 that introduced a single EU-wide regulatory regime for open-ended funds investing in transferable securities such as shares or bonds.

This directive is aimed at ensuring high levels of investor protection; it regulates the organization, management and oversight of UCITS funds, and sets rules for diversification, liquidity and risk management.

One key aspect of UCITS is the 'European passport', which makes it easy for a fund domiciled in one EU country to be sold to investors in all the others. Over the years, UCITS has become a strong global brand, and these funds are now well accepted in many non-European jurisdictions. Today Luxembourg-domiciled investment structures are distributed in more than 65 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

Over time, Luxembourg has also become the leading center for global distribution of investment funds. By the end of 2010, 75% of all funds sold in at least three countries were domiciled in the Grand Duchy, and its leadership in cross-border fund distribution has made a decisive contribution to its growth, attracting fund promoters from around the world. More recently, these have included promoters of Shariah compliant funds — a natural development, since the UCITS structure is well suited to the principles of Islamic finance.

> ***"Because UCITS funds are designed primarily for retail investors, their main concern is safety, and their rigorous investment policies are consistent with Shariah law's prohibition of gharar (uncertainty)"***

Because UCITS funds are designed primarily for retail investors, their main concern is safety, and their rigorous investment policies are consistent with Shariah law's prohibition of gharar (uncertainty). UCITS funds are therefore especially appropriate for Shariah compliant fund promoters targeting retail or institutional investors worldwide.

The UCITS framework has evolved over the years. UCITS III, adopted in December 2001, consisted of two directives: the Management Company Directive and the Product Directive.

The Product Directive allowed funds to invest in a wider range of financial instruments, making it possible for promoters to establish money-market funds, index-tracking funds and derivative funds as UCITS funds. But whereas including derivatives as eligible assets for UCITS funds has encouraged the use of more innovative investment strategies, not all of these new strategies are suitable for Shariah compliant funds.

UCITS IV brought still more innovation, introducing a passport for management companies that allows a UCITS fund to be managed by a company authorized and supervised in a member state other than its home member state.

The new directive aims to achieve economies of scale by facilitating mergers between funds located in different European countries, and through a master-feeder structure which provides for pooling of assets.

In addition, the Simplified Prospectus required under UCITS III is replaced by a Key Investor Information Document (KIID), a two-page sheet containing information that must be fair, clear and not misleading.

Last but not least, UCITS IV introduces a new regulator-to-regulator notification procedure for cross-border marketing of UCITS funds within the EU. None of the new measures will have a specific impact on Islamic funds, but promoters of these funds will benefit from UCITS IV innovations along with the rest of the industry.

The list of fund promoters with Shariah compliant vehicles in Luxembourg shows that prominent international names in conventional investment funds have been quick to climb aboard. In most cases, these promoters already

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had a conventional range domiciled in Luxembourg and simply added a Shariah compliant fund.

More recently, smaller players from the Middle East have also begun setting up funds in the Grand Duchy. These promoters usually already operate funds for domestic investors in their home countries but have difficulty selling them abroad. For them, Luxembourg's international reach has definite appeal. While this is still a new trend, it is set to intensify in the coming months, with a number of projects now in the pipeline.

Though UCITS is the preferred structure for Islamic fund promoters targeting retail or institutional investors in different countries, SIFs (specialized investment funds) and other structures may be more appropriate, depending upon the promoter's investment strategy and targeted investor base.

When SIFs were introduced four years ago, they paved the way for a new generation of alternative investment funds targeting an international, qualified investor base. More than 1,200 SIFs have been launched since this option was created, and they are often used for Shariah compliant real estate and private equity funds.

Developments at the institutional level

Islamic finance has also benefited from initiatives by Luxembourg's government, which is strongly committed to helping it grow. In early 2008, the government set up a taskforce to identify obstacles to the development of Islamic finance and suggest ways to promote its growth.

ALFI, the representative body of Luxembourg's fund industry, simultaneously launched a dedicated working group that conducted research into assets eligible for Shariah compliant UCITS funds. It also started to develop best-practice guidelines for financial services in this area, and reviewed the tax treatment of Shariah compliant vehicles.

The group's report concluded that Luxembourg was able to offer a range of vehicles (such as UCITS and SIFs) that are appropriate for Shariah compliant investment, meeting the specific needs of both investors and promoters without additional legislation.

In a note published in May 2011 the CSSF, the Grand Duchy's financial regulator, took the same view, concluding that no specific legislation was required for Shariah compliant investment funds, since Luxembourg's current law contains no obstacles to it. The CSSF also noted that the role of the Shariah Board would have to be described in each fund's prospectus.

Taxation was the only area in which special action was taken. In January 2010, Luxembourg's direct tax authority published a circular on Islamic finance, clarifying the tax treatment of Murabahah contracts and Sukuk transactions, and in June 2010, a circular from the indirect tax authority clarified treatment of Murabahah and Ijarah contracts.

> ***"In early 2008, the government set up a taskforce to identify obstacles to the development of Islamic finance and suggest ways to promote its growth"***

Administration of Islamic funds raises another essential question. Administrators are naturally required to understand how Shariah compliant funds work, but their systems must also be adapted to accommodate them. Shariah law bans usury and short-selling, and prohibits investment in forbidden goods and services, and complying with these requirements affects administration of an Islamic fund.

For example, in a long-only Shariah fund, the administrator will provide oversight of the fund manager by monitoring and checking for Shariah compliance: if an improper trade is made (e.g., the shares of a company engaged in haram business are traded), the administrator will cancel the trade, with any losses covered by the manager and any gains donated to charity.

Also, because a Shariah compliant fund cannot earn interest on its investments, standard cash management services often cannot be used, since cash held by Shariah funds must be kept separate from cash held by all other funds.

And because most commonly-used fund accounting platforms cannot provide Shariah compliant fund accounting, service providers often have developed their own reporting method to comply with Shariah rules.

In July 2008, ALFI launched a working group to identify potential operational challenges linked to servicing Shariah compliant funds, find solutions, and recommend standard practice for local players. In the course of their work, the group's members have built a shared understanding of the operational challenges faced by Shariah compliant funds and their service providers. The group has now begun work on guidelines for Shariah compliant fund administration.

Today, there are over 40 Shariah compliant fund units domiciled in Luxembourg. Compared with the total of 13,000 Luxembourg-domiciled fund units, they are still a niche activity — but this is clearly only the beginning of the story. Key figures in government and in the financial sector see Shariah compliant funds as a promising opportunity for growth.

Pierre Oberlé is the business development manager at the Association of the Luxembourg Fund Industry (ALFI). He can be reached at pierre.oberle@alfi.lu.

SWIP Islamic Global Equity

The fund aims to provide investors with long-term capital growth by investing in global equities. The portfolio contains shares from around 35 – 45 companies whose activities are compliant with Islamic Shariah principles.

What led to this fund being launched?

SWIP recognized that there was a market opportunity given the increase in Islamic banks in the UK and investor demand for truly Shariah compliant investment products.

Why has this particular region / asset class been chosen?

SWIP has an innovative product development process which involves in-depth market research aligned closely to the needs and requirements of its potential and existing clients. The launch of the Global Islamic Equity Fund complemented the SRI, Ethical and Environmental mandates that SWIP already managed.

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

Stock selection. The fund is a concentrated portfolio which represents our high conviction stock ideas. Our stock selection is focused on identifying the best opportunities through vigorous fundamental research. In general, we look for good quality companies whose long-term earnings power is not currently reflected in the share price – companies who from our perspective have a competitive market position and clear, robust business strategies.

Who are your investors?

Predominately institutional investors and UK fund platforms, although the fund is suitable for retail investors too. We do have clients from the Middle East and Malaysia.

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

The majority of risk is in companies – approximately 80%. The rest is with sector and other factor allocations such as currency.

How often do you review this fund?

The fund and stocks are reviewed on a daily basis.

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

We are overweight the energy sector as we believe that the medium and long-term supply / demand dynamics support a higher oil price. In particular, we are positive on the oil services segment, which will benefit from the significant capex that is due to be spent on exploration and production development over the next 5 – 10 years.

What are the sectors you have recently exited and why?

We have recently moved to an underweight position in the industrials and materials sectors. We believe that given the strong performance of the industrial sector over the last two years, slowing growth in the general business cycle will result in slowing earnings growth and falling valuation multiples across the sector. We have again reduced positions in specific companies that we believe are exposed, whilst maintaining overweight positions in companies that we believe have fundamental stock specific and / or valuation drivers.

What is the market outlook for this fund?

As per above, we are strong believers in structural drivers in the energy sector and are also very much searching for bottom-up stock ideas across sectors that can deliver earnings growth regardless of broader economic conditions.

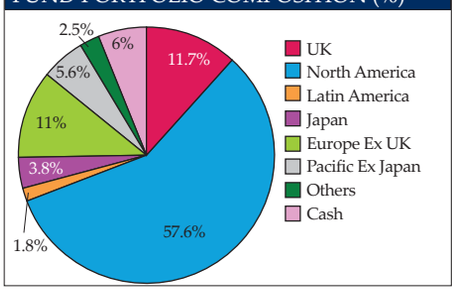
FACT SHEET

Fund manager	Johnny Russell
Trustee	State Street
Shariah adviser	Sheikh Nizam Yaquby Dr Muhammed Imran Ashraf Usmani Mufti Abdul Kadir Barkatullah Mufti Muhammad Nurullah Shikde
Benchmark (Index)	DJ Global Islamic Index
Domicile	Luxembourg
Inception date	November 2005
Fund characteristics *(as at the 30th June 2011)	**Fund Size** US$61.8 million **NAV per share** US$1.41 **Minimum Investment:** B Share Class US$5,000,000 subsequent US$10,000 **Management Fee** B Class – 0.75%

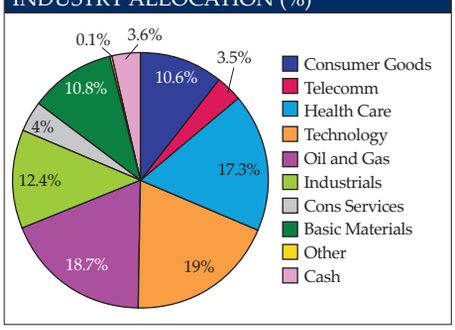
***PERFOMANCE SUMMARY**

	SWIP Global Islamic Equity Fund	Index
YTD Return	8.5%	4.9%
Cumulative return since inception	52.77%	44.28%
Annualized return since inception	7.85%	6.75%

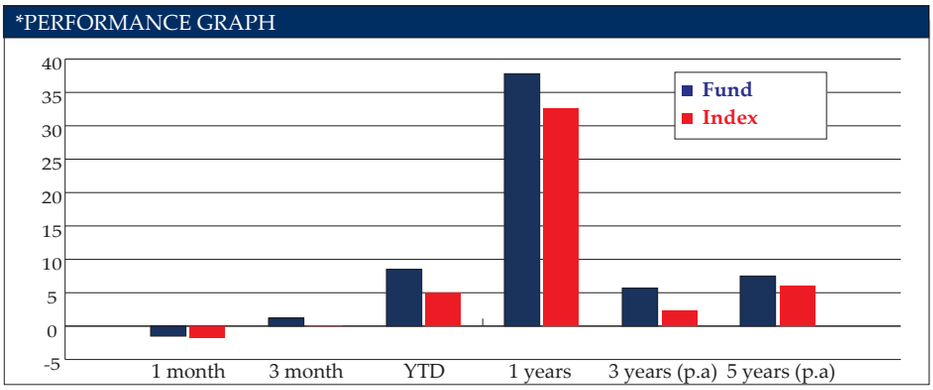
FUND PORTFOLIO COMPOSITION (%)



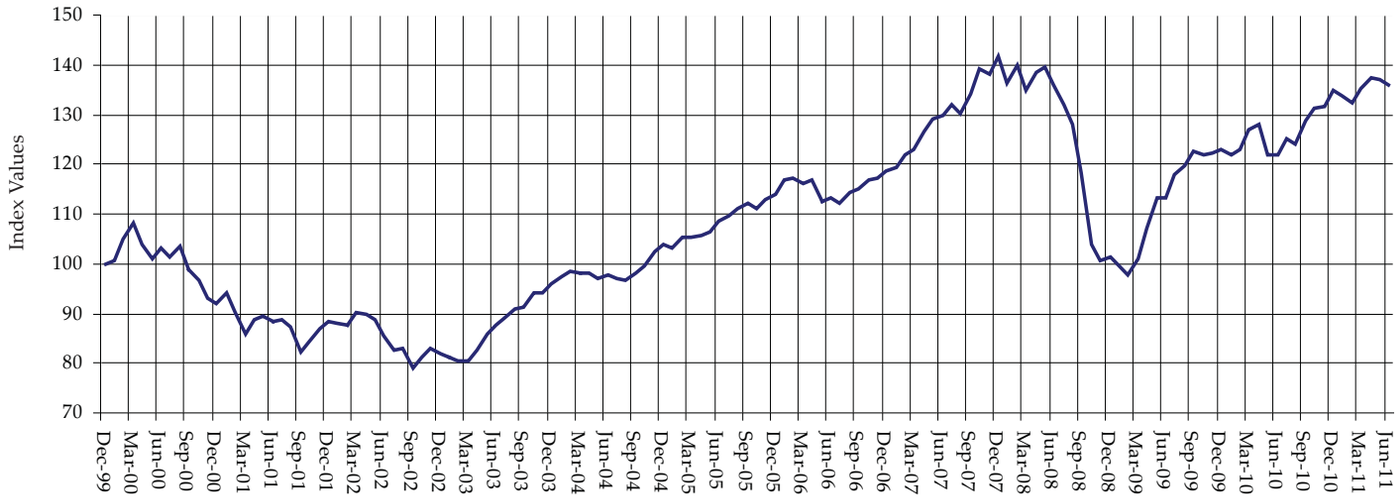
INDUSTRY ALLOCATION (%)



***PERFORMANCE GRAPH**



Eurekahedge Global Islamic Fund Index



Top 10 Monthly YTD returns for ALL funds

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	BIMB i-Growth	BIMB UNIT Trust Management	22.88	Malaysia
2	Al-Beit Al-Mali	Qatar National Bank	16.88	Qatar
3	ETFS Physical Silver	ETFS Metal Securities	14.05	Jersey
4	JS Islamic	JS Investments	12.65	Pakistan
5	Kenanga Syariah Growth	Kenanga Fund Management	12.29	Malaysia
6	Solidarity International Real Estate	Solidarity Funds Company	11.53	Bahrain
7	Al Madar US Index	Almadar Finance & Investment	10.13	Kuwait
8	Public Islamic Select Enterprises	Public Mutual	10.01	Malaysia
9	ASBI Dana Al-Falah	BIMB UNIT Trust Management	9.92	Malaysia
10	Meezan Islamic	Al Meezan Investment Management	9.68	Pakistan
	*** Eurekahedge Islamic Fund Index**		**1.06**	

** Based on 96.36% of funds which have reported June 2011 returns as at 1st August 2011*

Top 10 Sharpe ratio since inception for for ALL funds

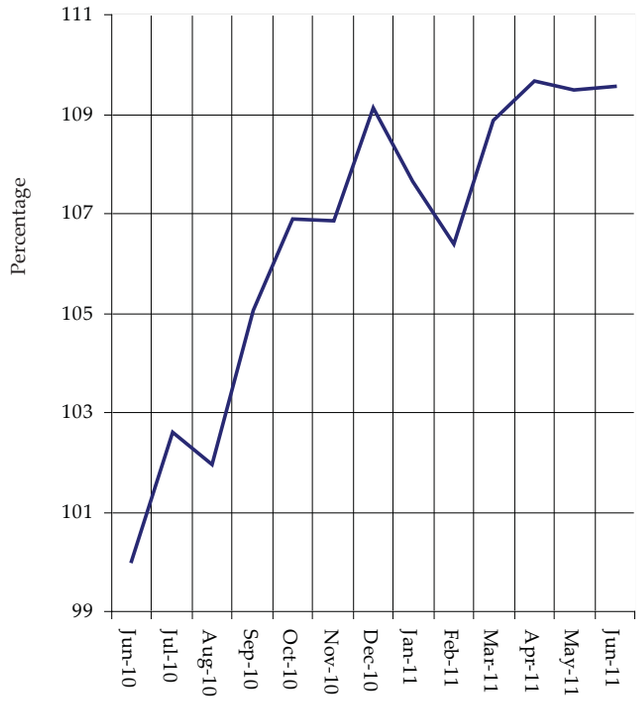
	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	9.29	Pakistan
2	Insight I-Hajj Syariah	Insight Investments Management	7.99	Indonesia
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	5.24	Pakistan
4	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	4.50	Pakistan
5	SR International Trade Finance - (Al Sunbula)	Samba Financial Group	3.58	Saudi Arabia
6	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	3.33	Saudi Arabia
7	Commodity Trading - SAR	Riyad Bank	3.17	Saudi Arabia
8	Public Islamic Money Market	Public Mutual	3.16	Malaysia
9	USD International Trade Finance - (Al Sunbula)	Samba Financial Group	3.10	Saudi Arabia
10	BLME Sterling Liquid	Bank of London and The Middle East	2.88	Luxembourg
	*** Eurekahedge Islamic Fund Index**		**0.08**	

** For funds having a track record of at least 12 months as at end June 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 Balanced Index over the last 5 years

Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Fund of Funds by 3 Month Returns

	FUND	FUND MANAGER	3-Month Return (%)	FUNDDOMICILE
1	Al Rajhi Balanced Fund 2	Al Rajhi Bank	2.01	Saudi Arabia
2	Al Rajhi Balanced Fund 1	Al Rajhi Bank	0.80	Saudi Arabia
3	Jadwa Conservative Allocation Fund	Jadwa Investment	0.27	Saudi Arabia
4	Al Dar Fund of Funds	ADAM	0.26	Kuwait
5	Jadwa Aggressive Allocation Fund	Jadwa Investment	-0.04	Saudi Arabia
6	Jadwa Balanced Allocation Fund	Jadwa Investment	-0.05	Saudi Arabia
7	AlManarah Conservative Growth Portfolio	The National Commercial Bank	-0.08	Saudi Arabia
8	Al Yusr Aman Multi Asset Fund	Saudi Hollandi Bank	-0.11	Saudi Arabia
9	AlManarah Medium Growth Portfolio	The National Commercial Bank	-0.39	Saudi Arabia
10	AlManarah High Growth Portfolio	The National Commercial Bank	-0.41	Saudi Arabia

** Based on 93.75% of funds which have reported June 2011 returns as at 1st August 2011*

Top 5 Real Estate Funds by 3 Month Returns

	FUND	FUND MANAGER	3-Month Return (%)	FUND DOMICILE
1	Solidarity International Real Estate	Banque Saudi Fransi	20.89	Saudi Arabia
2	Al Qasr GCC Real Estate & Construction Equity Trading	Solidarity Funds Company	8.93	Bahrain
3	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	5.68	Ireland
4	Solidarity European Real Estate	Kuwait Financial Centre	3.11	Kuwait
5	Al Dar Real Estate	ADAM	0.88	Kuwait

** Based on 100.00% of funds which have reported June 2011 returns as at 1st August 2011*

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

Takaful news

Brought to you by Takaful IKHLAS

3rd August 2011

Profit ahead?

Cover story

With an average growth rate of 27% the General Takaful business as a whole is continuing to outperform conventional insurance growth of 19%. This high level of growth is of course attributed to the low starting point from which the industry originates, as Takaful remains a relatively new proposition in many markets.

However, Takaful's ability to capture a previously untapped market is proving to offer significant expansion potential for the emerging market insurance industry at large, keen to replicate the penetration rates of the world's advanced economies and Asian tigers.

In most cases, markets where Takaful is offered are enjoying growth in GDP and increased consumer consumption which, as AM Best's recent Takaful report notes, has resulted in significant increases in insurance premiums of the market as a whole.

Generally speaking

General Takaful has been buoyed by increased demand for protection in growing economies where compulsory lines of insurance have been introduced. The introduction of Takaful-specific regulations and minimum capital requirements in markets such as the UAE, Saudi Arabia, Bahrain and Malaysia have gone a long way to establish Takaful beyond a niche offering in many Muslim majority nations.

As a result, the financial performance trend of Takaful companies has improved greatly, although this varies significantly between operators and, as shown in the profitability of General Takaful, depends greatly on the individual market and operator expertise.

General Takaful profitability has suffered from intense competition in the GCC, as it has proved increasingly difficult to attract profitable business away from the more profitable and well established conventional insurance players.

AM Best cites that General Takaful has been experiencing approximately 10% higher acquisition expense ratios. Combined with higher management expenses, especially among start-ups, this resulted in operating expense ratios of 25% in 2009, against 19% for conventional insurers. AM Best does however go on to note that underwriting performance, as measured by the claims ratio, has remained remarkably close between conventional and Takaful companies.

Technically, profitability will remain the most important driver for the viability of Takaful companies. However, with technical profitability lagging behind that of conventional insurers, investment performance becomes critical for competitiveness.

Re-Takaful, re-think

In general, re-Takaful has also failed to grow as rapidly as initially expected. While there has been tremendous growth in the primary Takaful market over the past few years, this has not translated into commensurate increased re-Takaful demand because Takaful operators have been over-utilizing traditional reinsurance capacity.

Re-Takaful operators have been in operation for some time now and as a result there is now sufficient capacity with adequate financial security to cater for Takaful operators' risk management needs.

There still remains a tendency by some Takaful operators to continue buying reinsurance cover from conventional risk carriers with many decisions continuing to be made on exclusively economic grounds, properly assessed or otherwise, with little regard (if any) for the primary role and purpose of and impact to their Takaful activities.

As a result, re-Takaful operators are under increasingly heavy pressure to streamline their products towards conventional reinsurance models. This is due to the high conversion costs involved in offering re-Takaful coverage and an underlying need to implement sufficient education and workforce training, due to the new and inherently different processes and techniques involved.

The majority of re-Takaful companies are consequently engaged in traditional reinsurance business. The growth of the re-Takaful market depends on whether primary Takaful operators come under enough pressure to alter their reinsurance purchasing patterns and seek Shariah compliant cover for themselves.

In this issue...

Demand for travel insurance

KUWAIT: Kuwait Finance House has reported an increased demand for its Shariah compliant travel insurance, attributed to the holiday period.

The company's Takaful sales are also expected to continue to climb during Ramadan as there will be more travel into Saudi Arabia for the umrah pilgrimage.

Solid premium growth

INDONESIA: Asuransi Jiwa Manulife Indonesia's Takaful unit has recorded a 132% growth in its premiums to reach IDR8 billion (US$941,397) as of June 2011, as compared to IDR3 billion (US$353,024) in the same period last year.

According to Nelly Husnayati, its vice president director and chief operating officer, the Takaful unit is also planning to increase its premiums to IDR30 trillion (US$3.53 billion) at the end of this year from last year's IDR16 trillion (US$1.88 billion).

Agents licensed by 2012

INDONESIA: The Association of Takaful Indonesia (AASI) will ensure that all local Takaful agents are licensed by early 2012.

Mohammad Shaifie Zein, the chairman of AASI, said that the agent license is necessary in order to boost the quality of the country's Takaful agents. He added that the license will ensure that the agents have a better understanding of Takaful.

Zein commented that one of the weaknesses of the Takaful industry is the quality of human resources.

He said: "We want to be sure agents fully understand Takaful. They must be certified in order to have an understanding of the product, contract, and others."

Earlier this month, AASI and the Indonesia Life Insurance Association signed an MoU in relation to the certification of Takaful agents.

Guidance on vehicle value

MALAYSIA: All local insurers and Takaful operators must advise their customers on the appropriate market value of their motor vehicles when selling comprehensive motor insurance cover, according to the central bank, Bank Negara Malaysia (BNM).

BNM explained that this measure is aimed at addressing the issue of over- or under-insuring motor vehicles, which can result in customers paying higher premiums than necessary or receiving lower compensation following a claim.

The advice to consumers on the present market value must be based on the ISM Automobile Business Intelligence System or any other credible vehicle valuation database. The ISM database covers the majority of privately-owned vehicles but does not include commercial vehicles and motorcycles.

BNM said this new measure will contribute to a more objective determination of the market value of motor vehicles when purchasing motor insurance or in claims settlements.

"This complements existing measures that promote the fair treatment of consumers, including requirements for insurers to explain the main features of a motor policy, including the type of cover, scope of cover and exclusions, contractual rights and obligations of consumers as well as claims procedures," it said.

Taming the alter ego

TOBIAS FRENZ looks into the ongoing struggle between theory and practice in the Takaful industry and the challenge to balance Shariah requirements against the demands of the economic world, dominated by conventional insurance.

A fellow Takaful actuary recently cheekily commented that the Takaful industry has become 'schizophrenic' as it struggles to fully comply with Shariah requirements. Another opined that Takaful in its current form is Islamic insurance, such as insurance with halal investments, rather than Takaful as it was envisioned by its early proponents.

Such comments reflect the ongoing struggle between theory and practice: the challenge to balance Shariah requirements and objectives against the demands of the economic world, which is more often than not dominated by the conventional insurance system and where competition is fierce. Takaful expert Ajmal Bhatty once referred to it as "the battle of hearts and minds."

Takaful practitioners have been taught that Takaful is built on cooperative, risk-sharing principles, we are not supposed to take a share in the underwriting surplus; we should provide a qard hasan (benevolent loan) if there is a deficit in the Takaful fund and that we will be repaid through future surplus arising from that fund.

As Takaful operators, we are mere administrators of the Takaful fund and not carrying any underwriting risk. The application of the Tabarru (donation) contract looked like the stroke of a genius as it eliminated the forbidden elements of gharar (uncertainty) and maysir (gambling).

But we were soon realizing that all this is probably not the way Takaful actually works in practice. Regulators and industry bodies have now come up with new guidelines and regulations with the aim to provide more structure and guidance, enhance corporate and Shariah governance, as well as facilitate standardization. For example:

- **AAOIFI**
  - Draft amendment of AAOIFI Shariah Standard No 26 (Islamic Insurance)
- **Central bank of Malaysia, Bank Negara Malaysia (BNM)**
  - Takaful operational framework
  - Shariah governance framework
  - Draft of the risk-based capital framework for Takaful operators

AAOIFI Shariah Standard No.26 (draft)

14	Additional guidance on the insurance surplus
14.1	Subject to item (5/5), which stipulates that the company shall not be entitled to benefit from the surplus, the shareholders shall not have any inherent entitlement to the surplus, which shall be the property of the insurance fund.
14.2	[...]
14.3	There is no objection to allocating a percentage of the surplus as in incentive for the management of the company, on top of the determined management commission, provided that such an incentive – if any – shall be estimated on a year by year basis, as may be approved by the Shariah Supervisory Board of the company.
14.4	The giving of incentive shall be subject to the surplus reaching a certain percentage of the policyholders' contributions so that the incentive shall be deemed as a reward for the good performance of the company.
14.5	The Shariah Standards Board recommends the incentive to be around 30% of the surplur

I will not discuss the details of these regulations but rather pinpoint certain features that are at odds with the general perception of Takaful.

AAOIFI amendment on surplus sharing

The AAOIFI, at its recent Shariah conference in Bahrain this May, proposed an amendment of the AAOIFI Shariah Standard No 26 (Islamic Insurance).

Rather surprisingly, this would allow the sharing of underwriting surplus with the Takaful management if a certain performance benchmark is exceeded.

Somewhat puzzling is the distinction that surplus shall only be shared with the management and not with the shareholders — the ones who put up the capital for the Takaful operation in the first place. The rationale might be an underlying Jualah contract, where the incentive goes to the performing party only. In practice, this distinction might be somewhat irrelevant as the incentive is likely to be offset against the managers' remuneration or expected to be gifted (hibah) to the shareholders.

Overall, the proposed amendment is a welcome progression from AAOIFI's previous stance as surplus sharing has been one of the most contentious issues, dividing the Takaful industry into two different schools of thought that hindered standardization. Instead of tackling its operational deficiencies, the industry was caught up in theoretical model discussions. Considering that surplus sharing has been common practice in Takaful markets like Malaysia, Indonesia, Saudi Arabia and Brunei, the new ruling is long overdue and allows the industry to finally move forward. In the meantime, scholars might want to discuss further if there is an alternative to the current Tabarru (donation) principle that is the root of the underlying ownership issues.

The AAOIFI ruling mitigates the principal-agent conflict to some extent, which is imminent under the pure Wakalah model. The pure Wakalah is a volume driven model, independent of the actual claims experience. This misalignment in financial objectives creates fewer incentives for a commercial Takaful operator to implement advanced risk and claims management techniques.

In fact, it puts him into an ethical dilemma — maximizing the fee income by accepting as much business as possible or applying more stringent underwriting and claims measures to ensure that the Takaful fund remains solvent. As long as there is no proper governance framework, it is open to abuse. BNM has acknowledged this issue and released new regulations that will tighten corporate and Shariah governance in Malaysia.

Revamp of Takaful regulations in Malaysia

BNM has again taken the lead to develop

Continued

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the Takaful industry and released a set of regulations that will significantly change the way business is being conducted — most notable the Shariah Governance Framework (SGF), the Takaful Operational Framework (TOF) and the RBC for Takaful (RBC-T). This is expected to set the benchmark for other Takaful markets.

Shariah governance framework

While there have been numerous discussions on the right choice of Takaful model and on the sharing of underwriting surplus, an area that is often overlooked is Shariah governance. In many markets Shariah governance simply means that an operator needs to have a Shariah Committee (SC) of learned scholars that, together with the management, has to ensure Shariah compliance. How exactly this is meant to be achieved is left to them and there is nobody controlling it. This had led to a number of shortcomings in the Shariah governance process.

For instance, there are too few scholars and a concentration on the few prominent ones. This has often resulted in delays and inefficiencies in the Shariah approval process. In addition, resolutions were not as elaborate as one would expect. Indeed, proper Shariah resolutions are hardly available. Despite the fact that Islamic financial institutions (IFIs) claim to be more transparent than their conventional counterparts the approval process and underlying ruling is a black box for most stakeholders.

Furthermore, the Shariah committee is perceived as being not as independent as one might expect as the management is often in the driver's seat. Maslahah mursalah (public interest), urf (custom) and dharurah (necessity) are principles probably applied one time too many to justify contentious transactions requested by management to cope in a fiercely competitive environment.

Lastly, innovation seems to be lacking as product developers are too focussed on mirroring halal versions of conventional products, not least due to the lack of knowledge about Shariah principles.

BNM has released a Shariah governance framework that directly addresses the current shortcomings. It is somewhat ironic that Malaysia, who is often accused of keeping one eye closed when it comes to Shariah compliance, has sidelined critics by taking the bull by the horns. The framework is illustrated below.

> ***"While there have been numerous discussions on the right choice of Takaful model and on the sharing of underwriting surplus, an area that is often overlooked is Shariah governance"***

Major changes affecting the IFIs are as follows:

- IFIs are asked to establish a Shariah committee (SC) of at least five learned scholars instead of three as previously. To avoid conflicts of interest, a scholar cannot sit on multiple committees.

  This is a challenge for IFIs who are struggling to fill the quota due to the scarcity of qualified scholars. It may sound contradictory but the aim actually is to overcome the current shortage. IFIs are now forced to engage more junior scholars and this will increase the pool of available talent over time. It also aims to ensure that the committees work more efficiently as Shariah research and approval work can be delegated to the junior members.

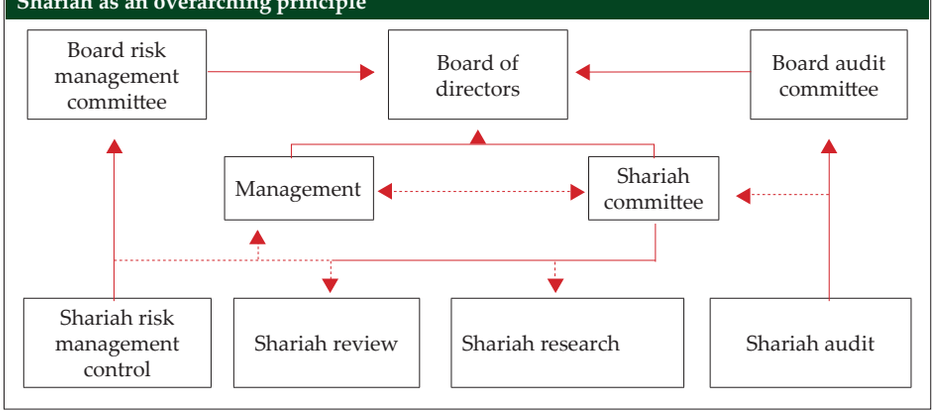
- The SC is now directly reporting to the board of directors (BOD) and the board has ultimate responsibility for Shariah compliance. This aims at providing a higher degree of independence of the SC and an avenue for escalation to mitigate any undue influence by the management. It remains to be seen how effective this is in practise as BOD and management might have similar financial objectives.

- A more effective measure is the requirement to conduct a regular (annual) Shariah audit by internal or external auditors. This adds pressure on the SC and management to ensure that Shariah resolutions are properly reasoned, documented and implemented. Moreover, IFIs have to establish a permanent Shariah review function. The Shariah risk management function identifies all possible Shariah non-compliance risks and, where appropriate, proposes remedial measures to reduce the risk.

- The lack of transparency is addressed

Continued

Shariah as an overarching principle



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by the requirement to publish sufficient information on the state of Shariah compliance in the financial report, such as based on the audit report findings.

- Lastly, an internal Shariah research team has to be established to conduct research on Shariah. This is to overcome the ongoing criticism that Islamic finance lacks innovation and is merely copying conventional products.

Overall, this is the most comprehensive Shariah governance framework of all Takaful markets and underlines the sincere efforts of BNM to put more structure into the Takaful industry after it has been given some leeway in its early years.

Good governance naturally comes at a cost and Takaful operators will have to manage the additional burden on finances and resources properly. IFIs will incur additional compliance costs; costs that their conventional counterparts do not have.

It will also slow down the time-to-market for products and thus put IFIs at a structural disadvantage vis-à-vis their conventional counterparts. As such, one cannot speak of a level playing field anymore, even more so in view of the new solvency and operational frameworks.

Takaful operational framework

The Takaful operational framework (TOF) takes effect on the 1st October 2011 and governs all operational aspects of a Takaful operator to ensure its compliance with the underlying Shariah principles and safeguard the interests of the participants. The framework sets out best practices for a Takaful operation and sets a benchmark for other Takaful markets.

One requirement however, is at odds with the Shariah and this underlines the quandary of both the regulator and the Takaful industry when implementing Shariah requirements: The provision of a qard in case of a deficit in the Takaful fund has become mandatory under this framework. To complicate matters, the framework requires operators to write off in full any outstanding qard after a certain number of years (five years being the unwritten rule) regardless of whether one can expect to recuperate parts of the loan in the future or not. Interestingly this requirement seems to be even stricter than the impairment of financial assets rules under IAS 39 (replaced by IFRS 9).

From a Shariah perspective an impairment of a qard (loan) can be justified if and only if it is deemed irrecoverable. Enforcing full impairment of a qard after a fixed number of years is highly contentious, if not forbidden.

> ***"Good governance naturally comes at a cost and Takaful operators will have to manage the additional burden on finances and resources properly"***

Takaful operational framework

- Establishment of operational model
- Segregation of funds
- Management of funds
- Management of operating costs
- Management of income from Takaful business
- Payment and charges on surrender
- Deficiency and loss rectification

One might argue that the risk of a qard is negligible but this is not necessarily the case for Takaful funds with volatile risks, such as commercial risks, or small funds as Takaful operations are often new setups that have yet to achieve a critical mass. It applies even more so to a re-Takaful operator as such volatile risks are mostly ceded out. Munich Re is currently engaging with AAOIFI to clarify and to overcome this dilemma of risk sharing versus risk transfer.

While the mandatory qard is probably the necessary evil the industry has to deal with for solvency purposes, BNM surprised the industry by mandating that re-Takaful has to be based on pooling of business across multiple Takaful operators.

This may not sound surprising to some as risk-sharing is one of the fundamental pillars of Takaful.

However, in practice Takaful operators have been opposed to the pooling concept and often insisted on not being pooled with other cedants. Just like in conventional reinsurance, where there is no pooling.

Risk-based capital framework

The RBC framework builds on the TOF and basically mirrors the RBC framework for conventional insurance companies. It follows the common solvency formula *CAR = total capital available (TCA) / total capital required (TCR) x 100%,* where the central bank requires a minimum supervisory target capital level of 130%.

The main difference between insurance and Takaful RBC lies in the separate treatment of the participants' risk funds (PRF) and the shareholders' fund (SHF). The risk funds would usually be a separate fund for family and general Takaful business.

Further sub-funds may be created, however, it may negatively affect the solvency position as no cross subsidies are allowed as outlined further below.

The total capital available is the sum of the available Tier-1 and Tier-2 capital in the respective funds. Any qard from the shareholders' fund would qualify as Tier-2 capital for the Takaful fund, however it would be deducted from the overall CAR to avoid double counting.

The shareholders (theoretically) are not bearing any underwriting risk but are responsible for expense overruns and any operational risks in view of their fiduciary responsibility. The required capital is thus the sum of the risk capital charges for the expense liability, operational, credit and market risk.

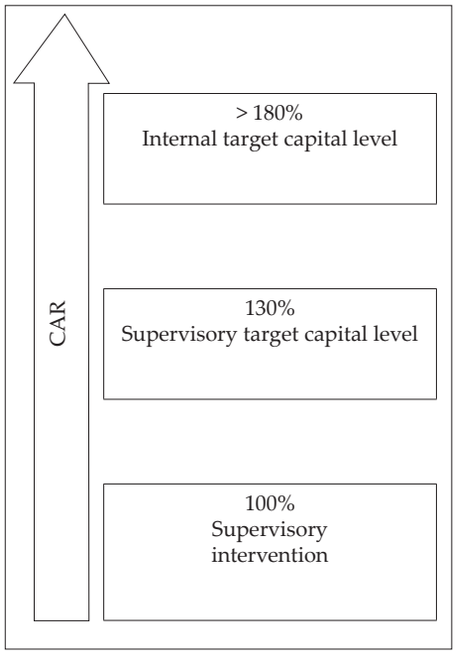
For each participants' risk fund the required capital is the aggregate of the risk capital charges for the Takaful liability, credit and market risk.

Continued

Continued

The major difference between the insurance and the Takaful RBC lies in the computation of the TCA.

The regulator does not allow a cross-subsidy of different lines of business (such as Family and General) by restricting the TCA in a particular Takaful fund at the amount of TCR for that particular fund. That is, excessive capital in one Takaful fund (basically retained valuation surplus or any claims stabilisation reserve) cannot be used to offset a shortfall in another Takaful fund.



The TCA of the SHF is not restricted and any capital required for a CAR above 100% would thus have to be met out of the SHF. Considering that BNM requires a supervisory minimum level of 130% and internal target capital levels of usually around 180% to 200%, it means that the additional 30% to 100% would have to be fully covered by shareholders' capital. This puts Takaful operators at a significant structural disadvantage compared to conventional companies.

It also poses the question as to who actually owns the risk — the shareholders or the Takaful participants?

If the shareholders have to provide a significant portion of the risk capital, it would only be reasonable that cost of capital be charged against it. However, Shariah scholars explicitly do not allow this and it remains a hidden charge in the Wakalah fee.

The way forward

The above has illustrated the challenges regulators, industry bodies and practitioners are facing in implementing a system that follows the inherent risk-sharing spirit of Takaful. One cannot fault the regulator for enforcing stringent rules that first and foremost aim to protect the end consumer, who might not fully understand the mechanics and risks of Takaful.

The Takaful industry has to continue its efforts to raise Takaful awareness and enhance transparency to convince the regulator that it deserves a fundamentally different treatment in view of the perceived lower risks of Takaful due to its risk-sharing feature.

Lastly, there are still a number of "white elephants in the room" that the industry and scholars have been reluctant to address as there are no easy answers.

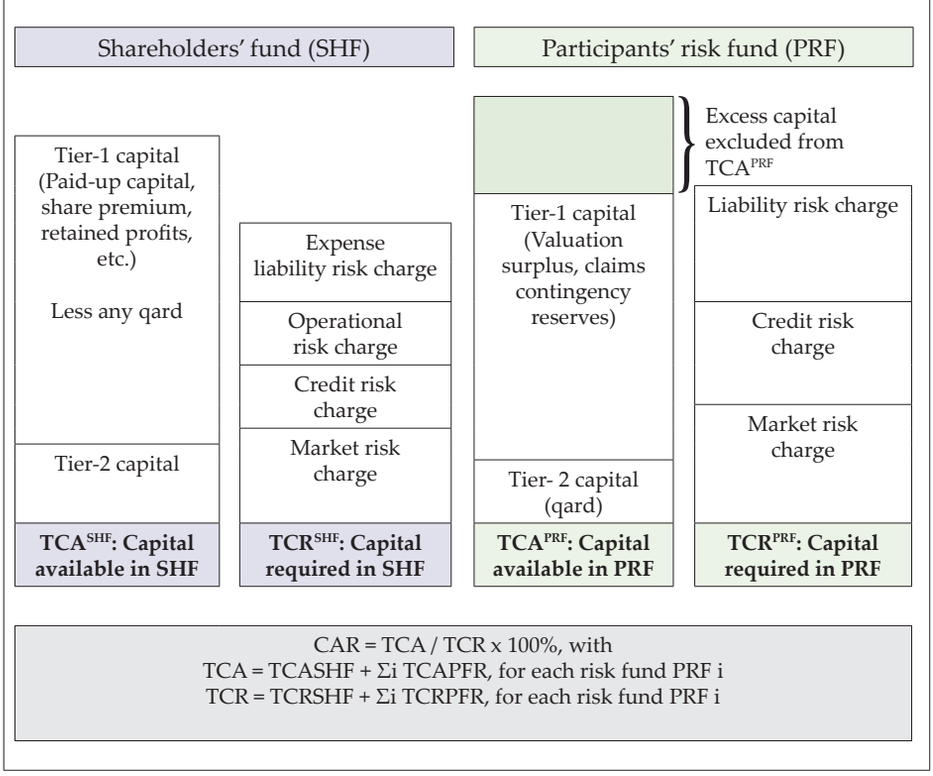
Examples are the mandatory qard, the costs of capital for solvency capital, the question whether re-Takaful is actually risk transfer or risk sharing or whether the Tabarru contract should be reconsidered.

Shariah bodies like the AAOIFI together with input from industry practitioners and regulators should take up these topics to clear the hurdles so that there is certainty as to what can or cannot be achieved under Takaful.

> ***"The lack of transparency is addressed by the requirement to publish sufficient information on the state of Shariah compliance in the financial report"***

Tobias Frenz is the CEO at Munich Re Retakaful. He can be contacted at tfrenz@munichre.com.

Simplified RBC for Takaful illustration



Q "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?"

A The issuing authorities in Malaysia have clearly considered market conditions very carefully and have fine tuned the size and maturity of the Sukuk tranches to attract investors while not paying too much for the financing. The issuance will not have much overall significance for the international market in Sukuk, which Malaysia has dominated for over a decade, but the terms send important signals.

Firstly, the size of the issuance indicates that the Malaysian government is confident that it can attract widespread investor interest. The country has a remarkable record in Sukuk issuance and investors in sovereign Sukuk have always been repaid on time. Secondly the 10-year tranche is significant, as most Sukuk are for periods of three to five years. The 10-year tranche shows that the government is planning its finances for the longer term, and corporate Sukuk issuers may well follow. At present Sukuk investors expect only modest returns. As these are likely to rise as market conditions tighten it makes sense for issuers to try to lock in low payments.

PROFESSOR RODNEY WILSON
Director of postgraduate studies, Durham University

A The long tenor Sukuk has been an investment tool sought after by the Takaful operators. While this 10-year Malaysian sovereign Sukuk does not yet match their Family Takaful contribution pool investment requirement of 20 to 30 years tenor, it is at least a step in the right direction for the industry. Currently, compared to Malaysia which has sporadic Sukuk tenors of 30 years to 50 years, most Sukuk from the GCC have only a five-year maximum tenor.

As a long-term solution to this mismatch of demand by Takaful and the short supply of long-term Sukuk, I would suggest that long-dated Sukuk be explored for concession-based fund-raising; namely for electricity independent producers, tolls, coal/tin or mining operations, water, telecommunication, hospital services, waste management, parking by municipalities etc. Basically the tenor of the Sukuk can match the long tenor of the concession period of the business, including those services where the government can privatize. There are ample opportunities in the GCC for long-term tenor Sukuk, considering that those jurisdictions are at a primary level of infrastructure development.

NORIPAH KAMSO
CEO, CIMB-Principal Islamic Asset Management

A The majority of Sukuk outstanding are issued with a relatively short maturity with an average tenor of around five years. In order to enhance liquidity in the market, a range of longer dated, benchmark-size Sukuk are required to meet demand from financial institutions that need to meet longer dated liquidity requirements. The potential demand is clearly shown by the fact that the issue itself was 4.5 times oversubscribed and distributed throughout Europe, the US, the Middle East and Asia.

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

A I think it is important to note that each new development in Malaysia is a model for other countries. In the case of stretching maturities in an 'AA' government Sukuk issued in US dollar, this will help to create a long term global Islamic benchmark. But, as I am always complaining, if the other Islamic countries do not have the right rules, even medium term Sukuk are a challenge. With its clear regulatory and legal regime, Malaysia is able to sell its Sukuk to global institutional investors. This is a factor that needs to be developed throughout the Islamic markets: growing domestic institutional investors and attracting global institutional investors, both of which may take a long view.

ABDULKADER THOMAS
CEO and President, SHAPE Financial Corp

Next Forum Question:

"What is the outlook for the development of Islamic finance in Singapore, and can the industry there compete with Malaysia's?"

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 12th August 2011.

Pervez Said, President & CEO, Burj Bank

Pervez Said established the Islamic banking department at Pakistan's central bank, serving as its first director. He has an MBA from Ohio University, US. His work experience is spread over 28 years, evenly split between business and banking. He has also worked for multinationals such as Johnson & Johnson, where he was the managing director for Pakistan. Said has spent a considerable amount of time as a regulator for the Islamic banking industry in Pakistan.

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

I started my career with Exxon Chemicals and then moved to Unilever Pakistan. After spending the first 10 years of my career in fast-moving consumer goods (FMCGs), I moved to the banking sector as the director of marketing for Citibank in 1990. I left Citibank, after working there for six years, primarily because of reasons of conviction as I did not want to deal with riba.

Then, I joined a group of professionals who found the first investment bank to run on Islamic principles in Pakistan. That investment bank is now the largest Islamic bank in the country. I later moved to the UAE and worked on putting together the Islamic banking proposition for Standard Chartered Bank, Citibank and Mashreqbank. At Mashreqbank, I launched its first Islamic auto finance product. In 2003, I was appointed as the director of Islamic banking for the State Bank of Pakistan (SBP), the central bank, where I was also the advisor to the governor of SBP.

My six years tenure at SBP gave me the opportunity to re-launch Islamic banking in Pakistan by implementing a strategic plan which was accepted positively by both internal and external stakeholders.

Having started the industry in Pakistan on a solid footing, I moved back to the private sector and joined Burj Bank (formerly Dawood Islamic Bank) as the president and CEO in 2009 and successfully gave the bank a new direction. The bank was re-branded as Burj Bank in July 2011.

What does your role involve?

My role involves a broader management of the complete organization. Besides being a member of the board and the bank's executive committee, I am responsible for assigning quantitative objectives to the functional heads and monitoring performance.

I am also the bank's spokesperson. From a macro perspective, I am working for the benefit of the Islamic banking sector which involves regular communication with industry stakeholders and other banks.

What is your greatest achievement to date?

I was the director of Islamic banking at the SBP and an advisor to the governor of the SBP for six years while the sector was still at its inception phase.

As a result of my commitment to the Islamic banking sector, industry professionals have credited me as the architect of Islamic banking in Pakistan and this is my greatest achievement.

Which of your products/ services deliver the best results?

For banking in general and Islamic banking in particular, both liability and asset products contribute equally to the overall results.

These products are further broken down into corporate, commercial and consumer offerings. As a relatively new bank, our larger focus has been towards liabilities which are now being changed through aggressive product development on the asset side. In addition, the treasury function plays a pivotal role in balancing the liquidity of the bank.

What are the strengths of your business?

The Islamic banking sector of Pakistan has gained a share of 7% in just seven years of existence. With our unique marketing strategy, our bank is capable of offering banking products, services and technologies of international standards.

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

The main factors contributing to the growth of our company include a quality management team, capable human resources and the credibility of our sponsors.

The improved credit ratings have also contributed towards the recent expansion of our retail and corporate business.

What are the obstacles faced in running your business today?

The primary obstacles include the economic and political volatility in Pakistan as well as the ongoing implications of the international financial crisis.

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

I see the percentage share of Islamic banking out of the total banking sector expected to reach 12% by 2016.

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

It is important for industry players to realize that Shariah compliant banking is the best financial model not just for Muslims but for consumers from every religion.

Sipchem's SAR1.8 billion (US$479.9 million) Sukuk Murabahah

Saudi International Petrochemical Company (Sipchem) announced the successful closing of its first publicly listed Sukuk on the 29th June 2011. The Sukuk was upsized to SAR1.8 billion (US$479.9 million) from an initial base of SAR1.5 billion (US$399.9 million) due to the strong demand shown by interested investors after a 10-day book building exercise.

The deal involved an innovative Sukuk Mudarabah structure that centers around the intangible rights that sit between a holding company and its subsidiaries, according to Dipti Thakar, the Riyadh counsel at Latham & Watkins: "This Sipchem Sukuk structure further reflects the increasing sophistication of the available products in the Saudi Arabian market. This product is a great addition to the tool kit available to corporate treasurers in the market."

The Sukuk Mudarabah represent an undivided interest of the Sukukholders in Sipchem's existing and future business. The Mudarabah income shall principally comprise the distributions received by Sipchem from its subsidiaries.

The objective of the Mudarabah will be to earn profit from the Mudarabah assets in accordance with the Mudarabah agreement; therefore any profit from the Mudarabah assets will be distributed between the issuer (10% of net profit) and the Sukukholders (90% of net profit).

Established in 1999, Sipchem is one of the largest petrochemical companies in Saudi Arabia with current paid up capital of SAR3.6 billion (US$959.9 million), and was listed on the Saudi stock market in 2006.

During the launch of the program in mid-June, Ahmed A Al-Ohali, CEO of Sipchem, said the program was to diversify Sipchem's sources of funding and finance its new production initiatives. Al-Ohali further indicated that: "Among the positive aspects that the investors will gain through the issuance of this Mudarabah Sukuk is the diversification and distribution of their savings in investments that are Shariah compliant, in addition to creating more stability in the prices of their investments and the earnings of their regular returns."

Sipchem's production initiatives include building a chemical plant in partnership with South Korea's Hanwha Chemical, an ethyl acetate plant in Jubail and a 50-50 joint venture with a Korean firm to build a wiring cable compounding material plant. The total cost of these projects will be financed partly through the funds raised through the Sukuk issuance and the rest, if any, via self-financing and loans.

According to Al-Ohali: "The substantial demand for the Sukuk, leading to an oversubscription of more than three times the target, is further proof of the confidence and resilience in the kingdom's economy and the financial markets." Al-Ohali went on to say that the successful completion of Sipchem's first Sukuk issue would provide equity funding for the three newly announced projects and help the company achieve its immediate-term strategic plans.

According to Sipchem's statement posted on the Tadawul bourse's website: "A large number of investors expressed interest in the Sipchem Sukuk with total orders received in the range of SAR4.5 billion [US$1.2 billion]. Investors participating in the program included government institutions, insurance companies, investment and money market funds, financial institutions and individuals."

The offering, sale and delivery of the Sukuk Mudarabah was limited solely to Saudi nationals or other legal persons with a permanent establishment in the kingdom holding a current commercial registration number issued by the ministry of commerce and industry ('qualified persons').

The Sukuk is a Floating Rate Note (FRN) for five years. Investors will receive an expected return of the Saudi Interbank Offered Rate (SIBOR) plus 1.75% per year to be distributed quarterly. The pricing was finalized at the low end of range of price guidance provided, at SIBOR plus 1.75%, again demonstrating the success of the transaction and the confidence of the investors in the company's success.

Saudi International Petrochemical Company (Sipchem)'s Mudaraba Sukuk

SAR1.8 billion (US$479.9 million)

29th June 2011

Issuer	Saudi International Petrochemical Company (Sipchem)
Issuance price	SAR1.8 billion (US$479.9 million)
Purpose of issuance	To provide equity funding for three newly announced projects and help the company achieve its immediate-term strategic plans
Tenor	5 years
Coupon rate / return	Floating Rate Note (FRN) priced to return an expected SIBOR plus 1.75% per annum
Payment	Quarterly dividends
Currency	Saudi riyals
Maturity date	1st July 2016
Lead managers/ Bookrunner(s)	Riyad Capital, Deutsche Securities
Governing law	Saudi Arabia
Listing	Tadawul
Underlying assets	The underlying Mudarabah assets equate to Sipchem's existing and future business across the Sukuk tenor
Shariah advisor(s)	Riyad Capital's Shariah committee
Structure	Mudarabah
Investor breakdown	Government institutions, insurance companies, investment and money market funds, financial institutions and individuals

ISSUER	SIZE	DATE ANNOUNCED
KNM Group	RM1.5 billion	28th July 2011
Petronas Gas	RM1.2 billion	25th July 2011
Government of Abu Dhabi	TBA	21st July 2011
Gulf International Bank, Bahrain	US$1 billion	21st July 2011
ACWA Power International	US$300 million	9th July 2011
Al Hilal Bank	TBA	7th 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

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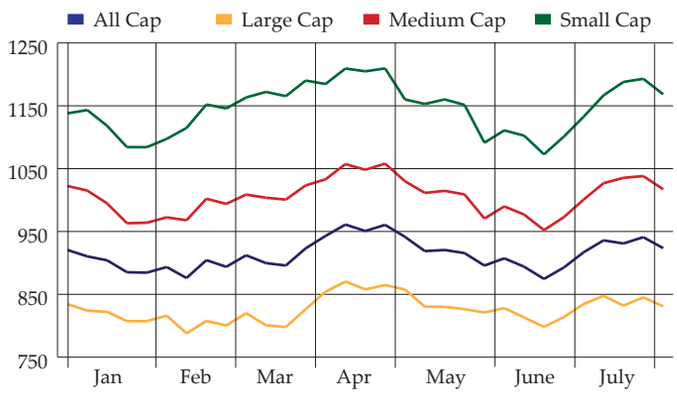
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

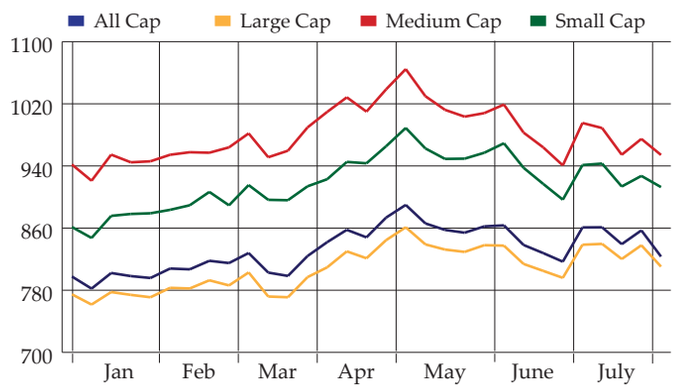
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

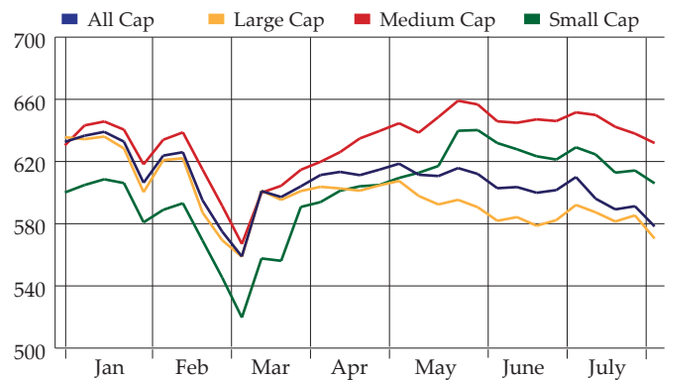
REDmoney Asia ex. Japan *6 Months*



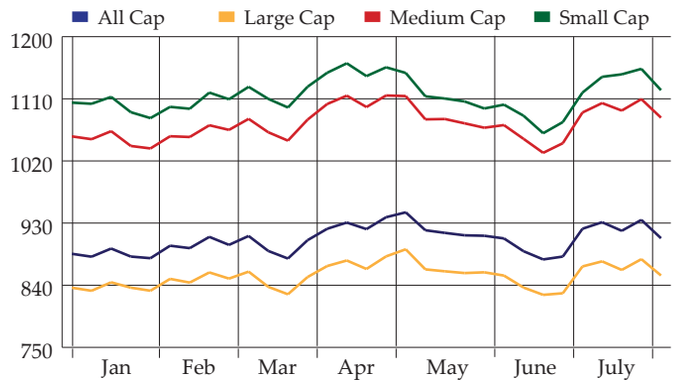
REDmoney Europe *6 Months*



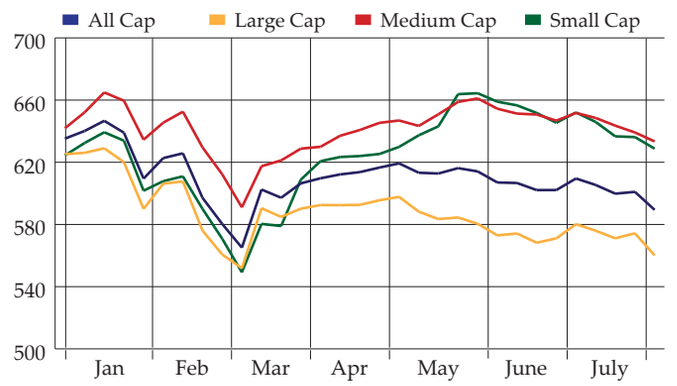
REDmoney GCC *6 Months*



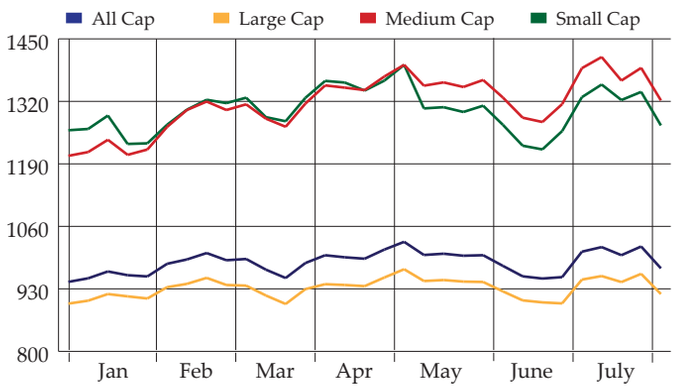
REDmoney Global *6 Months*



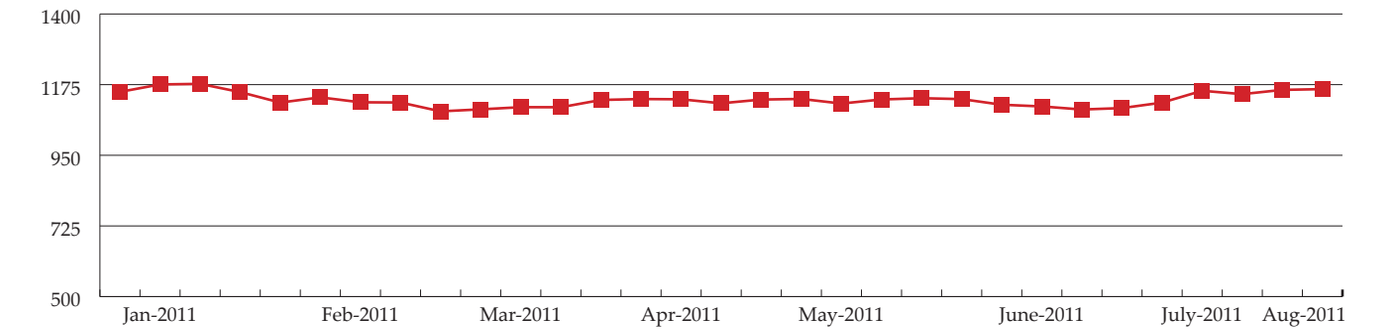
REDmoney MENA *6 Months*



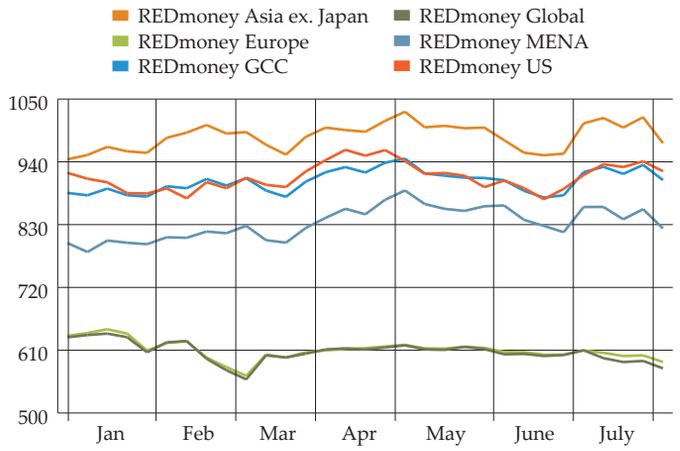
REDmoney US *6 Months*



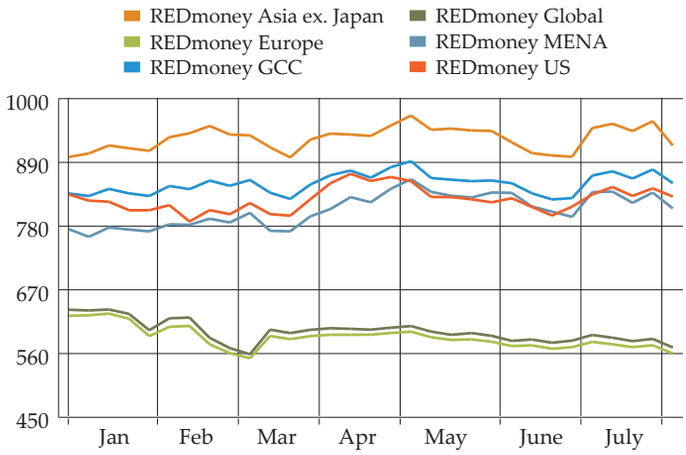
SAMI Halal Food Participation (All Cap) *6 months*



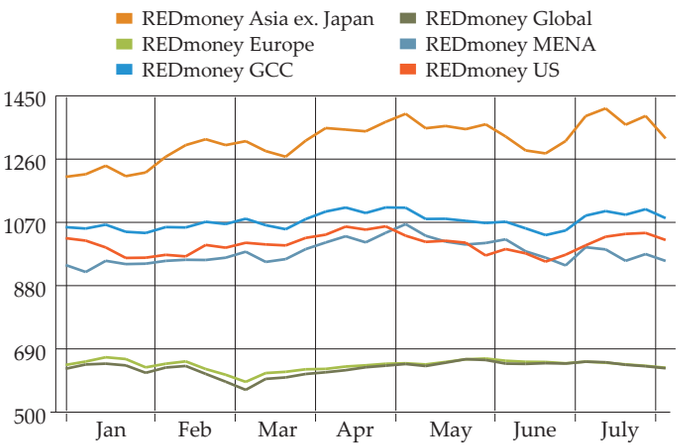
REDmoney Global Shariah Index Series (All Cap) *6 Months*



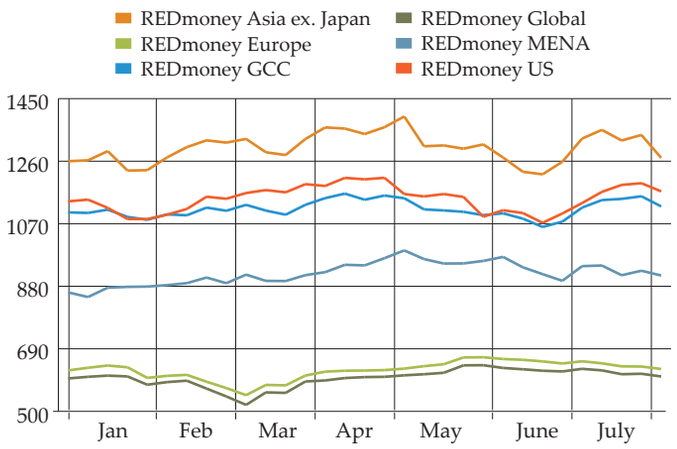
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



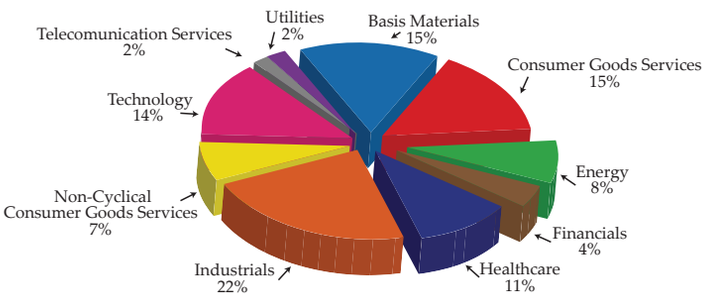
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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®

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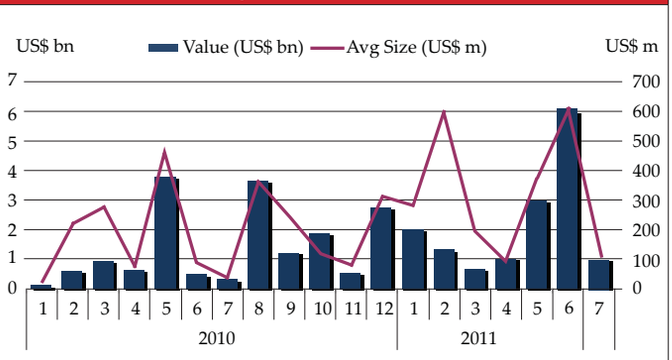
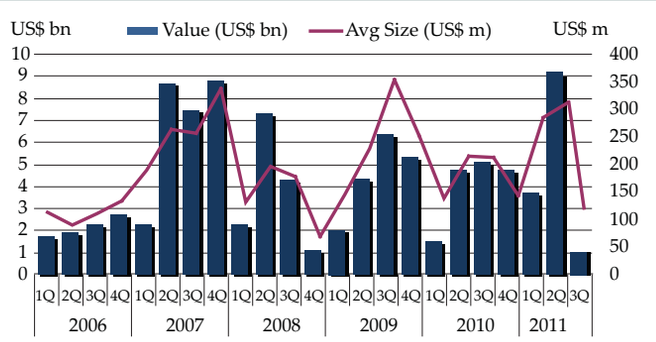
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
26th Jul 2011	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	Standard Chartered, HSBC, Citigroup
6th Jul 2011	Cagamas	Malaysia	Sukuk	Domestic market public issue	206	CIMB Group, Maybank Investment Bank
28th Jun 2011	Wakala Global Sukuk	Malaysia	Sukuk Wakalah	Euro market public issue	2,000	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
17th Jun 2011	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	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 Murabahah	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 Murabahah	Domestic market private placement	332	HSBC, CIMB Group
29th Mar 2011	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	JPMorgan, HSBC
23rd Mar 2011	Maybank Islamic	Malaysia	Sukuk Musharakah	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

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement; Domestic market public issue	3,460	4	HSBC, CIMB Group, Maybank Investment Bank
2	Wakala Global Sukuk	Malaysia	Sukuk Wakalah	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; Domestic market public issue	1,217	16	RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank, Standard Chartered, 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	HSBC, RHB Capital, CIMB Group
10	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	792	2	CIMB Group, Citigroup
11	Qatar Islamic Bank	Qatar	Sukuk Ijarah, Sukuk Murabahah	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	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
14	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
14	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
16	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
17	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
18	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
19	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	391	2	CIMB Group, AmInvestment Bank, Maybank Investment Bank
20	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361	1	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
21	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
22	Konsortium Lebuhraya Utara-Timur	Malaysia	Sukuk Musharakah	Domestic market public issue	280	13	CIMB Group
23	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
24	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
25	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	240	2	Standard Chartered, DRB-HICOM
26	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	1	Maybank Investment Bank
27	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195	1	HSBC, CIMB Group
28	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	193	3	OCBC, Public Bank, Affin Investment Bank
29	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177	1	AmInvestment Bank
30	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167	1	RHB Capital, Maybank Investment Bank
	Total				**23,431**	**101**	

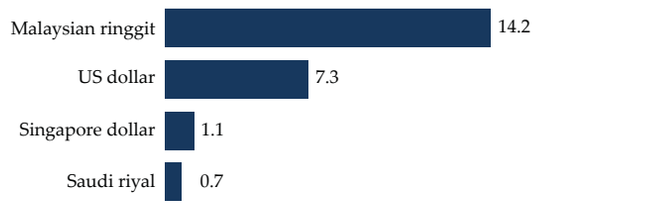
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	5,339	29	22.8
2	CIMB Group	5,142	46	22.0
3	HSBC	3,779	18	16.1
4	Citigroup	1,514	8	6.5
5	AmInvestment Bank	1,386	22	5.9
6	Standard Chartered Bank	1,279	9	5.5
7	RHB Capital	1,152	7	4.9
8	RBS	522	4	2.2
9	OCBC	444	5	1.9
10	Deutsche Bank	427	2	1.8
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	1.0
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	KFH	50	1	0.2
24	Hong Leong Bank	40	2	0.2
25	OSK	15	2	0.1
26	Mitsubishi UFJ Financial Group	6	2	0.0
	Total	**23,431**	**101**	**100.0**

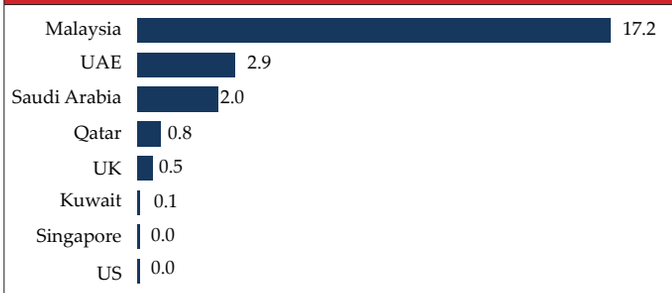
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	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

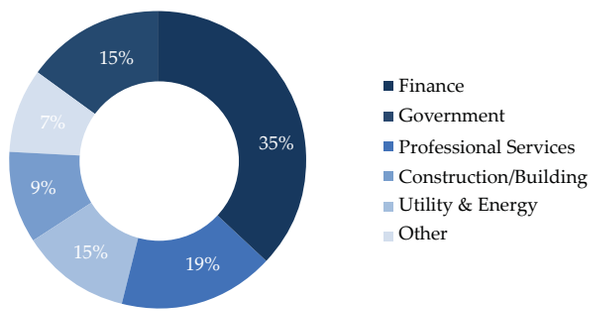
Sukuk Volume by Currency US$ (billion) *12 Months*



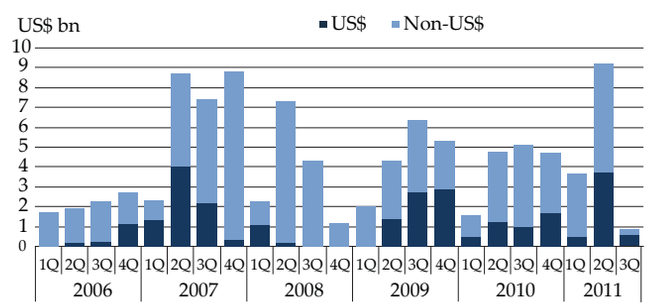
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk 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

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	1,120	4	9.7
2	HSBC	1,060	6	9.2
3	Saudi National Commercial Bank	942	3	8.2
3	Banque Saudi Fransi	942	3	8.2
5	Maybank Investment Bank	824	5	7.2
6	Abu Dhabi Islamic Bank	654	3	5.7
7	Arab National Bank	554	2	4.8
8	AmInvestment Bank	471	3	4.1
9	Citigroup	332	3	2.9
10	Al Hilal Bank	300	2	2.6
11	Standard Chartered	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 Corporation	191	4	1.7
17	CIMB Group	180	2	1.6
18	RHB Capital	164	1	1.4
18	Lembaga Tabung Haji	164	1	1.4
20	National Bank of Abu Dhabi	153	2	1.3
21	Deutsche Bank	150	1	1.3
22	OCBC	131	2	1.1
22	DBS	131	2	1.1
24	Riyad Bank	129	1	1.1
24	Bank Al-Jazira	129	1	1.1
26	UOB	116	1	1.0
27	Union National Bank	92	1	0.8
27	First Gulf Bank	92	1	0.8
27	Bank of Baroda	92	1	0.8
27	Al Khaliji Commercial Bank	92	1	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	3,486	3	30.3
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	National Bank of Kuwait	87	1	0.8
10	Credit Suisse	50	1	0.4

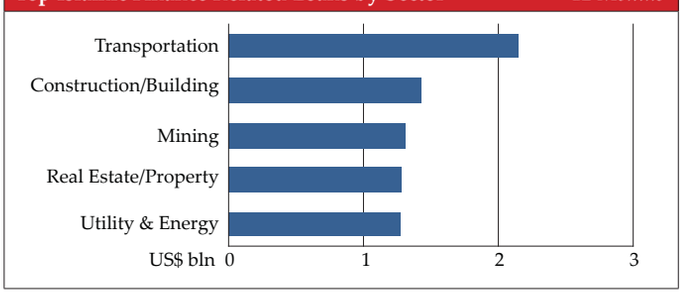
Top Islamic Finance Related Loans Deal List *12 Months*

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
18th Jul 2011	Pembinaan BLT	Malaysia	822
17th May 2011	Emaar Properties	UAE	699
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

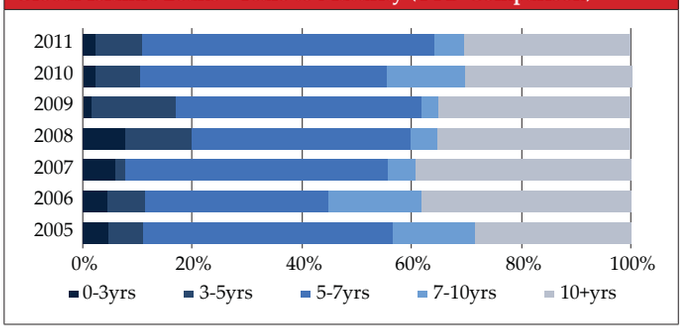
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	4,634	3	40.3
2	UAE	2,727	8	23.7
3	Malaysia	1,673	4	14.6
4	Turkey	881	5	7.7
5	Singapore	655	2	5.7
6	Indonesia	450	1	3.9
7	Bahrain	385	3	3.4
8	Kuwait	87	1	0.8
	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)
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20th September 2011
IFN Roadshow Japan
Tokyo *(REDmoney events)*

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

19th – 23rd September
Sibos Toronto 2011
Toronto (*Swift*)

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*)

10th – 11th October
International Summit on Islamic Corporate Finance
Abu Dhabi (*MegaEvents*)

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

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

20th October
Indonesia Trade & Commodity Finance Conference
Jakarta (*Exporta*)

23rd – 24th October
Annual Conference on Islamic Banking and Finance
Bahrain (*AAOIFI*)

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

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

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

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

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

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*)

30th November 2011
IFN Roadshow Brunei
Brunei *(REDmoney events)*

Islamic Finance *news*

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