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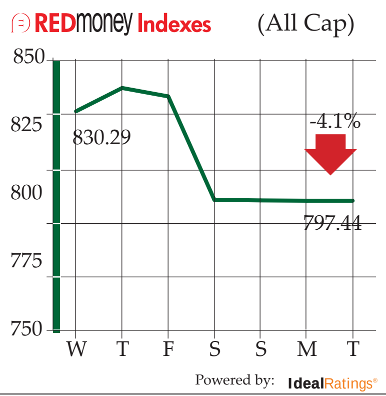

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ICIEC Sukuk fund: No guarantee of success

Cover Story

The Islamic Corporation for the Insurance of Export Credit and Investment (ICIEC) in 2010 announced its intention of launching a number of unique initiatives to support the development and trade of Islamic financial instruments; including a Letters of Credit (LC) Guarantee Fund and a Sukuk Guarantee Fund, which one industry player has called "the most important contribution by a supranational… providing a mechanism in Islamic markets that would not otherwise be possible". While nothing has yet been formally announced, the organization recently approved a capital increase from US$240 million to US$640 million, thus significantly increasing its insurance capacity: a move which it is hoped will be the stimulus to launch the funds. So what impact could a Sukuk Guarantee Fund realistically have on the development of the market?

The background

Following a period of rapid growth averaging around 40% annually, the Sukuk market suffered from the global market turmoil in 2008 and, in 2009, saw a number of high profile defaults including US-based East Cameron Partners, Kuwait's The Investment Dar, Saudi Saad Group, and perhaps most prominently Nakheel, the property arm of Dubai World. With the honeymoon period over, the sector has since then hit the headlines as much for bad news as good; with concerns over its slow recovery, the lack of a secondary market, worryingly high yields, low levels of corporate issuance and controversy over issues of Shariah compliance. The Malaysian market has recovered strongly, accounting for around 62% of issuances so far in 2011 and with Malaysian companies predicting corporate sales of a further US$2 billion by the end of the year, on top of around US$10 billion already raised. Global Sukuk sales have also reportedly more than doubled since 2010. However, the Middle East has not fared quite so well. The political unrest of the Arab spring suppressed an already stifled market, and despite a few new players entering the market, the first half of 2011 saw a mixed performance.

The benefits

The Sukuk industry suffers from its small size, which is a barrier to liquidity and inhibits the development of a secondary market. Indeed, despite much fanfare about the increase in the trading and listing of Sukuk, so far in 2011 just 13% of total Sukuk

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Talking about a revolution

Editor's Note

The year thus far has been nothing if not revolutionary. Around the world, people have gathered together and called for change, fuelled by hope for a better future. Although not as tumultuous, the Islamic finance industry has also seen its share of change. In Oman, financial institutions have hastened to apply for the appropriate licenses after authorities announced their decision to allow Islamic banking in the country just a few months prior.

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Maybank reports 26.5% increase in fourth quarter net profit to US$386.4 million

Conventional banks in Oman urged to grow their Islamic banking capabilities

Affin Holdings reports 20.1% growth in second quarter net profit to US$44.91 million

People's Leasing Financing raises capital worth US$6.8 million through Wakalah financing

Malaysian central bank grants more flexibility in distribution ratio requirement for foreign banks

HSBC Amanah Malaysia announces four new offsite ATMs

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Fitch updates Sukuk rating criteria

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Bahrain central bank's US$53 million Sukuk Ijarah oversubscribed by 372.5%

ICD adopts **International Finance Corporation**'s Master Cooperation Agreement

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Islamic megabank in Bahrain plans to raise US$100 billion in its first 10 years

Proposed merger of **Bahrain Islamic Bank** and **Al Salam Bank-Bahrain** could boost consolidation activities in the Gulf

Al Izz International Bank receives Islamic banking license

Dubai Islamic Bank unveils auto finance offer for new cars

Dar Al-Arkan Real Estate Development Company makes US$24.2 million semi-annual payment

ISLAMIC INVESTOR

Axis Global Islamic REIT postpones initial share sale

Al Meezan Investment Management declares a total dividend of US$37.67 million for six of its funds

Markaz announces a 2.37% increase in returns for the second quarter on its Markaz Fixed Income Fund

Islamic investment market poised to prove itself amidst current financial turmoil, says CEO of **CIMB-Principal Islamic Asset Management**

RATINGS

RAM reaffirms respective 'AA3' and 'A2' ratings of **Mukah Power Generation**'s Islamic notes

RAM reaffirms long and short-term corporate credit ratings of **Cagamas** at 'AAA' and 'P1'

MARC downgrades ratings on **Tanjung Langsat Port**'s Sukuk Musharakah and Musharakah medium-term notes to 'A-IS' and 'MARC-2ID/A-ID'

MARC withdraws rating of 'AAAIS' on **Assar Chemicals**' US$50 million serial Sukuk Musharakah

MARC places 'AAIS' rating on **Alloy Properties**' Islamic note on MARCWatch Negative

TAKAFUL

Prudential Life Assurance reports 107.9% growth in new business premiums to US$34.74 million

Allianz Life Syariah reports 17% increase in first half net profit revenue to US$21.84 million

Etiqa Takaful eyes entry into Indonesia by middle of 2013

Ansuransi Jiwa Sinarmas MSIG Life plans to spin off Shariah unit in 2013

MOVES

Emirates NBD names **Pierre Pissaloux** as general manager of wealth management division

Taib Bank appoints new board of directors

NASDAQ Dubai names **Angela Russo** as general counsel and acting head of market regulation

Abu Dhabi Investment Authority names **Sheikh Mohammed Khalifa Al Nahyan** as executive director of indexed funds department

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issuance has reportedly been listed. The Sukuk market is also dominated by sovereign issuances, such as the US$9 billion issuance by the Qatar Central Bank in January and the US$2 billion issuance by the Malaysian government in June; while corporate issuances are limited and have suffered from the recent financial and political upheavals. Indeed, according to Samira Mensah, a credit analyst at Standard & Poor's: "More than 90% of Sukuk in 2010 were issued by sovereign entities and this trend is likely to continue in 2011 and 2012."

The corporate Sukuk market is constrained not only by its size, but by investor fears following the string of defaults, which left many concerned by the resolution process and doubtful whether they could get their money back in the event of a default, making them wary of issuers with less than perfect credit ratings, which disadvantages smaller players from emerging markets in favour of the big blue chip corporates.

In this respect, a Sukuk Guarantee Fund could be influential in encouraging investors back into the market, offering them insurance against failure. At the same time, it would encourage the entry of smaller institutions. Samira explains that: "From an investor standpoint, the Sukuk Guarantee Fund could give them some comfort if the issuer is not of high credit quality and from an issuer's standpoint, the cost of issuing Sukuk could be lowered." Faisal Hijazi (*below*), the business development manager for rating services and Islamic finance at Moody's Investors Service, agrees. "The Sukuk Guarantee Fund should help encourage new players to come and tap the Sukuk issuance market, especially those institutions that are small to medium in size, where their ability is hindered to tap capital markets due to their nascent business size and also a lack of credit rating outcome that is favourable to both institutional and retail investors."

The sales pitch

This is exactly what the ICIEC hope to achieve. Adil Babiker (*top*), the director of legal affairs at the ICIEC, explains that the fund aims to "help IDB Group member companies to have access to international capital markets and raise

money at a reasonable cost; help companies which don't have investment grade get access to international capital markets and issue Sukuk," and thus "help both the primary and secondary market to flourish". In addition, the ICIEC is hoping that the success of the fund will stimulate the flow of capital and goods between member countries; encouraging cross-border trade and investment flows.

The ICIEC, an arm of the influential IDB that has been growing in influence over the last few years, could be one of the few agencies with the ability to pull something like this off. In 2010 it widened its member base to 40 countries with another six expected to accede in 2011. Greater leverage within the IDB group combined with the improving economic climate, escalating intra-Islamic trade, and growing awareness among Islamic institutions of the advantages of export credit and investment insurance in managing risk resulted in a 91% increase of business insured in 2010 to US$1.97 billion, while new insurance commitments grew 52% to US$3.25 billion. During the first quarter of 2011 this growth has continued, with business insured increasing by 56% to US$630 million compared to the same period in 2010. In May of this year Moody's reaffirmed its 'Aa3' insurance financial strength rating, which the ICIEC has maintained since 2008, reflecting its strong fundamentals but also noting its position as "the only multilateral export credit and investment insurance corporation in the world that provides Shariah-compatible insurance and reinsurance products". In July, the ICIEC entered Dubai with its first office outside Saudi Arabia, in a move to extend its influence across the GCC and South Asia.

The recent capital increase has also released the agency from its past limitations in underwriting capacity, and should enable it to more effectively support the growing demand for investment insurance. It is also discussing launching the Sukuk Guarantee Fund with a number of partner institutions and, depending on who these may be, this could widen the sphere of influence the fund commands

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CLOSING BELL

Regulations underway

OMAN: The Central Bank of Oman is studying the legal issues and required amendments to the country's banking law to regulate Islamic banking, according to Hamood Sangour Hashim Al Zadjali, its executive president.

Hamood Sangour added that the central bank and the grand mufti's office are planning to form a central national committee for determining the standards and legal regulations for Islamic banks.

A legal committee is also in the works to ensure that the banks are Shariah compliant.

Branching out

BAHRAIN: Ithmaar Bank has opened its 12th branch in the kingdom. Four more branches are scheduled to be opened later this year, according to Mohammed Rahman Bucheerei, its CEO.

KFH (MALAYSIA)

MALAYSIA: Kuwait Finance House (Malaysia) has appointed **Dr Nabeel Ahmad Al-Mannae** as its chairman, effective the 5th September.

Nabeel is also the vice chairman of KFH (Malaysia)'s parent, Kuwait Finance House.

Another delay for global Sukuk

INDONESIA: The government is likely to postpone the issuance of a planned global Sukuk to November, said Rahmat Waluyanto, the director general of the finance ministry's debt management office.

The Sukuk was originally scheduled for September or October this year.

S&P

GLOBAL: S&P has announced that **Deven Sharma**, its president, has resigned.

Sharma will be replaced by **Douglas Peterson**, the current chief operating officer of Citigroup's chief banking arm, Citibank NA.

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and improve its credit rating. The fund will effectively act as a third party guarantee, insuring Sukuk issuances against political and credit risk. Given the strong regional proclivities of its Saudi-based parent IDB and the political and economic volatility in the MENA region, it is likely that at least to start the fund would find most demand in its home base, with a limited global reach.

The reality

However, as we move into the second half of 2011 the GCC Sukuk market looks to be recovering pretty well on its own. Economic and fiscal stimulus packages, rising oil prices and rallying global markets have stimulated corporate issuances and improved prices. Yields have fallen back down to around 10% from their record highs of up to 17.2% in February, while the average credit spread over Libor has halved – from 1,414 to 763 basis points – based on the HSBC/DIFX GCC Corporate US Dollar Sukuk Index. A number of substantial launches from both sovereigns, supranationals, and corporates in recent months has kickstarted the market and is likely to trigger a string of further deals as issuers become more confident in attracting investors. The IDB issued US$750 million in May and is planning a further US$500 million, while Bahrain is planning both a domestic and an international sovereign issuance this year. Saudi International Petrochemical Company raised SAR1.8 billion (US$480 million) in July through its first publicly listed Sukuk, while Bank Al Jazira in March raised SAR1 billion (US$267 million) in its maiden issuance. In Qatar the Almana Group launched a US$215 million Sukuk, while in the UAE First Gulf Bank completed a US$650 million issuance in the first tranche of a US$3.5 billion program and in Kuwait the Gulf Investment Corporation issued the second tranche of its RM3.5 billion (US$1.1 billion) MTN program, raising RM750 million (US$250 million).

As confidence increases, more issuances will follow, and the sharp rise in average price reflects greater confidence in corporate Sukuk and a reduced fear of default risk. For a Sukuk Guarantee Fund, this news is encouraging. Faisal explains that: "The fund will give priority to small corporate issuers that require technical and credit aid to get access to finance and international trade." However, its scope is expected to be limited. Samira confirms that in S&P's opinion: "It is difficult to predict how much the fund could contribute at this stage. In the first phase, we think its share will be limited, but will grow over time as corporates come back to the Sukuk market. We think it will take time to reach a significant size."

As the corporate Sukuk market is currently managing well on its own, it looks likely that any new fund would focus primarily on encouraging new Sukuk issuance from smaller players, who would not otherwise find it easy to attract investors. While undoubtedly a positive step for the industry as a whole, Faisal warns that in Moody's opinion: "Such a fund will not drastically change the Sukuk market landscape in terms of new issuances, market depth, and tradability of Sukuk in the secondary market." One has to wonder – what will it do then?

Talking about a revolution

Editor's Note

The year thus far has been nothing if not revolutionary. Around the world, people have gathered together and called for change, fuelled by hope for a better future.

Although not as tumultuous, the Islamic finance industry has also seen its share of change. In Oman, financial institutions have hastened to apply for the appropriate licenses after authorities announced their decision to allow Islamic banking in the country just a few months prior. This week, we look at the implications of this development, with a report by Pak Oman Investment Company on the opportunities the introduction of Islamic finance will present for the country, while our IFN Correspondent from Oman looks at the details of the central bank's circular on Islamic banking.

Change, however, does not come easy and neither can it be achieved without at least a little knowledge. Our columnist, Daud Vicary, contributes an article on education and its importance as Islamic finance continues growing amid increasing globalization.

Meanwhile, rules and regulations make up a major talking point in any revolution. Whether fair or unjust, laws form the backbone of economies, society and industry and pave the way for further development. This week, our IFN Correspondent in Kuwait looks at the Central Bank of Kuwait's laws governing Islamic banking in the country and its role in promoting transparency and good corporate governance.

On another note, we also bring you a report on Ijarah by the Bank of London and The Middle East and another on equipment leasing as an asset class by consulting firm SharCom Consulting. Senior lecturers Ugi Suharto and Sutan Emir Hidayat, who teach at the Markfield Institute of Higher Learning Education, UK and University College of Bahrain, respectively, write on how interest could destroy an economy, using the US economy as a case study.

Our Takaful section features an extract from Elaine Housby's book entitled "Islamic Financial Services in the United Kingdom" and Canadian lawyer Shahzad Siddiqui contributes a report on Islamic private equity for Islamic Investor.

Insider puts the spotlight on Indonesia's Bank Muamalat, while this week's IFN reports look at the prospects for the Middle East's banks amid the possibility of another downturn and Takaful company Salama's successful venture into Asia. We also have an IFN report on Turkey's emergence as a bridge for investments between Asia, Europe and the Middle East, an article which looks at the profitability of banks in the UAE and a piece on the latest Islamic banking developments in France.

As we close off the month of Ramadan, we hope that you have enjoyed a productive month amid the global tumult. We would also like to inform you that due to the Eid holidays, the upcoming IFN Volume 8 Issue 34 will be published on the 29th August 2011.

ASIA

Telecommunication partnership

MALAYSIA: XOX, a mobile virtual network operator, has signed a two-year partnership agreement with IDOTTV to supply RM50 million (US$17 million)-worth of telecommunication airtime per day as a trading commodity for the latter's Islamic banking Tawarruq trading system, AS-SIDQ.

AS-SIDQ, which is expected to be launched next month, is an Islamic trading system that facilitates personal financing between individuals and Islamic banks.

Call for Islamic banking

INDIA: Mohammad Umar Farooq, the chairman of political party All Parties Hurriyat Conference, has urged for the introduction of Islamic banking in the Muslim-majority state of Jammu and Kashmir, asking the Jammu and Kashmir Bank (J&K Bank) to take steps towards implementing Islamic banking in the state.

In response to Mohammad Umar's statement, Mushtaq Ahmad, the chairman and CEO of J&K Bank, clarified that the bank requires permission from the central bank, Reserve Bank of India (RBI) before any attempts at implementing Islamic banking.

Mushtaq said that J&K Bank has yet to approach RBI on the matter.

Strong growth

MALAYSIA: Maybank reported a 26.5% increase in net profit for its fourth quarter ended the 30th June 2011 to RM1.15 billion (US$386.4 million) against RM912.47 million (US$306.72 million) for the same period last year.

The increase was attributed to the income from its Islamic banking and insurance businesses. Income from Islamic banking operations grew by 8.9% to RM1.56 billion (US$524.4 million).

Revenue rose to RM5.72 billion (US$1.92 billion) from RM4.73 billion (US$1.6 billion) in the fourth quarter of 2010, signifying a year-on-year increase of 20.9%.

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Call for Islamic windows

OMAN: Conventional banks in Oman must quickly grow their Islamic banking capabilities to be more competitive amidst increasing competition from Islamic banks which may open in the sultanate, according to Salaam Said Salim Al Shaksy, CEO of the National Bank of Oman.

Salaam Said added that the National Bank of Oman has already assembled a team to examine the possibility of setting up an Islamic window in the sultanate, and expects to seek board approval by the end of the year.

In May 2011 Sultan Qaboos Said, the ruler of Oman, issued a royal decree to allow Islamic banking in Oman as part of an effort to stem the outflow of Islamic investments from the sultanate, as well as to encourage the return of funds from investors and depositors who have sought other Shariah compliant markets.

Following the decree, the Central Bank of Oman (CBO) issued a circular allowing local conventional banks to open Islamic windows. However, the banks are not permitted to convert into Islamic banks.

In the middle of May, the CBO approved Bank Nizwa as the first standalone Islamic bank in Oman. The new bank is expected to have a capital base of OMR150 million (US$389.6 million) and is predicted to begin operations by the end of this year or early 2012.

BankMuscat, another conventional bank with Islamic capabilities, is waiting for the issuance of relevant regulatory frameworks from the CBO. It recently expressed its commitment to offering Islamic banking products, as it expects a large demand for Shariah compliant products in Oman.

Outside of the banking sector, Oman's Capital Markets Authority recently gave its approval to Alpen Capital to provide advisory services in Islamic financing structures, while Al Madina Gulf Insurance was granted permission to convert its operations into a fully fledged Takaful business.

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Net profit for the financial year ended the 30th June 2011 was at RM4.45 billion (US$1.5 billion), growing by 16.5% compared to RM3.82 billion (US$1.3 billion) for the same period in 2010.

Revenues for the financial year of 2011 went up by 13.3% from RM18.56 billion (US$6.24 billion) to RM21.04 billion (US$7.1 billion).

Mixed results

MALAYSIA: Affin Holdings has reported a 20.1% growth in second quarter net profit to RM134.19 million (US$44.91 million) compared to RM111.7 million (US$37.39 million) in the three-month period ended the 30th June 2010.

The growth is attributed to an increase in its Islamic banking and net interest income. Revenue for the second quarter also rose to RM642.77 million (US$215.21 million) from last year's RM534.61 million (US$179 million).

However, first half net profit dropped to RM240.25 million (US$80.44 million) from RM247.04 million (US$82.78 million) in the six-month period ended the 30th June 2010.

Revenue for the same period was at RM1.26 billion (US$421.89 million), growing 19.9% compared with the previous year's RM1.05 billion (US$351.58 million).

Working capital secured

SRI LANKA: People's Leasing Financing, a subsidiary of state-owned People's Bank, has raised working capital worth LKR750 million (US$6.8 million) through a six-year Wakalah financing from the Islamic banking unit of Bank of Ceylon.

The facility will be used to fund its Ijarah financing activities.

Flexibility in distribution

MALAYSIA: The central bank, Bank Negara Malaysia, has announced that it will grant more flexibility to locally-incorporated foreign banks in complying with its branch distribution ratio requirement.

Following this, foreign banks incorporated domestically which have not yet set up new branches or have less than eight branches will not have to observe the distribution ratio.
The distribution ratio for locally-incorporated foreign banks is capped at eight additional branches at a ratio of 1:2:1 for branches located in city centers, semi-urban areas, and non-urban areas respectively.

There are currently 26 foreign banks in Malaysia, six of which are Islamic banks and four of which are international Islamic banks.

New offsite ATMs

MALAYSIA: HSBC Amanah Malaysia has announced the establishment of four new offsite ATMs: located at Penang International Airport, two shopping malls and a hypermarket.

The bank currently has 13 offsite ATMs in the country.

Project on track

MALAYSIA: 1Malaysia Development (1MDB) has appointed 11 local and foreign consultants to oversee the development of the RM26 billion (US$8.73 billion) Kuala Lumpur International Financial District project.

The project aims to make Kuala Lumpur an international hub for banking and finance, leveraging the country's prominent position in global Islamic finance.

1MDB has also selected Akitek Jururancang (Malaysia) as well as Machado and Silvetti Associates as the master planners for the project. A detailed master plan is scheduled to be completed in the first quarter of 2012.

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First Islamic portfolio sold

QATAR: The International Bank of Qatar (IBQ) has sold its Islamic banking retail operations to Barwa Bank, representing the first sale of an Islamic portfolio in the country since the central bank ordered conventional banks to cease offering Islamic finance services.

The sale includes IBQ's Al Yusr retail financing and deposit account portfolios and the two Al Yusr branches located at Al Sadd and Al Rayyan, including its ATMs, as well as the transfer of Al Yusr employees to Barwa Bank. However, IBQ's private and corporate banking portfolios were excluded from the sale.

Goldman Sachs and legal firm Linklaters acted for IBQ, while Barwa Bank's advisors were The First Investor and law firm Eversheds.

In another development, conventional lender Al Khaliji announced that it has stopped providing its Islamic banking facilities this month; while Ahli Bank revealed last month that several Islamic banks have expressed interest in acquiring its Shariah compliant unit, adding that a decision will be made by the end of this year.

In its statement issued on the 10th February 2011, the regulator explained that the recent growth of Islamic branches of conventional banks had led to the mixing of their assets and liabilities. The overlapping nature of non-Islamic and Islamic activities at conventional banks had made it difficult for the central bank to manage the financial risks encountered by these banks.

Additionally, the central bank stated that it would be hard for these banks to follow the impending capital adequacy rules established by the Islamic Financial Services Board, as well as Basel II and III.

Next Forum Question:

"What are the existing risk management issues unique to Islamic finance and how can the industry manage them?"

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 26th August 2011.

continued...

The first phase of the project is expected to be operational by 2016.

EUROPE

Eyeing acquisition

TURKEY: Bank Asya is reportedly considering acquiring a bank in the Balkans in partnership with the IDB, said Abdullah Çelik, its general manager.

Abdullah said that Bank Asya has been conducting market research for the possible acquisition of a bank with a total value of US$10-20 million.

The bank entered into a strategic partnership with the Islamic Corporation for the Development of the Private Sector, a unit of the IDB, in 2009. The agreement stated that Bank Asya will engage in interest-free banking activities.

Abdullah added that Bank Asya has also attracted bid offers but that these were below its potential.

On another note, he said that the bank could issue a US$300 million Sukuk by the end of this year, subject to market conditions.

GLOBAL

Report updated

GLOBAL: Fitch has updated its rating criteria for originator-backed (asset-based) Sukuk structures.

However, the new criteria will have no impact on its existing ratings.

New Shariah indices

GLOBAL: S&P Indices has launched two new Shariah compliant indices, the S&P Africa Frontier Shariah Index and the S&P Pan Africa Shariah Index, as sub-indices to its S&P Shariah Index Series.

The S&P Africa Frontier Shariah Index will measure Shariah compliant equities from eight sub-Saharan African markets including Botswana, Cote D'Ivoire, Ghana, Kenya, Mauritius, Namibia, Nigeria and Zambia.

The S&P Pan Africa Shariah Index will measure the same eight markets as well as Egypt, Morocco, South Africa and Tunisia.

MIDDLE EAST

Sukuk oversubscribed

BAHRAIN: The Central Bank of Bahrain's BHD20 million (US$53 million) monthly issuance of Sukuk Ijarah has been oversubscribed by 372.5%.

The issuance received subscriptions worth BHD74.5 million (US$198 million).

The expected return on the Islamic bond, which was issued on the 18th August 2011 and will mature on the 16th February 2012, is 0.82%.

Boosting investments

SAUDI ARABIA: The Islamic Corporation for the Development of the Private Sector (ICD) has adopted the International Finance Corporation (IFC)'s Master Cooperation Agreement.

The agreement will make it easier for the two institutions to collaborate on private sector investments in the MENA region and emerging markets.

A member of the World Bank Group, the IFC mobilizes funding from other financiers to meet the needs of private sector clients in emerging markets.

Communication sector sale

UAE: International Turnkey Systems (ITS), the technology unit of Kuwait Finance House (KFH), has signed an agreement with China-based information and communications technology service provider Huawei to sell its business support system division.

KFH, which owns 95% of ITS, will earn a profit of US$40 million from the sale; which is expected to reflect in the bank's

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RATINGS

Firm position

MALAYSIA: RAM has reaffirmed the respective 'AA3' and 'A2' ratings of Mukah Power Generation's senior Sukuk Mudarabah program of up to RM665 million (US$223 million) and junior Sukuk Mudarabah program of up to RM285 million (US$96 million). Both long-term ratings have a stable outlook.

Learning on its strenghts

MALAYSIA: RAM has reaffirmed the long and short-term corporate credit ratings of Cagamas as well as its RM40 billion (US$13.39 billion) Islamic and conventional medium-term note program and RM20 billion (US$6.69 billion) Islamic and conventional commercial paper program at 'AAA' and 'P1'.

The ratings for Cagamas' RM5 billion (US$1.67 billion) Islamic medium-term note and commercial paper programs have also been reaffirmed at 'AAA/P1'. The outlooks for all the long-term ratings are stable.

Negative outlook

MALAYSIA: MARC has downgraded the ratings of Tanjung Langsat Port's RM250 million (US$83.65 million) Sukuk Musharakah and RM135 million (US$45.17 million) Musharakah commercial papers/medium-term notes to 'A-IS' and 'MARC-2ID/A-ID' respectively. The outlooks for the ratings remain negative.

Off the list

MALAYSIA: MARC has withdrawn its rating of 'AAAIS' on Assar Chemicals' RM150 million (US$50 million) serial Sukuk Musharakah, with immediate effect.

Monitoring performance

MALAYSIA: MARC has placed its rating of 'AAIS' on Alloy Properties' Sukuk Musharakah medium-term note program of up to RM240 million (US$81 million) on MARCWatch Negative.

continued...

fourth quarter 2011 results, according to Mohammed Al-Fozan, the chairman of ITS.

Eyeing US$100 billion

BAHRAIN: A new mega Islamic bank, to be headed by Shaikh Saleh Abdullah Kamel, the president of the Islamic Chamber of Commerce and chairman of Al Baraka Banking Group, is planning to raise US$100 billion in its first 10 years to finance private sector projects in OIC countries and to challenge the top underwriters in the Sukuk market.

The bank is scheduled to open next year in Bahrain.

According to Abdulmohsen Linjawi, the general manager of Business Owners Union, a unit of the OIC, the bank will study potentially feasible projects and will only invest in commercial projects it thinks will be successful.

Meanwhile Adnan Ahmed Yousif, the president and CEO of Al Baraka Banking Group, said that the Islamic bank will also help to arrange Sukuk issuances and lure business from the biggest Sukuk underwriters in the region, HSBC Holdings and Standard Chartered Bank.

Boost for mergers

BAHRAIN: Al Salam Bank-Bahrain and Bahrain Islamic Bank have named KPMG Fakhro as the advisor for their planned merger. The appointment came after the two Islamic banks secured approval from the Central Bank of Bahrain to merge.

The planned merger could pave the way for consolidation in the regional banking industry, according to Sameer Abdi, the M&A and financial services partner at Ernst & Young in Doha.

He explained that a merger would likely lower barriers and encourage the industry to consider consolidation and, if it is successful, could act as a catalyst for one or two other mergers to materialize by the end of the year.

Second Islamic bank for Oman

OMAN: Al Izz International Bank (Bank Al Izz) has been granted an Islamic banking license, according to Ali Hamdan Al Raisi, the vice-president of the Central Bank of Oman.

Bank Al Izz is now one of two financial institutions that have been awarded fully fledged Islamic banking licenses. The first license was granted to Bank Nizwa in May this year, shortly following the authorities' decision to allow Islamic finance in Oman.

Ali Hamdan added that the two banks will likely open in one or two years as the banks are in the process of being formed.

New auto financing

UAE: Dubai Islamic Bank has launched an auto finance product for new cars, called Al Islami Auto Finance.

The facility, which comes with profit rates starting from 2.99% per year, does not require salary transfer. It also has a financing period of up to 60 months and an option for reduced installments through balloon payments.

Periodic coupon distribution settled

SAUDI ARABIA: Dar Al-Arkan Real Estate Development Company has paid US$24.2 million on the 16th August 2011 for its Sukuk IV issuance maturing in 2015.

The coupon distribution, which is based on a fixed rate of 10.75%, was for the period of the 18th February through to the 18th August 2011.

Coming up...

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Meet the Head
Ahamed Imruz Kamil, head of Islamic unit, People's Leasing Finance, Sri Lanka

Features
Law and Shariah in Islamic M&A rules by Hossam Abdullah, partner of corporate, banking & finance at ASAR – Al Ruwayeh & Partners.

Mergers and acquisitions will gain momentum in 2012 by Jamal Hijres, CEO of Cappinova Investment Bank.

Brazil: Justified potential in real estate by Yahya Abdulla, senior surveyor of EMEA Capital Markets at Cushman & Wakefield.

MOVES

EMIRATES NBD

UAE: Emirates NBD has appointed **Pierre Pissaloux** as the general manager of its wealth management division.

Pissaloux was previously the head of Middle East operations at HSBC Private Bank in London.

TAIB BANK

BAHRAIN: Taib Bank has appointed a new board of three independent and three non-executive directors as part of its restructuring strategy.

The three independent directors are **Abdul Rahman Abdulla Mohamed**, a former senior executive of the National Bank of Bahrain; **Abdulaziz Ahmed Abdulmalik**, a former senior executive of Bahrain-based BMB Investment Bank; and **Adel AlMannai**; a senior executive at The Arab Investment Company's Bahrain branch.

The three non-executive directors are **Srinivasan Sridharan**, a senior executive of Dubai Group; **Ramzi Abukhadra**, a senior partner of GulfMerger; and **Avinash Pangarkar**, a senior executive of Dubai Holding.

NASDAQ DUBAI

UAE: NASDAQ Dubai has appointed **Angela Russo** as its general counsel and acting head of market regulation.

Russo was previously a senior vice president and director at Legatum investment group in Dubai.

ABU DHABI INVESTMENT AUTHORITY

UAE: The Abu Dhabi Investment Authority (ADIA) has appointed **Sheikh Mohammed Khalifa Al Nahyan** as the executive director of its indexed funds department.

Sheikh Mohammed was previously the executive director of ADIA's European external equity fund division.

Salama's Asian ventures paying off

Dubai-based Islamic Arab Insurance Company (Salama) has seen its Asian business grow into a significant contributor to the group's profitability as prospects for Takaful in the region remain brighter than in the Middle East.

According to its financial results for the six months ended the 30th June 2011, gross written contributions from Asia made up the lion's share of contributions during the period, growing over 40% from a year earlier to AED759.19 million (US$206.68 million).

The company, which offers General, Family and Health solutions, owns Best Re Holding in Malaysia; which in turn operates Best Re (Labuan) and Best Re Family (Labuan). Salama restructured its Best Re re-Takaful group last year, moving its headquarters from Tunis to Malaysia.

The growth of Salama's Asian business is in line with expectations of promising growth in the region. "Most GCC markets have witnessed a slowdown in Takaful growth, with only Saudi's cooperative insurance market remaining strong on the back of compulsory medical. Unlike the GCC, the Southeast Asian markets have continued their strong Takaful growth," said Ernst & Young in its World Takaful Report 2011, released in the middle of this year.

The report noted that only the Saudi market showed contributions exceeding US$1 billion in 2009, amounting to US$3.9 billion, while Takaful contributions in Kuwait, Qatar and the UAE reached US$127 million, US$136 million and US$640 million, respectively. In contrast, contributions in the Malaysian market amounted to US$1.2 billion.

Meanwhile, in its Global Family Takaful Report 2011, Milliman said: "The analysis of the Malaysian Family Takaful market shows how Family Takaful provision is slowly becoming the dominant activity of Takaful operators in Malaysia. The depth of the Malaysian Islamic capital market provides a solid underpinning for the long-term investment and liability structure of Family Takaful."

It also noted that global Family Takaful gross contributions from the Middle East and Africa have a volatile growth rate.

In spite of this, the Middle East Takaful market is not a complete loss for Salama. Its Middle East business is still the second largest of the group, with gross written contributions amounting to AED504.35 million (US$137.31 million), or around 33% of the total gross written contributions of AED1.53 billion (US$416.53 million) in the first half of this year.

Contributions from the Middle East also grew the most during the period, surging over 90% from the first six months of 2010.

However, with Salama's Asian operations already making up the bulk of its business and the region providing a more optimistic outlook than its home market, it may not be long before the Takaful operator eyes further expansion in the continent.

Middle East banks in better position to face crisis

Even as memories from the last recession linger, the health of the global economy has once more been thrown into question. With both conventional and Islamic banks hit hard while still recovering from the previous downturn, what are the prospects for these financial institutions in the face of lean times ahead?

Analysts are optimistic that the banks are now better placed to withstand a reversal in growth but also agree that risks remain in the financial system; although new regulatory measures should help safeguard banks should another contraction materialize.

"The banks are now far more resilient than they were. Capital has been increased substantially, with banks no longer relying substantially on Tier II capital to meet capital ratio requirements.

"Secondly, the funding profile has improved, with less cross-border EMTN financing and less hot money in the system," said Raj Madha, a MENA banking analyst at Dubai-based Rasmala Investment Bank.

> ***"Many of these banks were indulging in poor banking practices"***

In a response to Islamic Finance *news*, he also said that the banks have gone through a period of improving the quality of their customer base, implementing more cautious credit scoring and providing less 'name-based' financing. "Finally, particularly in Dubai and with the property market, the economy itself has been through a period of de-leveraging," he said.

Khalid Howladar, the vice president and senior credit officer for financial institution ratings at Moody's Investors Service, observed that following the credit events which occurred in the last crisis, such as those involving the Saad Group, Ahmad Hamad Algosaibi & Brothers, Dubai World and Dubai Holding, regulators have implicitly raised minimum capital levels while banks have also taken the initiative to increase capital to a GCC-wide average of around 15% for Tier I capital: "Far higher than levels seen in more mature (and perhaps diversified) systems."

"In the event of another crisis this capital provides a good buffer against losses," Khalid said, adding that governments are also in a position of healthy fiscal surplus and have sizable sovereign wealth funds.

"This puts them in a good position to support their respective banking systems in the event of another crisis."

Authorities have also played their part in addressing past shortcomings and future follies.

This year, both the Central Bank of the UAE and the Qatar Central Bank

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implemented new limits on the amount customers can borrow and the maturity of financing.

According to Khalid, the limits constrain profitability in the short-term but are probably better for asset quality in the long-term. "Reducing the available leverage to customers, i.e. maximum debt to income, creates more sustainable and stable credit growth and is better for the economy and society as a whole," he said.

Meanwhile, Madha believes the new limits placed on consumer financing and tighter links to salaries implemented in both the UAE and Qatar are "definite improvements," adding that the changes have resulted in lower non-performing financing.

"However, the burden for prudence should ultimately lie with the banks. Many of these were indulging in what, with hindsight, was poor banking practice, assuming if the cycle turned it would do so only gradually.

"Now, however, we believe this has been addressed," he said.

In spite of the positive developments in the region's banking industry, pitfalls do remain and banks are still faced with some challenges.

For example, Madha said there are still sizeable legacy non-performing financing portfolios and an "insufficiently strong mechanism" for processing the bad debt.

He also pointed out the absence of bankruptcy laws and the lack of a small claims court or tribunal, as well as the need to "decriminalize debtors", as the current approach does not address problems appropriately.

"In addition, the generally weak level of transparency at an industrial level certainly hampers the ability to form longer-range expectations," he said.

The fact that banks have yet to come full circle in overcoming the last meltdown is also a challenge. Khalid believes that as the recent crisis is still fresh in the minds of the industry, many banks are still conservative in their underwriting and financing policies.

He added that concentration risks still remain in the system. "In these countries, it is government and large family holding companies that dominate the local economy.

"As such, this renders the local banks vulnerable to event risks, where a few distressed borrowers can put a bank in distress very quickly."

Solid foundation for continued growth

The last few years have been a baptism of fire for the Islamic banking industry in the UAE. The tumultuous nature of the current global financial landscape is further exacerbating the plight of Islamic finance institutions in the region, which have suffered from an intense level of scrutiny placed upon a budding industry still reeling from the fallout of the global credit crisis and domestic real estate bubble.

Islamic lenders in particular were overly exposed to real estate investments and were left nursing large portions of their balance sheets due to the incurred bad debt, leaving the sector hobbled by rising provisions and increasing losses. With such a sudden shift back into the black however, it appears that the UAE's Islamic banks are back on track despite the enforcement of new retail lending rules.

As worldwide attention once again shifts to the escalating events in the US and European markets, a first half of robust growth and several years of strong foundational work appear to be offering the UAE's banks an opportunity to emerge from the ashes.

The country's Islamic banking industry, whilst appearing initially impervious to the events of 2008, was still affected by the fallout. As a budding sector in the global financial industry, business models were left in tatters as exponential growth turned to stagnation and deficit. After a number of years taking stock of their position, the UAE's banks look set to return to their re-jigged business models, this time older and hopefully wiser, further emphasizing asset growth, prudent risk management, and most importantly stable growth.

With many of the UAE's Islamic banks demonstrating continued support for the economic development of the country at large, their role in integrating themselves within the real economy of the UAE will be central to maintaining the image and credibility of a system poised for recovery, as they offer increasing returns after years of simply tiding over.

Despite predictions that banks would see an adverse impact as the central bank limited loan charges, lenders' margins have remained largely stable, but fee income and commission levels have fallen. Improved liquidity in the banking system has also meant that lenders do not have to compete as aggressively for deposits and have been able to reduce interest payments while continuing to make money from lending.

According to the Dubai Chamber of Commerce and Industry, Islamic banks in the UAE increased their asset base in 2010 by approximately 10%. The collective assets of the eight Islamic banks operating in the UAE were estimated at around AED269 billion (US$73.23 billion), accounting for around 16.2% of the cumulative banking assets of AED1.66 trillion (US$451.92 billion).

Christine Kuo, a vice president and senior analyst at Moody's, confirmed that: "Most Islamic banks' strategies were to try to achieve asset growth. While this is important, appropriate systems and infrastructure to address risk issues need to be in place to support sustainable growth; therefore risk management should be implemented first, followed by growth."

A brief look at some of the results emerging from the country's Islamic banks in the first half of 2011 demonstrates this return to growth, with all the Islamic lenders posting increases in net profit, as well as a significant uptrend in assets.

Ajman Bank posted its first profit since its inception in 2008, reporting a quarterly net profit of AED556,000 (US$151,400) from its core banking

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activities, reversing a loss of AED15.6 million (US$4.24 million) in the first six months of 2010. The bank also reported a significant increase in net operating income. The bank, like many others, has been successful in improving its margins on financing and investments, while keeping its cost of funds in check.

Michael Tomalin, group chief executive at the National Bank of Abu Dhabi, commented that given the weak global economy and some regional uncertainty he considered the overall results of 2011 to be a "fine achievement" in light of the current low interest rates.

Much of the success of the Islamic banks can be attributed to maintaining a cautious approach towards liquidity management, credit expansion and capital management, with all banks looking to strengthen their balance sheets with strong capital adequacy, high liquidity and low advances-to-deposits ratios.

Commenting on the continued growth in financial performance Andre' Sayegh, CEO of First Gulf Bank, said that: "The UAE's Islamic banks continue to demonstrate significant capitalization and high capital adequacy ratios placing them in a very solid position against the future requirements of Basel III norms." Sayegh concluded that: "The UAE economy has demonstrated robust growth so far, aided by the revised growth forecasts from the IMF."

"Much of the success of the Islamic banks can be attributed to maintaining a cautious approach towards liquidity management"

With regards to provisioning, Islamic banks appear to be following best practice, having been given significant breathing space to identify their non-performing accounts and place provisions against them, pre-empting the UAE Central Bank guidelines that came into force in 2009. Like many lenders, the brunt of their legacy portfolios were absorbed over the course of 2009 with many taking further action in 2010 and as a result continuing to take a prudent strategy on any further risk.

Tirad Mahmoud, CEO of ADIB, said that he expected 2011 "to be another year of global economic uncertainty. We are also closely monitoring what has been happening in the broader region and its follow-on impact." Tirad also acknowledged "the increasingly competitive operational environment in the UAE and the increased regulatory oversight that is being brought to bear on the market as a whole, all of which makes the year ahead a challenging one".

The Islamic banking profits offered an earlier than expected reversal of fortunes for the much maligned UAE banking sector. That they are able to continue to demonstrate a strong financial position in the wake of the financial crisis and ongoing financial uncertainty worldwide is a testament to their current business models, prudent underwriting policies and their apparent success in aligning their strategies with the new prevailing market realities.

Best of both worlds

In the first quarter of this year, Turkey surpassed China and other G20 nations in terms of GDP growth; reaching 11%. The country's inflation rate also dropped to 6.24% in June, slightly lower than economists' initial estimate of 7% despite market concerns on the lira's seemingly shaky position. Analysts are currently in two minds about the country's fiscal future; with some concerned about its currency's waning position and potential inflation in what is currently Europe's fastest growing economy, and others seeing Turkey as the savior of the western world.

Instability in the Arab world and the flailing western economy has increased global attention towards Turkey in terms of investments, due to its relatively stable economic and political environment.

The country, which is home to 79 million people and over 70 ethnic groups, is now in a unique position to develop into the central trade destination for Europe and Asia. According to Carlos von Hardenberg of Franklin Templeton Investments, Turkey has realized that its orientation towards Europe is just as important as its role as a regional power in the Levantine and Gulf regions. "I believe we will continue to see exciting developments and interesting opportunities in this country," he said. The sectors which are expected to thrive according to Hardenberg are energy, banking, automobiles and tourism.

Recognizing its unique ability to capitalize on global investments including Islamic finance, secular Turkey has seen its participation banking sector thrive and even outperform its conventional counterparts, acquiring a market share of 7% in 2010. The country's Islamic assets have also seen double digit growth in recent years, at 30.5% in 2009 and 55% in 2010.

However, the Dow Jones Islamic Markets (DJIM) Turkey Index posted one of the biggest losses to date in July, down by 5.35% and closing at 3,447.12, compared to its conventional counterpart, the Dow Jones Turkey Total Stock Market Index, which closed at 1,243.07, and charted a loss of 4.87%.

Turkey has also taken major steps to develop its participation banking sector, with the latest Finance Bill 2011 incorporating tax neutrality measures for Sukuk Ijarah. This, industry players believe, is likely to spark a Sukuk boom in the country.

A Turkish banker attributes the rising strength of the participation banks to the dynamism and strength of the banks' management, encouraging domestic market opportunities and a focus on international markets. "Turkish Islamic banks play an important role in increasing export-import operations in Turkey, and there is no doubt the country is in a unique position to capitalize on the current economic climate and attract cross-border investments," he said.

Provisions for good corporate governance in Islamic banks

Kuwait

By Alex Saleh, IFN Correspondent

The Central Bank of Kuwait (CBK) is the exclusive regulatory body with regards to issuing currency and banking business in Kuwait. With the continuous growth in Islamic finance, the CBK in 2003 modified the Central Bank of Kuwait Law No. 32 of 1968 (Law No. 32) to include several provisions on Islamic banking. Law No. 30 of 2003 was incorporated as a special section to the third chapter of Law No. 32.

The provisions cover the manner in which Islamic banks are regulated, specifically the CBK's oversight of Islamic banking activities within Kuwait. The special section of the law provided a general framework for Islamic banking business and allowed Kuwaiti banks, with the approval of the CBK, to establish subsidiaries and allow them to practice Islamic banking. The law further detailed the necessary procedures for the establishment and registration of both local and foreign Islamic banking branches.

A minimum paid-up capital of KWD75 million (US$275 million) is required prior to establishing an Islamic bank within Kuwait. Founders of Islamic banks must have a minimum capital investment of 10% and a maximum of 20%. Foreign Islamic banks' branches have a less stringent capital requirement of KWD15 million (US$55 million). The Memorandum of Agreement and Articles of Association of the bank must specify the establishment of the board of directors as well as its authorities, powers and duties.

Each Islamic bank is required to have an independent panel for Shariah control with a minimum of three members appointed by the bank's general assembly. This panel ensures that the banking activities are in strict compliance with Shariah law. Where there are conflicts of opinion among the members of the Shariah board, the board of directors of the said Islamic bank must refer the issue to the Fatwa Board in the Ministry of Awqaf and Islamic Affairs, which has the final say on the matter.

In order to ensure transparency and good corporate governance within the Islamic bank and the practices of the Shariah board, the law introduced several measures:

(i) The Shariah board is required to issue an annual statement to the bank's general assembly opining on the bank's conformity with Shariah regulations.

(ii) The Islamic bank must publish the fatwa (Shariah legal opinion) and resolutions passed by the Shariah board in the forms of booklets or bulletins and make them available to the public.

(iii) The external auditor of the Islamic bank, in its report, must indicate the extent of the bank management's compliance with the fatwa, resolutions and directives issued by the Shariah board.

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Central Bank of Oman issues Islamic banking circular

Oman

By Tony Watson, IFN Correspondent

Until recently, Oman stood out as the only country of the GCC that does not have an Islamic banking industry. The position of the Central Bank of Oman (CBO) was that banks should be universal.

Therefore, CBO regulations did not provide for the establishment of Shariah compliant banks in Oman.

That regulatory approach changed on the 15th June 2011, when the CBO issued Circular BM 1081 (Islamic banking circular) encourages the development of Islamic banking in Oman.

The Islamic banking circular announced that the CBO will license new Islamic banks and Islamic windows of conventional banks in Oman. All applicants must be Shariah compliant and comply with Royal Decree No. 114 of 2000, as amended (Banking Law) and all other Omani laws.

"Pursuant to the Islamic banking circular, the CBO instructed banks that are considering this new line of business to familiarize themselves with the requirements of Islamic banking"

Pursuant to the Islamic banking circular, the CBO instructed banks that are considering this new line of business to familiarize themselves with the requirements of Islamic banking.

The Islamic banking circular requires applicants to establish an internal Shariah board made up of scholars who are competent to advise on Shariah compliance and an internal independent Shariah compliance department.

It also requires applicants to obtain independent, external advice on Shariah compliance. Applicants must comply with accounting, reporting, regulatory and performance standards that may be required from time to time to ensure Shariah compliance.

The CBO encourages banks to introduce Shariah compliant products gradually to accommodate the sensitivities of the market and to comply with the Banking Law.

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Before the CBO issued the circular, Islamic banks were not allowed to operate in Oman. Most of the applicants applying for a license to engage in Islamic banking in the sultanate will probably be conventional banks that propose to open Islamic windows.

To operate an Islamic window, a conventional bank must segregate funds for Islamic banking from other funds earned from activities that are prohibited by Shariah, such as earning or paying interest, investing in prohibited activities (such as the sale of alcohol or gambling) and engaging in speculative financial transactions.

The Islamic banking circular requires conventional banks that propose to engage in Islamic banking to submit to the CBO:

(a) Shareholders and board of directors resolutions that authorize the bank to engage in Islamic banking.

(b) An outline of policies, strategies and procedures to ensure Shariah compliance.

(c) A feasibility study and plan of operations that includes financial forecasts for three years of operation, business policies, strategies, organizational structures, risk management, and audit, control and compliance procedures.

(d) Shariah compliance procedures to address internal and external bodies for approval, authentication and oversight.

(e) The curriculum vitae of managers and senior managers who will be engaged in operations and oversight, including compliance and risk management.

(f) Evidence of preparation of staff, information technology and other requirements.

(g) Descriptions of products and services that the bank proposes to launch and descriptions of coverage relating to accounting, reporting and regulatory compliance in relation to capital adequacy and other limitations, valuation, classification, profit calculation/sharing, along with confirmation of Shariah compliance and relative contracts, procedures and incidental matters.

(h) Confirmation of compliance with the Islamic banking circular and documentation of the assumption of risk by the board of directors and senior managers of the bank.

The CBO states in the Islamic banking circular that it will consider each application for a license to engage in Islamic banking on its own merits, taking into account licensing policies and criteria that are relevant at the time of application.

Such criteria include the acceptability of the applicant and its submissions relating to financial strength and resources; corporate governance and management; the applicant's past record of performance, including asset quality and movements of assets; control; compliance; risk management; examination and other ratings; and similar material matters.

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Ongoing progress of Islamic finance in France

France

By Antoine Saillon, IFN Correspondent

Summer is a quiet time for business in France. After last month's important announcements, there is little to be expected before the end of Ramadan.

> ***"Sukuk is keeping Islamic finance professionals busy during the French summer"***

Still, a few projects have the industry's attention before the August annual break for the market-place.

Retail banking product research, for instance, is an ongoing task for the Shariah consultancies which provide the scarce expertise available on the French market.

With the inception of the first Islamic retail banking product in June, financial engineering is now more necessary than ever to build up the whole range of Islamic products.

The recent tax regulations published by the French fiscal administration should allow many innovations, hopefully enough to cover the needs of the local market.

Sukuk is another area keeping Islamic finance professionals busy during the French summer. Some potential issuers have expressed interest in issuing a Sukuk on the French market.

They want to take advantage of the regulator's published recommendation allowing Sukuk listing, and of the favorable tax treatment, to be among the first to tap the euro market with a Sukuk.

The very large base of institutional investors in the Eurozone would be an interesting source of financing for those issuers, both domestic and international, that are currently assessing the market's appetite for euro-denominated sukuk.

Of course, in the current market conditions, pricing will be critical in their decision whether or not to take this step and open, in doing so, a whole new horizon for the Islamic capital markets.

Antoine Saillon is the head of Islamic finance at Paris Europlace. He can be contacted at saillon@paris-europlace.com.

Daud speaks

By Daud Vicary Abdullah

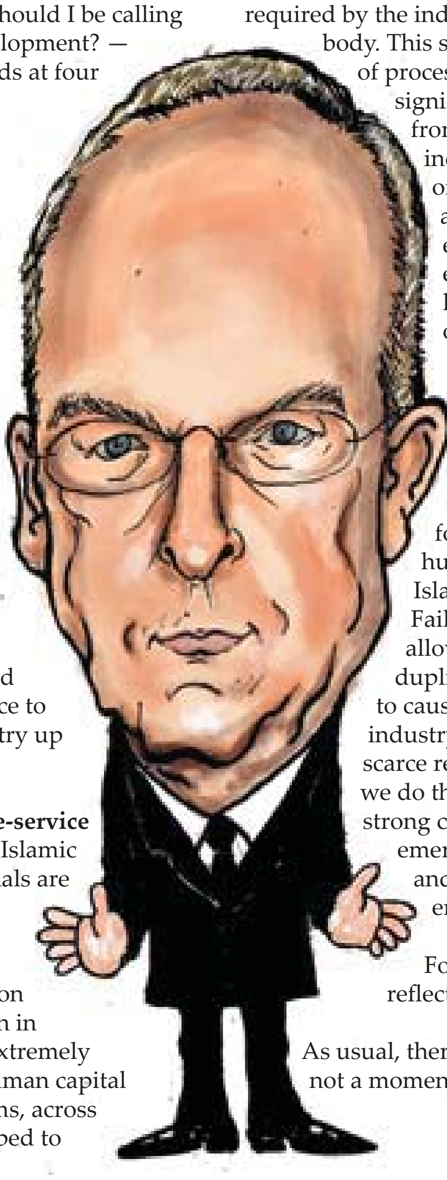
I am writing this article during the month of Ramadan, so when you read it you may already have celebrated Eid. I do hope that all of you will have had a chance to pause and reflect, as indeed, I have been able to do, during this special period.

> ***"In an environment of increasing globalization and associated growth in Islamic finance, it is extremely important that our human capital development programs are developed to a high level of quality and relevance to the industry"***

As many of you are aware, I have taken a small career diversion and am now more focused on the education side of the industry. I do hope, however, that I will not lose sight of my industry roots and will strive hard to maintain close connectivity with my former colleagues in the industry. Also, many of you will recall my thoughts on EPL (education, perception and liquidity) over the last year or so, and it is on the area of education that I should like to reflect a little further.

There is no doubt in my mind that education helps to shape and improve perception and that education takes various shapes and forms at various levels of competence. At an Islamic finance industry level, it is important that education — or should I be calling it human capital development? — addresses service needs at four distinct levels:

1. **Pre-service education:** where basic foundations are built.
2. **In-service training**: where in-house and private training providers develop specialized needs.
3. **Research and development**: where research capabilities are built and dedicated research takes place to support the industry up to doctoral level.
4. **In-service and pre-service education**: where Islamic finance professionals are developed.



In an environment of increasing globalization and associated growth in Islamic finance, it is extremely important that our human capital development programs, across the board, are developed to a high level of quality and relevance to the industry. The industry itself needs to set standards of competence for professional development through an industry association that is intent on building a global reach and ensuring well recognized standards. Educational establishments and training providers need to be independently accredited to ensure that they meet the standards required by the industry's professional body. This structure and set of processes would not be significantly different from that which other industry professional organizations, such as accounting and engineering, have established over the last one hundred years or so.

My sense is that the time is NOW to start building the global standards and to have a clear focus on developing human capital in the Islamic finance industry. Failure to do so will only allow overlapping and duplicating initiatives to cause confusion in the industry and disperse our scarce resources. However, if we do this successfully, then a strong competitive edge will emerge based on a clear and focused strategy that embraces a global view.

Food for thought and reflection indeed!

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

Indonesia's Bank Muamalat ripe for the picking

As one of the last remaining Asian growth stars, banks have been jostling for a place in Indonesia in the last several years. Although stakes in many of the larger banks have already been scooped up by foreign institutions, the size of the local market, which has 122 commercial banks out of around 2,000 financial institutions, leaves plenty of room for the entry of new investors – and Bank Muamalat has emerged as one of the most sought after assets in the country.

Following news that its three majority shareholders, namely the IDB, Kuwait's Boubyan Bank and Saudi's Atwill Holdings, were looking to sell a controlling share in the bank, a series of potential acquirers circled in on Bank Muamalat. While the IDB is said to have informed the central bank, Bank Indonesia, that it has postponed the sale, the interest generated from the potential divestment suggests that it may not be long before the bank is snapped up by a new investor. However, pricing issues and uncertainty over Indonesian bank ownership rules may now scare off all but the most determined of acquirers.

Fundamentals intact

In comparison to Indonesia's largest banks, Bank Muamalat is small, with total assets of just IDR24 trillion (US$2.8 billion) as at the end of June. However, with its network of 367 branches across Indonesia, a presence in Malaysia and a growing foreign remittance business, the bank presents an attractive prospect for foreign banks eyeing the promise that Indonesia holds.

The bank is also growing quickly, having recorded an almost 60% year-on-year surge in profits to IDR563.88 billion (US$66.08 million) in the second quarter of 2011. It has also grown its asset base 53.8% over the same period, while its balance sheet has remained healthy, with net non-performing financings improving to 3.57% in the second quarter of this year from 3.93% in the previous corresponding period.

In an earlier interview with Islamic Finance *news*, Meitra Ninanda Sari, the corporate secretary and spokesperson for Bank Muamalat, said the bank is also keen to expand its retail remittance services internationally and is looking to do so in Saudi Arabia and Hong Kong.

Its positive performance has left little wonder that the earlier planned sale of a stake in the bank garnered wide interest. According to Mulya Siregar, the director of Islamic banking at Bank Indonesia, Standard Chartered Bank, Singapore's OCBC, individuals connected to Indonesian private equity firm Saratoga group and local conglomerate the Para Group, Qatar Islamic Bank and Bank Mandiri were among those who had expressed interest in acquiring Bank Muamalat.

"Pricing issues and uncertainty over Indonesian bank ownership rules may now scare off all but the most determined of acquirers"

Pricing an issue

Unfortunately for Bank Muamalat's shareholders, the number of bidders for a stake in the bank did not guarantee a sale, and the deal fell through due to a disagreement on pricing.

It is unclear how much Bank Muamalat's shareholders are looking to sell down their stake for, but due diligence conducted by the IDB, Boubyan Bank and Atwill is said to have valued the bank at IDR2.6 trillion (US$304.7 million).

Of course, an entry into Indonesia's lucrative market, where banks offer an average return on equity of around 20%, is not without its price, and investors will have their work cut out for them sifting through lofty valuations. According to CLSA, on average the country's top eight banks are trading at a price-to-earnings ratio of 11 times for 2012, higher than the region's average of 9.7 times.

Recent acquisitions of local banks by foreign parties have also proven expensive, costing as much as over four times price-to-book value. Malaysia's Maybank, which bought Bank Internasional Indonesia in 2008, paid 4.1 times book value for the deal. Shortly after, HSBC bought over 88.89% in the medium-sized enterprise bank, Bank Ekonomi Raharja, for US$607.5 million, also at 4.1 times book value.

Regulatory roadblocks

Although money talks in Indonesia, the country's banking regulations are another matter entirely, with reports that the central bank could reduce ownership limits also said to have put off a potential buyout of Bank Muamalat.

This month, Bank Indonesia said it is looking into introducing rules on the maximum interest shareholders are allowed to hold in banks. Currently, it allows foreign banks to own up to 99% of local banks, but expectations are that under new rules, which may be announced at the end of this year, any one shareholder will only be allowed 50%.

Given the uncertainty this has introduced to potential mergers and acquisitions, it is likely that investors will hold back from taking stakes in Indonesia's banks, even one as attractive as Bank Muamalat. On top of this, a glut of banking deals will probably emerge should the ownership limits come through, which will make banks cheaper in the future – a scenario which will certainly make potential investors think twice about shortchanging themselves by diving into a deal now.

Regardless of the roadblocks, Bank Muamalat's solid fundamentals have made it a fruit ripe for the picking. With its majority owners keen to divest their holdings in the bank, it is more likely a question of when, and not if, the bank will see the emergence of new ownership.

Islamic finance finally arrives in Oman

The introduction of Islamic finance is an excellent opportunity for Oman to attract significant foreign investment. NOAMAN ABDUL MAJID discusses the potential opportunities for the country.

Islamic finance has finally been allowed in Oman: the last country in the GCC to have approved Shariah compliant financial products to be offered by banking and non-banking financial institutions.

As a predominantly Muslim country, Oman has a huge pent-up demand for Shariah compliant products, intensified by the fact that neighboring countries not only allowed Islamic financial services much earlier but made significant advances during last decade riding on the petro-dollar boom, which fuelled the region's financial services sector.

Brief history

Bahrain was the first country in the region to position itself as a regional Islamic finance leader, implementing a comprehensive framework for Islamic financial institutions as well as hosting multilateral Islamic financial institutions such as the AAOIFI and the International Islamic Financial Market.

However, in the last few years the UAE has maneuvered itself into a more commanding position with respect to Islamic financial institutions, Sukuk and Islamic investment funds.

On the other hand, Saudi Arabia has converted the whole insurance sector to operate on a Takaful model. There is also a strong presence of Islamic financial institutions in Kuwait and Qatar. The introduction of Islamic finance in these countries not only met popular public demand, but was also a means to bring in significant foreign investment by way of Sukuk, Islamic investment funds or directly into Islamic financial institutions.

Oman's position

Oman has entered the arena at a very late stage. This is despite the fact that there has been a strong appetite for Islamic financial products as well as strong demand from financial institutions who desperately want to diversify their product portfolio and be more competitive in view of the intense market competition. BankMuscat, the largest local financier, has for some time been offering Shariah compliant products under the label of structured products, and thus developed the capacity to be the first one to formally enter the market. It has already announced the launch of its Islamic windows.

> ***"Shariah compliant financial institutions in Oman may capture 10% of total banking assets within the next few years"***

The Central Bank of Oman (CBO) has implemented a regulatory framework which allows exclusive Islamic banks and Islamic windows of existing commercial banks. These additional guidelines have been issued within the broader regulatory framework for the banking sector.

However, the CBO has taken a very progressive and flexible approach in allowing Islamic banks to offer Shariah compliant products with the assurance that all necessary accommodation will be made for Islamic products within the existing regulatory framework. The central bank in its circular has emphasized the ethical aspect of Islamic finance and asked the banks to offer these services by maintaining the highest standards of financial ethics and customer service quality.

The banks have been instructed to set up a suitably qualified Shariah board as well as to liaise with external bodies specializing in Shariah-related matters. The banks are also asked to adopt legal, risk management, accounting and other policies within their institutions which cater to the proper delivery of Islamic products to their customers and do not compromise the overall operational effectiveness of the institution.

These regulations are almost in line with the framework set by other regulators. At this stage, these regulations cater to the more macro aspects of Islamic banking operations, but the regulator is likely to come up with more guidelines for specific areas in the future.

The central bank has already given the green light to the first exclusive Islamic bank of the sultanate, Bank Nizwa.

The bank is likely to have a capital of OMR150 million (US$400 million), of which almost 40% is likely to be offered to the public via an IPO at the Muscat Securities Market. The bank is likely to launch its operations at the latest by the beginning of next year.

According to experts on Islamic banking, Shariah compliant financial institutions in Oman could capture 10% of total banking assets within the next few years. Oman's banking assets are currently in the range of US$40-42 billion and are growing at a healthy pace.

Capital Market Authority

In the non-banking financial services sectors, the Capital Market Authority (CMA) is also actively looking at the regulatory models of different regional markets to come up with the most suitable framework for Takaful firms.

There is again a huge appetite within the population for Takaful products and surveys conducted by some private firms indicate that an overwhelming majority of the Muslim population would like to opt for Shariah compliant insurance products even if they are slightly more expensive than their conventional counterparts.

The CMA is already being approached by local and regional companies to set up Takaful operations in the country.

However, the regulator will give due consideration to the fact that up till now no other regulator in the insurance sector has allowed Islamic windows, instead

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emphasizing the setting up of stand-alone Takaful companies.

> ***"The introduction of Islamic finance is likely to boost market capitalization, listed securities and trading activities at the Muscat Securities Market"***

Islamic asset management

There is also a strong interest in Islamic asset management services within the country, from institutional investors such as pension funds as well as from retail investors.

Hence, the introduction of Islamic finance is likely to boost market capitalization, listed securities and trading activities at the Muscat Securities Market. These investment funds can also be good funding vehicles for SMEs and infrastructure projects.

The introduction of Islamic finance is an excellent opportunity for the country to attract significant foreign investment from regional investors looking for Shariah compliant investment opportunities.

These investments can be used to fund infrastructure developments, capital markets, corporate and financial services sectors under various modes of financing.

This is based on the historic experience of neighboring countries which have introduced and benefited from Islamic finance in recent years. There will also be tremendous business opportunities for conducting professional training courses in Islamic finance for professionals and students.

Future of Islamic finance

Oman is currently undertaking massive infrastructure development programs including Duqm Port, new airports and others. Such projects in other countries have been financed by sovereign Sukuk at very competitive market rates.

These bonds can be listed at local, regional or international stock exchanges to provide more liquidity and accessibility to international investors.

Oman can also benefit from the surplus liquidity in the region due to the high oil prices, and create channels to utilize this for national infrastructure development.

Similarly, as the new Islamic financial institutions are established in the country, it could be a good opportunity for foreign investors to enter the financial services market in Oman, either through Islamic banking, insurance or investment companies. In addition, the corporate sector could also benefit from the introduction of Islamic finance activities.

Corporates can issue Sukuk at attractive market rates to raise long-term funds and also diversify their asset and liability portfolios by opting for the services offered by Islamic financial institutions.

However, the most important factor for the successful deployment of Islamic finance in the country for both individuals and institutions is the credibility and authenticity of Islamic products from a Shariah perspective.

For that, it is critical that all stakeholders communicate with each other and that a comprehensive training and awareness program is implemented to educate both service providers and customers on the dynamics and structural differences of Islamic finance compared to its conventional counterparts.

Conclusion

The introduction of Islamic finance opens doors for many business and development opportunities in Oman. However, there needs to be a holistic approach to capitalize upon these opportunities and contribute towards the overall economic development of Oman.

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Equipment leasing: An asset class for Middle East investors

The principles of leasing are fundamentally different to money lending. MARK MORTIMORE discusses.

Some people believe that leasing is actually money lending under a different name. This misconception is promoted partly by the fact that, in the western markets, many conventional banks are involved in equipment leasing as a business.

However, the world's largest leasing companies are not banks but major equipment manufacturers who offer leasing facilities to their own customers. These include manufacturers of computer equipment, construction machinery, medical systems, aircraft and automobiles.

Also blurring the lines between loans and leases are the economics of finance leases (Ijarah wa Iqtina or Ijarah Muntahia Bittamleek), also referred to as full pay-out leases. Here the total rental income exceeds the original equipment cost, which some people construe as a loan. So it can appear for several reasons that lending and leasing are the same thing, or almost the same thing. But Islamic investors should know that in fact they are very different.

Fundamental differences

It is well known how money lending works. A money 'owner' charges a 'borrower' a variable price for using his money — that price is called interest (riba). The variable price increases on a daily basis until the borrowed money is fully repaid. Eventually the money owner could charge the borrower a price far in excess of the original loan amount.

Many western financial products are based on riba, including trillions of dollars invested in the bond markets. Shariah law forbids usury and the avoidance of riba is one of the central pillars of Islamic finance. Hence bond funds are not available to Islamic investors.

Conversely, relatively few people know how leasing really works. Although leasing is a familiar concept to many non-financial people often its substance is misunderstood (even by some bankers). The reality of leasing is that, unlike usury, there is no money 'owner' and no 'borrower'. Instead leasing involves an equipment owner, called the lessor, and an equipment user called the lessee. The lessor does not advance any money to the lessee and the lessee pays no interest to the lessor. Instead a pre-determined rent is paid for the use of the lessor's equipment. Therefore the principles of leasing are fundamentally different to money lending.

> *"Estimated total investments made in various Ijarah funds over the last two decades have been between US$1.75-2 billion"*

Leasing principles

A leasing transaction always embodies a physical asset. The asset-backed nature of leasing represents another central pillar of Islamic finance, alongside riba avoidance, making it very popular with Shariah scholars.

The physical asset, which must be Shariah compliant, can be as basic as a shipping container or as complex as an aircraft engine — both assets often are leased by companies. Leasing simply requires that the equipment is identifiable and it is moveable, although sometimes intangible assets can be leased along with the equipment (e.g. software for a computer system).

The equipment leasing process can be seen as a triangular transaction. The lessee is at one point of the triangle, the lessor is at the second point and the equipment dealer is at the third. The lessee tells the lessor what equipment he needs and they negotiate the lease contract. Then the dealer will invoice the lessor for the equipment and, after payment is made, legal title in the equipment passes to the lessor. At the same time the equipment is delivered to the lessee and the rental period begins.

In this process it is important to note:

1. Money passes from the lessor to the equipment dealer (not to the lessee).
2. Legal title in the equipment passes to the lessor (not to the lessee).
3. Rent is paid by the lessee to the lessor (not interest or riba).

These basic principles clearly differentiate leasing from money lending. Hence equipment leasing is a viable and attractive business for Islamic financial institutions and Islamic investors.

Leasing and the Middle East

Equipment leasing has two applications in the Middle East. The first is as a financing technique used by Islamic banks to provide physical assets to their customers. Ijarah wa Iqtina is the standard financial method for many day-to-day financing transactions across the GCC. Mainly they are based on repayment or credit risk where the lessee pays sufficient rent to cover the original equipment cost and generate a fair profit for the lessor.

Middle East equipment leasing generally does not involve risks where future equipment values determine the economics of a leasing transaction. 'Operating leases' or true leases (Ijarah) involving estimated residual values are common in North America, where the market is mature, but are rare in the GCC.

However, as the nascent Middle East leasing industry develops there will be strong potential for operating leases to be widely used.

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The second application for equipment leasing in the Middle East is as an asset class for Islamic investors, providing the ideal proxy for haram bond fund investing. This is important because the small universe of Shariah compliant mutual funds is dominated by equities, with volatile returns, and by low-yielding money market and Murabahah funds.

Attractive fixed income investment opportunities are relatively few in the Shariah compliant market, giving rise to what Ernst & Young (E&Y) has described as an 'asset class gap'. In its annual Islamic Funds & Investments report, E&Y also states that: "Ijarah (leasing) investments… offer an attractive substitute for fixed income with reduced zakat obligations."

> *There are several reasons for choosing US leases for Ijarah funds, including mitigated currency risk*

Ijarah income funds

Ijarah income funds are not a new idea. In fact for about 20 years there have been a small number of Islamic equipment leasing funds available to investors.

Those funds mostly have been focused on leases in the US, the world's largest equipment leasing market. Estimated total investments made in various Ijarah funds over the last two decades have been between US$1.75-2 billion.

In the coming decade there is the potential to realize many times that investment amount if institutional sponsors can be found to deliver Ijarah fund products to the market. Certainly both the Islamic investor demand and lease assets exist to realize that potential.

There are several reasons for choosing US leases for Ijarah funds, including mitigated currency risk. Also, the US leasing market provides unmatched size and depth for achieving strong asset diversification within a fund structure.

Securitized US equipment leases have been available to North American investors since 1985 when Sperry Corp (now Unisys) created the first securitization structure for computer leases. Today US leasing funds and lease securitizations are used as a standard funding technique by many lessors.

Ijarah fund management

One reason for only a small number of Ijarah funds being created over the past 20 years is the complexity of the US leasing market.

Many Islamic fund managers have been reticent about the US leasing market as a source of Shariah compliant assets. However, supported by specific market knowledge and equipment leasing expertise Middle East investors can participate confidently in the complex US leasing market. Some of the technical areas that Ijarah fund managers need to be expertly managed are:

Legal/tax: Legal documentation underpins the equipment leasing industry. US law is very clear about title and the legal rights of the equipment owner. This is critical because leasing companies own the equipment they lease out. Furthermore, there are a number of significant US tax issues that require careful attention.

Documentation risk: Equipment leasing depends on comprehensive documentation. A number of legal documents must be properly executed at the commencement of the lease.

For example, heavy machinery that is physically attached to a leasehold building must be clearly identified as a discrete asset, often by means of a landlord waiver. Various title registrations and similar documents must be implemented to protect Ijarah fund investors.

Credit risks: There are diverse credit risks within the US and equipment leasing encompasses every type. In the US, credit risk pricing is well defined and equipment rentals are adjusted according to the credit risk being taken. There are three distinct credit risk types: investment grade companies, sub-investment grade companies and unrated companies. Most US leasing business volumes are written with unrated companies where expert credit analysis is crucial.

Equipment risk: Some equipment types have a long useful life and maintain a relatively high market value for many years. Other equipment is subject to technological obsolescence and so loses significant value within only a few years. Lessors must understand and assess future equipment values in order to maximize their potential profits. Often the lease documentation is very carefully written to protect the lessor while providing fair usage conditions for the lessee.

Purification: A legal mechanism is required to purify or cleanse the rental income from any haram elements. This is necessary because US companies generally do not sign Shariah compliant lease documents.

US lease agreements involve a few legal clauses that potentially can generate haram revenues. Purification removes any haram income which then can be re-directed to a charitable activity.

Conclusion

Equipment leasing is fundamentally different to money lending. The distinct attributes of leasing make it a viable and attractive business for Islamic institutions and investors.

In the Shariah compliant investment market an 'asset class gap' exists that can be filled by equipment Ijarah funds. Investing in the well established US equipment leasing market provides substantial opportunities for asset diversification through an income fund structure.

Through careful attention to the risks and complexities associated with US equipment leasing, Islamic investors can enjoy healthy Shariah compliant returns from asset-backed Ijarah income funds.

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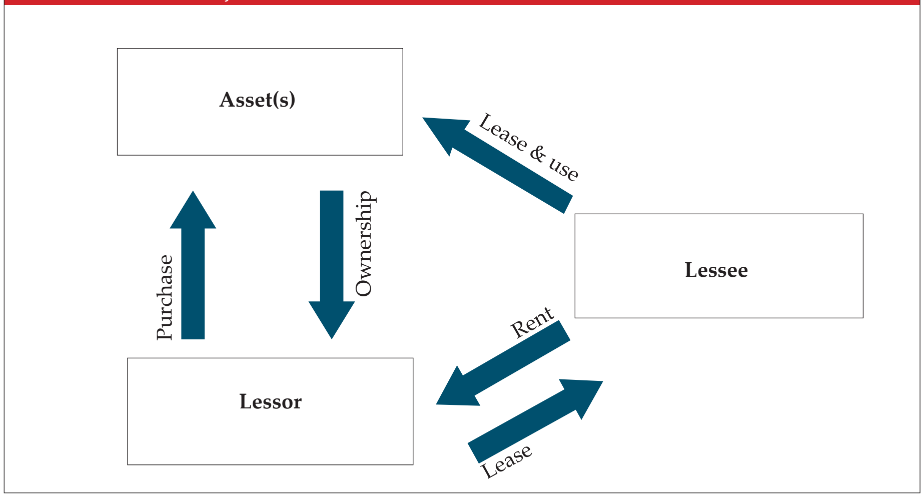
Ijarah in the context of Islamic finance

GRAEME LAING highlights the differences between Ijarah and conventional leasing and discusses why Islamic leasing is regarded as more beneficial.

In the Middle East, Ijarah has been used as a method of financing for hundreds of years as it allows individuals and businesses to use equipment that they would have been unable to purchase outright themselves due to capital constraints. In more recent history however, the use of Ijarah has broadened to encompass the leasing and acquisition of all physical assets. It is a similar story for the conventional finance world, where leasing is well established in both the commercial and private spheres.

> ***"Ijarah is becoming more popular as a basis for Sukuk structures as leasing income which is paid periodically to Sukukholders provides a steady and reliable income stream"***

Basic structure of an Ijarah transaction



As with Ijarah most conventional leases are asset-backed and as such individuals and businesses that have previously leased assets in a conventional manner are comfortable making the transition to Ijarah structures. Ijarah is no different from other Islamic transactions which are also are asset-based, meaning that there is always an asset with an inherent value sitting behind the contract. This is one of the main reasons why leasing so naturally lends itself to Islamic finance. Consequently Ijarah is one of the most commonly used structures in Islamic finance products.

Ijarah has a familiar 'look and feel' to conventional leasing products, and businesses and customers accustomed to conventional financing methods (many of whom are unused to Islamic financial products) are comfortable using Ijarah. Additionally, Bank of London and The Middle East (BLME) has found that counterparties find the process and the documentation of Shariah compliant leases very similar to those in the conventional world.

The increasing popularity of Islamic leasing has also been stimulated by the current economic climate. We have found that many investors are looking for more open and transparent investment opportunities such as those that are offered by Islamic banks. Many of our counterparties have also found an additional benefit to Islamic finance with regards to the size of many Islamic financial institutions and the services that they offer.

Many of the large financial leasing institutions operate a high volume, quick turnover, checklist-based system which offers very little support to customers looking for a more flexible and solution-based offering. As Islamic banks are generally smaller than their conventional counterparts, they are able to meet this customer requirement by offering a more tailored service that accommodates the client's requirements.

Leasing market in the UK

Leasing is a growing industry in the UK and the Islamic finance industry is well placed to take advantage of this opportunity.

The UK leasing market showed remarkable growth last year. According to data released by the Financing and Leasing Association in May 2011, new business finance in the UK has grown significantly. During May 2011, finance leasing new business grew by 12% and operating leasing by 13% compared to the figures from May 2010. On an annual basis, operating leasing was flat but finance leasing grew by 19%. According to LeaseEurope these trends are reflected across Europe with the leasing market having grown by 4.7% in 2010.

In order to service this growing market and take advantage of the opportunities, Islamic finance institutions offer two main Ijarah structures:

Operating Ijarah

The owner takes a residual value risk on the equipment. This means that when the lease comes to an end the equipment may not be worth enough to cover the original capital investment plus profit.

An operating Ijarah is treated off-balance sheet for the lessee. This Ijarah can also be structured so that the lessee has an option to buy the asset at the end of the Ijarah.

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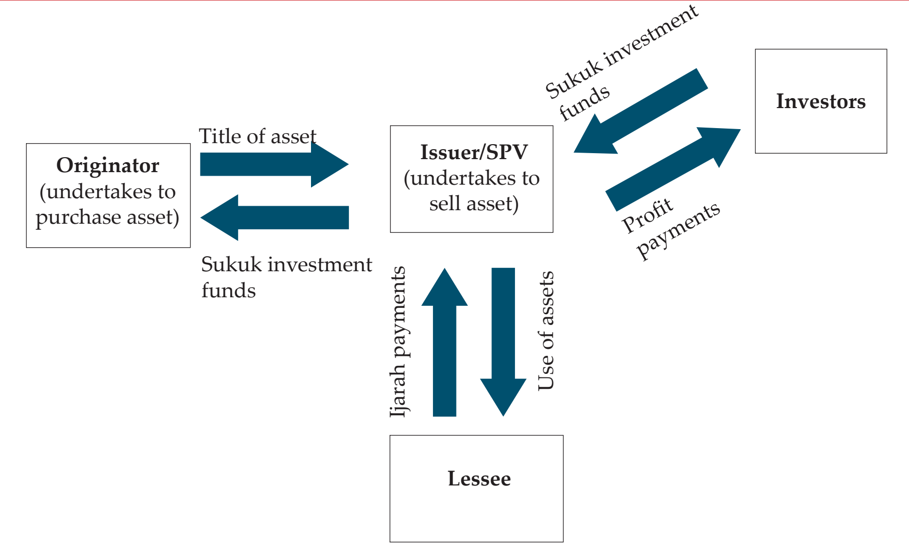
Finance lease
The lease rents and any balloon payments cover the full capital investment plus profit. The lessee owns the asset and it is treated as on-balance sheet for the lessee.

Key features of Ijarah
- The period and conditions of usage of the leased items must be detailed within the contract.
- The amount and timing of Ijarah payments must be agreed in advance. However despite the requirement to agree to a schedule, the amount, frequency and timing of Ijarah payments do not need to be uniform.
- To finance Ijarah transactions, as long as the asset is fit for use, the lessor and the lessee can stipulate in the contract that the ownership of the asset can be transferred to the lessee on completion of the lease agreement.
- The asset that is leased in an Ijarah contract must be used for an economic activity; a perishable or consumable object, such as food, cannot be leased.
- Upon acquisition of the leased goods or upon utilizing the leased goods the lease payment schedule becomes active.
- The lessor must have full possession and legal ownership of the asset prior to leasing it.
- The leased asset must continue to exist throughout the term of the lease. Items which are consumed in the process of usage, such as seeds and petrol for instance, cannot be leased.
- In contrast with most conventional finance leases, the responsibility for maintenance and insurance of the leased item remains that of the lessor throughout the period of the Ijarah.
- In the event of a late payment of rental, the Ijarah agreement may be terminated immediately.
- The lessor may claim compensation for any actual damage caused to the leased assets as a result of negligence on the part of the lessee.

Basic structure of a Sukuk Ijarah



Differences between Ijarah and conventional leasing
In an Ijarah structure, the lessor is required to bear all the costs incurred in the process of purchasing the asset and as the lessor is the owner of the asset all liabilities resulting from the ownership of the asset are the responsibility of the lessor including maintenance and insurance.

However once the lessee has received the asset they are responsible for any losses incurred due to misuse or negligence. Generally, the maintenance and insurance obligations are assigned to the lessee to perform as an agent for the lessor.

Another difference between Shariah compliant leases and conventional ones is that under Shariah, the lessor leases the usufruct and not the asset, of which he remains the owner. As such, the subject of the lease must be identifiable and quantifiable.

Sukuk
Ijarah is becoming more popular as a basis for Sukuk structures as leasing income which is paid periodically to Sukukholders provides a steady and reliable income stream. As with Ijarah financing the conventional market is comfortable with the structure of Sukuk Ijarah, with one of the most successful issuances over the last year being the Nomura Sukuk. By issuing this US dollar Sukuk, Nomura was able to actively enter the Islamic market and diversify its funding sources. This issuance held an additional benefit for the Islamic finance industry, as it brought Sukuk to a conventional audience and promoted Islamic finance as an additional and diversified source of financing.

Sukuk Ijarah can also be structured as a shorter-term Sukuk similar to conventional papers. Sukuk Ijarah structured in this way permits short-term funding and shorter-term liquidity for Islamic financial institutions. The Central Bank of Bahrain has issued several short-term Sukuk Ijarah with its June 2011 issuance being significantly oversubscribed.

The use of Sukuk Ijarah will continue to grow due to its accessibility and flexibility. 2011 has seen Turkey implementing new legislation ensuring tax neutrality for Sukuk Ijarah, for example.

Key features of a Sukuk Ijarah structure
- Lease payments can be fixed or variable but they must be detailed in the contract.
- There must be a fixed maturity date.
- The ownership of the leased equipment remains with the originator or issuer.
- Sukuk Ijarah is usually issued on a sale and leaseback arrangement.

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- The issuer applies the Sukuk proceeds to purchase the assets from the originator and then leases it.
- The originator undertakes to repurchase the assets at maturity or upon early settlement.
- The issuer is required under Shariah to undertake the maintenance of the assets, but it will often appoint the lessee as its agent to do so under the terms of the contract.

Economic benefits of Islamic leasing

Islamic leasing is increasingly thought to have considerable benefits relative to conventional banking. While the nature and scale of these benefits is the subject of debate, Islamic leasing is commonly regarded to be more advantageous because:

- It aways involves real assets, strengthening the linkage between the financial sector of the economy and the economy in general. This relationship contributes to economic stability.

> ***"Despite the progress and the potential market, Islamic leasing is still nascent, particularly in Europe"***

- It creates great potential for Shariah compliant securitization for Sukuk in Islamic finance. Sukuk Ijarah can be traded in the market, affording a convenient instrument for investment.
- It is suitable for some sectors of the economy where sharing-based modes provided can be relatively difficult to practice, e.g. the consumer sector and the public sector, particularly infrastructure.

Despite the progress and the potential market, Islamic leasing is still nascent, particularly in Europe. A lack of understanding of Islamic leasing by potential customers, as well as the limited offering by both Islamic banks and Islamic windows of conventional banks, means that the market remains a large growth opportunity which has not yet reached its full potential.

Nevertheless, the fact that several institutions are actively able to grow their leasing business across Ijarah and conventional leasing with strong interest in both, suggests a bright future for leasing and Ijarah.

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The interest-based economy and public debt: An analysis of the US economy

UGI SUHARTO and SUTAN EMIR HIDAYAT look at the US economy as a real-life case study that reflects the economic interpretation of riba.

As stated in the Quran: "When you give interest (riba) with the goal of growing public property then it will not grow in the sight of Allah." This verse has a very important economic interpretation. Interest, which is seen as a tool to accelerate economic growth by its proponents, has failed to perform its job.

In the end, interest could even ultimately destroy the economy itself. Let us take the US economy as a real case study that reflects the economic interpretation of this verse.

Highlights of the US economy and its public debt

The US is currently the world's largest economy. According to IMF data, the country's GDP in 2010 stood at around US$14.6 trillion. Yet ironically, the US is also the largest debtor in the world. Total US debts have reached US$14.3 trillion. This means the debt-to-GDP ratio of the US is nearly 100%. Due to the ever increasing amount of debt, the US government is currently debating the debt ceiling (debt limit): whether it should be raised so that the government can legally borrow more or vice versa.

The country has set the legal limit for public debt at US$14.29 trillion. This means that the current level of US debt does not allow the government to make another loan since it has already exceeded the legal limit. It was on the 16th May 2011 that the US debt exceeded this legal limit.

Political dissent and opposition parties are currently trying to block the government's proposal to raise the debt ceiling. As a result the Treasury secretary, Timothy Geithner, recently threatened Congress that if by the 2nd August 2011 the debt ceiling is not raised, the US government might declare a default. Of course if this happens, investors will lose their confidence in the US economy. Investors who are holding US securities will soon be selling them, thus forcing the price to fall. Surely, in order to combat the capital outflows, the US government will raise interest rates – likely to be followed subsequently by an increase in interest rates worldwide.

Once this happens, another global financial crisis will occur because banks around the world will be reluctant to extend loans to businesses except with relatively high interest rates. This situation will obviously discourage firms from obtaining bank loans, reduce investments, paralyze businesses and trigger lay-offs. As a result, the unemployment rate will increase significantly and the economy will experience a recession again.

> ***"The US economy would have been bankrupt long time ago if the Bretton Woods agreement was still in place"***

The above scenario would be a possibility only if the debt ceiling is not raised and the US government therefore declares a default. However, if the ceiling is increased, then US debt will grow steadily. Historically, the US debt has never decreased because the prosperity of Americans is actually financed through budget deficits (US expenditures are more than US revenues).

Total US debt always rises from year to year and the amount of interest also increases steadily. In 2010, the US government owed interest of up to US$414 billion on its debts. The amount paid in interest is equal to the overall GDP of Norway – ranked the world's 25th largest economy (based on GDP) in 2010 – and is greater than the GDP of 155 other countries.

In 2011, it is estimated that interest payments for US debts will increase to US$431 billion and by 2019 reach US$700 billion. In fact, it has been estimated that in the next 10 years, or by 2021, interest on US debts will increase to US$1.1 trillion.

Public debts of other developed countries

The US debt economic dependent is copied by many countries that adopt its development model. Japan, for example, is a developed country which follows this model and is another of the world's major debtors. Japan's debt-to-GDP ratio in 2010 was 225%.

This means Japanese debt is 2.25 times greater than its total production of goods and services.

However, unlike the US, most of Japan's debts are supplied by its own citizens, while most US debts are supplied by foreign lenders.

In fact, the debt-based economic model has been practiced by most developed countries in the world. For example, in 2010 the total debts of countries in the Eurozone were US$14.1 trillion (120% of GDP): UK debt was US$8.9 trillion (398% of GDP); Germany owed US$4.7 trillion (143% of GDP); France owed US$4.6 trillion (188% of GDP) and the Netherlands owed US$2.3 trillion (344% of GDP).

This data indicates that the debt level of developed countries is greater than their productivity levels. Based on the above figures, it is clear that the interest-based economy in reality will never grow. Even if macroeconomic indicators of these developed countries show positive statistical figures, they only portray a 'bubble economy' that will burst at some point in the future.

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US dollars and the global monetary system

The US is now facing a huge debt crisis. As long as creditors have confidance in the US economy, the US government can feel safe for the time being. But to enjoy continuous borrowing and leveraging without any efforts to cut its own spending is not only self-destructive, but will also destroy the confidence of others.

Now, creditors might still be happy with the interest rate they earn, but there will come a time when creditors will demand higher interest rates for the loans they provide to the US government. If this demand cannot be fulfilled then that will be the beginning of the relationship crisis.

Uniquely, the US debt is related to the US dollar as the world's reserve currency, and in reality the US dollar is also printed on the basis of debt. Since the breakdown of the Bretton Woods agreement in 1971, the US dollar no longer is no longer tied to gold. This means the US government can simply print US dollars at will. As the debt keeps increasing, more and more US dollar will be printed to pay the debt and its interest. The question is, how long will the world remain willing to accept the debt-backed US dollar?

This is the web of debt faced by the world's largest economy today. Americans owe in US dollars and will pay in US dollars, while the US dollar at the same time is printed through debt. As a consequence, there always be the fear of the global community losing confidence in US dollars as the reserve currency.

In fact, the signs are already visible. On the 18th April 2011, Standard & Poor's changed the outlook of US debt from 'stable' to 'negative'. This is the first time in 60 years that a negative outlook has been given to US debt securities, which are perceived as some of the world's safest.

If the quality of US debt indeed declines, then the risk of giving debt to the US government will be considered higher, and consequently investors will demand a higher interest rate to compensate.

Interest is prohibited under Shariah rules. Interest can stimulate productive debts. Both lenders and debtors can become addicted to these debts. The US economy, for example, is addicted to debt since it is constantly using the funds of other countries to finance its developments. The creditor countries are also addicted to US debt since they enjoy earning interest from loans. This process runs continuously, resulting in a bubble economy that will burst in the future. However, when the US economy erupts, this will no longer be a usual business cycle.

The US economy would have been bankrupt long time ago if the Bretton Woods agreement was still in place. During the implementation of the agreement, the US government was willing to trade US$35 with 1oz of gold.

Because of this willingness the US dollar gained the confidence of the world and began the journey towards becoming the world's reserve currency. But by 1971, the US economy had plunged into recession and the global community started to question its ability to fulfill its commitment to exchange 1oz of gold for US$35.

Now, in 2011, the value of 1oz of gold is already more than US$1,500. This means that the US has experienced devaluation of over 4,200% since 1971. Imagine if the US dollar was still pegged to gold: obviously those countries which hold the US dollar as their reserves would exchange every US$35 with 1oz of gold. With gold price now higher than US$1,500, surely the US gold reserves would not be sufficient to cover this exchange demand.

As a result, the US dollar would become worthless paper. 1971 was an historic year for the world monetary system as for the first time the world's currency was detached from gold. From that year, printing money was no longer based on the availability of gold reserves. Every US dollar now printed is a proof of US government debt to the holders of US dollars. If we hold US$100, this means that we have proof that the US government owes us US$100. The problem is when we redeem US$100, what will we get? Are we going to get gold in exchange of the US$100? No. Instead we will get another newly printed US$100.

If so, why does the world community still accept the US dollar? There are many factors that can explain this phenomenon. Among others, the US dollar is still the most widely used currency in international trade. For example, if a country wants to buy oil from another country, the price must be in US dollars. In addition, OPEC countries have promised that their oil will always be sold in US dollars.

Dilemma: US dollars or gold

The signs of the dilemma are already visible. It is no surprise today that many central banks have quietly begun storing their gold reserves and starting to release US dollars.

Recently it was reported that Mexico's central bank had bought as much as 100 tons of gold in just over two months (February-March 2011). This was the biggest gold purchase in the history of the central bank. The Chinese government in 2009 announced that they now have 454 tons of gold as the result of six years accumulation. India bought 200 tons of gold from the IMF in October 2009, and Russia over the last five years has bought about 400 tons of gold in the free market. These series of purchases are among the causes of the increase in world gold prices recently.

High demand from central banks around the world along with limited supply has pushed up gold prices. In contrast, the demand for the US dollar has declined and largescale printing of US dollars has made the currency depreciate sharply. Despite the above actions, the US itself is actually the largest gold depository country in the world. US gold deposits are now estimated at around 8,134 tons.

The process of printing the US dollar actually involves an element of interest (riba). There are three institutions that play an important role in printing the US dollar: namely Congress, the Treasury department and the Federal Reserve (Fed) (central bank). If Congress agrees to raise the debt limit, then the Treasury will issue bonds and/or T-bills. Like other debt securities, the bonds and/or T-bills will provide interest to the purchaser (implicit or explicit interest). This is where the element of riba originates.

An example of implicit interest exists when the debt is repurchased at a

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higher price. For an example, suppose the price of bonds/T-bills was US$100; and the Treasury was willing to buy it back at a price of US$103. The interest is therefore 3%. This is equivalent to the US government borrowing US$100 and paying back US$103.

However, in finance terms this action is not called a loan, but the buying and selling of bonds. The Treasury department as the issuer of the bond is perceived as the seller of bonds. Then who will buy the bonds? In the US context, the Fed is an institution that will buy the bonds in the open market.

In order to buy these bonds, the Fed needs to print new US dollars. So, the US government will receive fresh funding from the Fed for running the country. The Fed is a private institution that is owned by major US banks. The Fed has two big powers in money creation. First, it prints new coins and notes for the country, and second, it acts as the 'lender of last resort' for other banks. The Fed extends loans to commercial banks by charging an interest called 'discount rate'.

Through a system of fractional reserve banking (FRB), debentures or bonds that have been purchased from the US government will be held as 'reserves' and using this reserve the Fed gives credit to commercial banks in amounts much larger than the value of the reserve itself. The system is then followed by commercial banks inflating the 'money supply' into the economy.

The more loans given by commercial banks, the greater the bubble money supply in the economy. It is necessary for us to distinguish between the money supply and the currency in circulation. Actually, the amount of money supply is much larger than the amount of currency in circulation.

Through FRB, the money that we save in the bank is actually not available in its hard form since most of it has been lent to someone else. Therefore, if all depositors withdraw their money, then the banks would not be able to fulfill the demands.

If excessive withdrawal occurs then the banks will experience a 'bank run' or go bankrupt. Why? Because the money that we save in the bank has been melting into a fictitious 'money supply' that exists only in numbers in bookkeeping accounts and in banks' computers. The central bank and commercial banks are actually moneymaking machines both in the senses of currency and of money supply.

> ***"The central bank and commercial banks are actually moneymaking machines both in the sense of currency and of money supply"***

Islamic finance could solve the problematic monetary system

Based on the above explanations, it is clear that the interest-based economy is not in line with Shariah. Therefore, there should be greater effort to comprehensively implement the principles of Islamic finance in the monetary system including how to finance a government budget. One practical solution offered by Islamic finance is the issuance of Sukuk. In practice, there are two categories of Sukuk: debt-based and equity-based.

A debt-based Sukuk is normally used to finance short-term government budget deficits, while equity-based Sukuk is for financing long-term government projects. In a debt-based Sukuk, one of the essential requirements is the availability of underlying assets. This requirement at least contractually limits the amount of funds that can be raised through the issuance of Sukuk (subject to the value of underlying assets), thus preventing the government from over-borrowing.

In an equity-based Sukuk, the Sukuk does not represent a debt, so it will not burden the government with the obligation of paying the interest and principal. Instead, the Sukuk represents the participation (investment) of Sukukholders in the government's projects. Thus the return to Sukukholders is subject to the actual outcome of the projects. Therefore, in order to make the Sukuk marketable, the government should only come out with profitable projects.

This requirement will force the government to become more efficient since this is the only way to attract investors. As a result, the government will try its best to minimize corruption and other forms of misuse of public funds.

With this scenario in place, the acute problems in the world's monetary system as explained earlier could be solved since public finance would no longer be raised through debt backed only by trust.

However, currently Sukuk still represents a much smaller portion of public finance instruments than conventional securities in most countries. Therefore, in order to accomplish the mission, Muslim countries should increase gradually the volume of sovereign Sukuk issuances in place of conventional bonds, notes and bills.

Ultimately, all interest-based instruments should be eliminated from the monetary system, and a 100% Shariah compliant monetary system put in place.

Conclusion

The Quranic verse quoted above can be understood well in the light of the current US debt predicament. Riba encourages and stimulates these so-called productive debts. It appears on the surface to help economic growth, but essentially it creates a debt-ridden economy whose productivity will be diminished continuously by the ever-growing non-repayable amount of debt. Riba is the source of systemic economic crises which undermine the production of goods and services.

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Islamic Investor

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The Islamic asset manager's conundrum

Cover Story

Asset management, despite being one of the fastest growing segments in the Islamic finance industry, is still regarded as a young sector. The Global Islamic Finance Report 2011 by BMB Islamic reports that Islamic funds constitute only 1.3% of the total number of funds globally, while Islamic assets under management are only 0.36% of the global funds universe.

The figures reveal the potential for asset managers with Islamic portfolios to penetrate the market further. This prompted CIMB-Principal Islamic Asset Management (CIMB-Principal Islamic) to conduct a global survey last year to gauge the level of awareness and attraction of Islamic finance by institutions in the conventional space: such as insurance companies; banks; asset, wealth and private wealth or trust managers; and pension or sovereign wealth funds and their advisors.

Some 52 respondents participated in the survey and the responses to some questions were eye-opening, reveals Noripah Kamso, CEO of CIMB Principal Islamic; particularly regarding the appointment of asset managers for Islamic funds, as well as the ranking of global Islamic financial hubs.

CIMB-Principal Islamic manages assets for institutions comprising central banks, sovereign wealth funds, pension houses and Takaful institutions. The survey results have allowed the firm to structure a business, marketing, and investment model while helping it to focus and strategize going forward.

While there are several dedicated several Islamic asset management companies, answers to one of the survey questions revealed that the majority (75.7%) of respondents would appoint a conventional global house to manage their Islamic portfolio.

"The survey is a wakeup call for Islamic asset management houses to move out of their comfort zone"

Such an indication, according to Noripah, proves that these institutions are performance-driven. Global conventional asset managers are the obvious choice due to their proven track record, some spanning 50 years. The institutions are therefore accustomed to the conventional investment process and would continue to utilize their services.

Noripah believes that such institutions need to be convinced that the investment process practiced by Islamic asset managers is identical to that of their conventional counterparts. She says the evidence required includes having a global research platform as well as the legacy of a conventional global asset management house, in addition to appointing managers who have already successfully handled conventional portfolios to handle the Islamic range.

A case in point are the Amana funds managed by US-based Saturna Capital. Monem Salam, the director of Islamic investing and deputy portfolio manager of the Amana funds, has been quoted as saying that about 70-80% of its investors are non-Muslims; comprising advisors, money managers and even institutions. He said that since Amana funds have been able to outperform the conventional market, these investors have flocked to them. In 2003, the total assets under management for both the Amana Income Fund and the Amana Growth Fund stood at US$40 million. As at the 30th June 2011 the Amana Income Fund stood at US$1.39 billion, while the Amana Growth Fund is now US$2.15 billion.

The survey is a wakeup call for Islamic asset management houses to move out of their comfort zone. As the saying goes, there is no reward without risk, and in such volatile times this is the perfect opportunity for Islamic asset managers to showcase their offerings and abilities to these institutions. As Noripah points out, a majority of Islamic portfolios have outperformed their respective benchmarks throughout the numerous 'black swan' incidences of the last five years. It may seem like an uphill task but the end result will be worth it.

In this issue...

Global REIT delayed again

MALAYSIA: Axis Global Islamic REIT has postponed its initial share sale to wait out volatile market conditions resulting from the recent downgrade of the US credit rating by S&P.

The REIT, initially slated to be listed on Bursa Malaysia in June, was pushed to the middle of August following the destruction of two buildings in its portfolio when an earthquake struck Japan in March.

It is uncertain when Axis REIT Management will re-launch the deal as it is still in the pre-marketing stage.

Financial results announced

PAKISTAN: Al Meezan Investment Management has declared a total dividend of PKR3.27 billion (US$37.67 million) for six of its funds for the financial year ended the 30th June 2011.

Meezan Balanced Fund, which earned a net income of PKR226 million (US$2.6 million), declared a final cash dividend of 17.5%. Net assets for the fund stood at PKR1.52 billion (US$17.51 million) at the end of the financial year.

Meezan Islamic Fund earned the highest net income of the Meezan funds with a total of PKR1.08 billion (US$12.44 million), and provided a total payout dividend of PKR10 (US$0.12) per unit to its unit-holders. Its net assets were PKR4.5 billion (US$51.84 million).

Meezan Islamic Income Fund's net income was PKR309 million (US$3.56 million) at the end of the financial year, while its net assets were PKR2.54 billion (US$29.26 million). The fund paid a total dividend of PKR6.25 (US$0.07) per unit to its unit holders.

The net income for Meezan Cash Fund amounted to PKR623 million (US$7.18 million), which paid a total dividend of PKR5.26 (US$0.06) per unit to its unit-holders. The fund's net assets were at PKR5.96 billion (US$68.66 million).

Meezan Sovereign Fund earned a net income of PKR884 million (US$10.18 million) and paid a total dividend of PKR5.52 (US$0.06) per unit to its unit-holders. Net assets amounted to PKR12.55 billion (US$144.59 million).

Meezan Capital Protected Fund-I paid a total dividend of PKR7.97 (US$0.09) per unit to its unit-holders for the financial year ended the 29th June 2011. The total return earned by investors for the fund, which matured on the 29th June, was 14.14%.

Mixed results

KUWAIT: Kuwait Financial Center (Markaz) has announced a 2.37% increase in returns for the second quarter on its Markaz Fixed Income Fund. The fund has been operational since January 2011 and invests in bonds and Sukuk issued by GCC governments and firms.

However its Markaz Islamic Fund reported a loss of 6.6% in the first half of this year against a decline of 11.2% in its benchmark performance.

Future stable outlook

MALAYSIA: The current financial turmoil is a good chance to put the Islamic investment market to the test, according to Noripah Kamso, the CEO of CIMB-Principal Islamic Asset Management.

She explained that Shariah compliant stocks have not only proven to be more stable but have also outperformed compared to their conventional counterparts despite the numerous 'black swan' occurrences that have occurred over the last five years.

Noripah also dismissed assessments by critics that Islamic asset management can only profit in a downtrend.

‘Risk capital’: Islamic private equity in a globalized world

Private equity, as the name suggests, has always been conducted behind closed doors. SHAHZAD SIDDIQUI brings this sector to the surface with his comprehensive insight.

“Load the ship and set out.

No one knows for certain
Whether the vessel will sink
Or reach the harbor.

Just don’t be one of those merchants
Who won’t risk the ocean!

This is much more important
Than losing or making money.

This is your connection to God.”

Jalaludin Rumi, ‘Work in the Invisible’, One-Handed Basket Weaving: Poems on the Theme of Work

In the 1480s, Christopher Columbus made a pitch to Queen Isabel of Castile. In return for funding his voyages to seek the spices of Asia, he offered her the bulk of his profits. The Queen balked at the offer but, in order to prevent Columbus from taking his business elsewhere, gave him an annual allowance and directed the towns in her realm to provide Columbus with food and lodging at no cost. After several years of indecision, the Queen made a deal with Columbus on the following terms: he would get 5% of the profits, 10% of the gold, all his expenses paid and the title of ‘Admiral of the Ocean Sea’.

Lawyers documented the deal for both sides and, for his part, Columbus retained specialist Moriscos (Moors who pretended to be Christian so that their lives would be spared and who specialized in the partnership contracts of the time). On his return from the New World, the Queen reneged on the deal and Columbus commenced a lawsuit against her. He died while the litigation was ongoing. One of his last wishes was that his casket be suspended above the ground so that his body would not suffer the ignominy of being buried in the soil of Queen Isabel’s Spain.

Private equity has subsequently financed everything from maritime trade in ancient Italy to the digital revolution in Silicon Valley. Islam was there at the start of the private equity story. Meccan Arab traders were pioneers of private capital profit-and-loss sharing and the Prophet Muhammad became its greatest exemplar. The Prophet’s companions, most notably Abdur-Rahman ibn Awf, were heavily involved in the funding of trade caravans and became the equivalent of today’s billionaires. Since then, Muslims have continued to take leading roles in profit-and-loss sharing and Islamic finance firms are starting to take Islamic private equity principles onto a global scale.

Recent funds have financed halal hotels (Shuaa Capital in Saudi Arabia), self-storage units and industrial plazas (Conundrum Capital in Canada), fried chicken and coffee franchises (Arcapita in the US), biotech and pharma start-ups (VenturEast in India), the provision of financial services (Fajr Capital) and infrastructure (Islamic Development Bank).

Direct investments, funds and funds-of-funds

Private equity success stories surround us in daily life: from Google to the The Body Shop, private equity has contributed to the conveniences of modern life. However, as indicated by the little-known background to Christopher Columbus, private equity has also been behind some of the greatest ventures in human history and, indeed, some of the Islamic finance companies profiled in these pages.

However, recent research on private equity, most notably by Dr Tom Weidig and Yves Mathonet, has shown that direct private equity investments have a 30% chance of loss. Investments into diversified private equity funds are relatively safer and sanctioned by tradition in the Islamic world, as Vogel and Hayes point out in their primer on Islamic finance, ‘Islamic Finance: Religion, Risk and Return’: “Classical law permits a mudarib to choose not to perform the work himself but to invest the partnership capital with other mudaribs.”

Funds-of-funds tend to be the safest method of private equity investing; with research showing Gaussian distributions with no ‘fat tails’ (think those nice bell curves from high-school mathematics). While there is a dearth of Islamic funds-of-funds due to the relatively recent re-emergence of Islamic finance, there is a growing cornucopia of Islamic private equity funds operating both publicly and privately.

> *“With greater global diversification, Middle Eastern investors are starting to take greater risks, outside of their comfort zone, with indirect benefits to both the Muslim and non-Muslim world”*

Following the spring revolution in the Arab world, high net worth individuals started discreetly seeking private equity opportunities outside the MENA region, which has historically been the major focus of Islamic funds launched in the region.

With greater global diversification, Middle Eastern investors are starting to take greater risks, outside of their comfort zone, with indirect benefits to both the Muslim and non-Muslim world.

Continued

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Simply put, Islamic private equity or venture capital funds are very similar to their conventional counterparts, with the exception of some strict qualitative and quantitative screening. Both conventional and Islamic funds engage in profit-and-loss sharing and follow the GP/LP structure with the Islamic private equity firm acting as the mudarib general partner and limited partners acting as rabb-ul-maal.

Islamic funds have attracted both Islamic and conventional investors under double-tranche or stand-alone structures. Under a Musharakah structure, the Islamic private equity fund would co-invest on its own account and the other partners would take an active management role in fund management.

By doing so, however, the other partners would lose their limited liability status. This is, perhaps, why in the modern context most Islamic private equity funds are set up under a Mudarabah structure in line with ancient practices and conventional norms.

Furthermore, under Mudarabah, while the profit share of the rabb ul-maal is negotiable, their liability is limited to the amount of capital invested. If there are debts and losses beyond the amount invested (arising out of litigation or unpaid taxes, for example), then the mudarib will have to bear those.

Qualitative and quantitative screening

When it comes to screening, there are marked differences between Islamic and conventional private equity. On the qualitative side, Islamic GPs often begin their due diligence by looking at the overall business of a potential portfolio company. They will screen out the 'usual suspects': purveyors of alcohol, pork, pornography, weapons and interest. If a company passes industry screening, Islamic GPs and the Shariah advisors will drill down and determine if the company has any long-term debt, income from impure sources (such as alcohol revenues in an airline) or large accounts receivable.

Short-term debt is defined as any financial liability that is due in the current fiscal year. Long-term debt is, therefore, any liability that is carried on the books for over a year and usually includes financing leases and bank loans. Some Islamic institutions will apply public equity thresholds to private equity, including the now well-known 33% debt-to-equity ratio.

More devout investors may prefer zero long-term debt, especially when investing in private companies that are not carrying public company burdens. While rare, these companies generally include retail operations with heavy cash flows (such as dollar store chains or ethnic supermarkets).

Shariah-sensitive investors will also want to examine the share structure of potential investee corporations, especially with regard to preferred stock, warrants, options and convertible securities (which include convertible preferred stock, convertible zero-coupon debt and convertible bonds). Any stock other than simple common with voting rights may have to be redeemed or bought out prior to an investment by the Islamic private equity firm. Advisors in Islamic private deals have become creative with respect to firms that wish to have some preference rights.

Since the Shariah issue is having liquidation preference, counsels have redrafted preferred stock rights to have preference on merger and change-of-control rather than dissolution or insolvency. Furthermore, Vogel and Hayes have suggested the use of convertible capital leases, whereby investors offer a business a full-payout lease for equipment they need with an option for the investors to convert the remaining rent obligations into common shares at certain milestones in the life of the lease. While complex, the convertible capital lease may be a way to 'Islamicize' much-needed convertible debt financing.

Ongoing due diligence

The main hurdle to the full development of the Islamic private equity sector may be information asymmetry and moral hazard between the investors and investee companies. Interest-based banks who demand fixed income and collateral security will often not face the same issues. Researchers have proposed the following solutions, among others, to the issue of moral hazard:

Social suasion: This could be accomplished by better business bureaux or lists that are shared between Islamic banks and private equity firms. Interestingly, research has found that it is the infrequent release of business ratings that improves levels of contract compliance and reduces moral hazard.

Random audit: Random audits of accounting records may reduce moral hazard, but may also lead to an inverse result, namely, the more random the audits the greater atmosphere of distrust generated between the parties.

Aligning incentives: Instead of random audits, it could be better to reduce unobservable cash flows (by ensuring payments to the business are made by cheque and debit card) and manage operating costs (to reduce incentives to maximise perks from the business).

Private investigation: In the Islamic context, this may be problematic as sura Hujurat of the Holy Quran says: "Do not spy or backbite each other."

Close supervision: Close and regular supervision of a portfolio company may be preferable to random audit and private investigation. This can be accomplished by active direction of management or a permanent seat on the board.

Collateral: In addition, or in the alternative, private equity firms could combine random auditing with taking collateral from the assets of the portfolio company. Collateral could be on or offshore and could even include cash in a reserve account, to be released upon exit from the company and final accounting.

Co-investment and staged financing: Private equity firms could also syndicate and stagger their investments into portfolio companies. This increases the number of 'eyes and ears' around the business and may reduce transaction costs for all parties. As many have noted, moral hazard becomes irrelevant if parties abide by Islamic business ethics: fair dealing, honesty and good faith. This is perhaps why the Prophet stated: "The honest businessman will stand with the prophets, the truthful and the martyrs on the Day of Judgment.".

Shahzad Siddiqui is a Canadian lawyer and is the author of 'Shari'a-Compliant Private Equity: a Primer for the Executive'. He can be reached at shahzad@sslawcorporation.com.

Prudential Asia Pacific Shariah Equity Fund

Seeks medium to long-term capital appreciation by investing primarily in Shariah compliant undervalued companies in the Asia Pacific region excluding Japan.

What led to this fund being launched?
The fund was launched to meet the growing demand for offshore Shariah-based investments in the Asia Pacific region.

Why has this particular region / asset class been chosen?
The sentiments of retail investors are favorable towards such a regionally focused fund.

What are the key factors that drive the fund's performance?
- Asia's growing economy and wealth.
- A disciplined, valuation-driven investment style with the aim of generating long-term returns.

Who are your investors?
The fund is currently only open to retail and institutional investors in Malaysia.

What specific risks does the fund take into consideration?
Reclassification of Shariah status risk, stock risk, country/foreign securities risk, currency risk and license risk.

How often do you review this fund?
Weekly meetings are held to review stock and sector calls, assess new stock ideas and emerging themes, and if necessary review asset allocation targets, which would otherwise be re-assessed on a monthly basis.

What are the sectors you are heavily invested in and why?
The fund's three largest sector holdings (as at July 2011) are in materials, telecommunication services and energy, which are expected to be the key beneficiaries of Asia's growing wealth and urbanization as Asian countries move up the economic value chain.

In July, the fund manager took the opportunity during the weaker market days to top up on an existing position in the marine sector which is expected to be a key beneficiary of recovery and may be re-rated by potential deepwater rig orders in the second half of 2011.

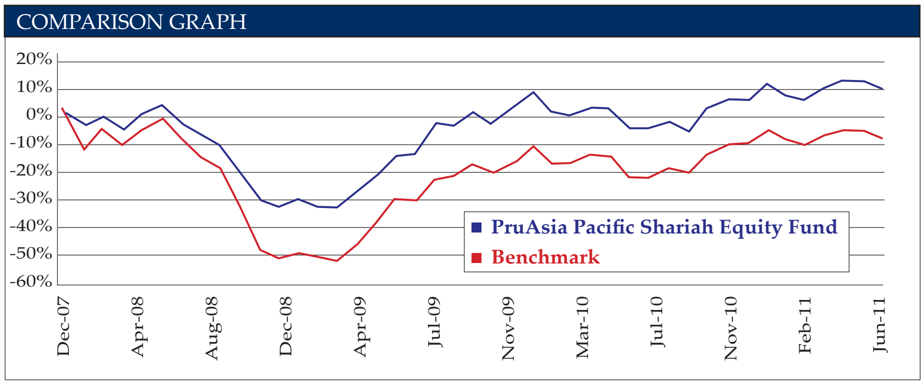
What are the sectors you have recently exited and why?
The fund manager trimmed some Indonesian property stocks to lock in profit.

What is the market outlook for this fund?
Our view remains that the macro fundamentals for the Asian economies remain solid in the longer-term but equity markets may remain volatile in the near-term as inflationary concerns and investor focus into the developed markets weigh on market sentiment.

How has this fund performed compared to your initial expectations?
The fund has managed to outperform its benchmark over the longer-term and has met our expectations of providing capital appreciation.

Has your strategy for this fund changed since inception, and if so how?
There has been no change in the strategy of this fund since inception. The fund continues to focus on stock selection and favors companies with healthy balance sheets, good market positioning, decent earnings growth and which are trading at attractive valuations.

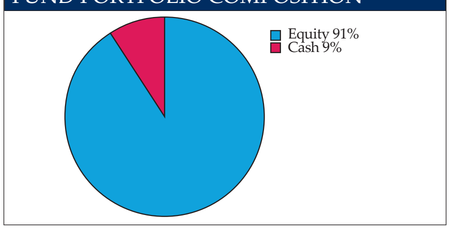
COMPARISON GRAPH



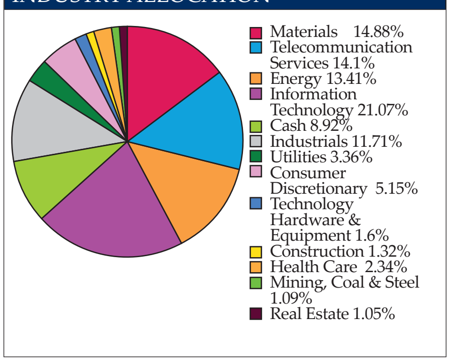
FACT SHEET	
Fund Manager	Prudential Fund Management
Trustee	Deutsche Trustees Malaysia
Shariah Advisor(s)	Amanie Advisors
Benchmark (Index)	Dow Jones Islamic Market Asia Pacific ex-Japan Index
Domicile	Malaysia
Inception date	22nd November 2007
Fund Characteristics (as at the 30th June 2011)	**Fund Size** RM36,022,384.78 (US$12,157,402) **NAV per share** RM0.2714 (US$0.0915) **Minimum Investment** RM1,000 (US$337.5)/ Subsequent RM100 (US$33.7) **Management Fee** 1.8% of the NAV of the fund per annum calculated on a daily basis

PERFORMANCE SUMMARY	Fund	Benchmark
YTD Return	-0.73%	-2.61%
1-Year	15.00%	17.66%
3-Years	13.65%	0.98%
Since Inception	8.56%	-9.11%
Since 31/12/2007	9.08%	-9.65%

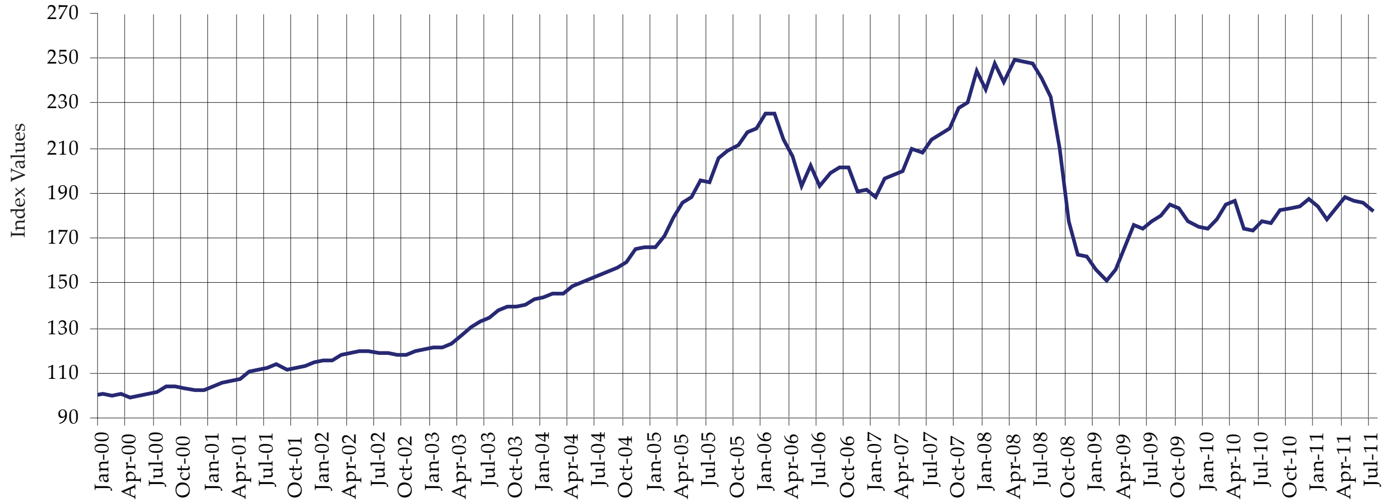
FUND PORTFOLIO COMPOSITION



INDUSTRY ALLOCATION



Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 monthly returns for Asia Pacific funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	BNP Paribas Pesona Amanah	BNP Paribas Investment Partners	6.88	Indonesia
2	Danareksa Syariah Berimbang	Danareksa Investment Management	6.09	Indonesia
3	Danareksa Indeks Syariah	Danareksa Investment Management	5.89	Indonesia
4	Al Naqaa Asia Growth	Banque Saudi Fransi	5.39	Saudi Arabia
5	Asian Pacific Shariah Growth Fund - USD I	CIMB-Principal Asset Management	4.70	Guernsey
6	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	4.31	Malaysia
7	Mega Dana Syariah	Mega Capital Indonesia	2.63	Indonesia
8	JS Islamic	JS Investments	2.57	Pakistan
9	Daiwa FTSE Shariah Japan 100 ETF	Daiwa Asset Management (Singapore)	2.34	Singapore
10	AmStaples	AmInvestment Services	2.02	Malaysia
	*** Eurekahedge Asia Pacific Islamic Fund Index**		**-0.16**	

** Based on 78.26% of funds which have reported July 2011 returns as at 23rd August 2011*

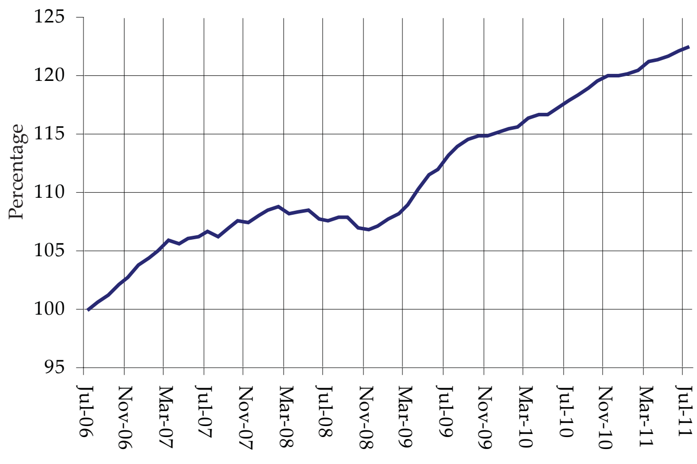
Top 10 monthly returns for Middle East/Africa funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Jadwa Africa Equity Freestyle	Jadwa Investment	1.86	Saudi Arabia
2	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	1.24	Saudi Arabia
3	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	0.63	Saudi Arabia
4	Amanah Growth Portfolio	SABB	0.55	Saudi Arabia
5	Amanah Balanced Portfolio	SABB	0.55	Saudi Arabia
6	Futuregrowth Albaraka Equity	Futuregrowth Specialist Asset Management	0.53	South Africa
7	Islamic Absolute Return Certificate on HFR Emirates	ABN AMRO Bank NV	0.44	Not disclosed
8	Markaz Real Estate	Kuwait Financial Centre	0.33	Kuwait
9	Amanah Defensive Portfolio	SABB	0.24	Saudi Arabia
10	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	0.21	Saudi Arabia
	*** Eurekahedge Middle East/Africa Islamic Fund Index**		**1.50**	

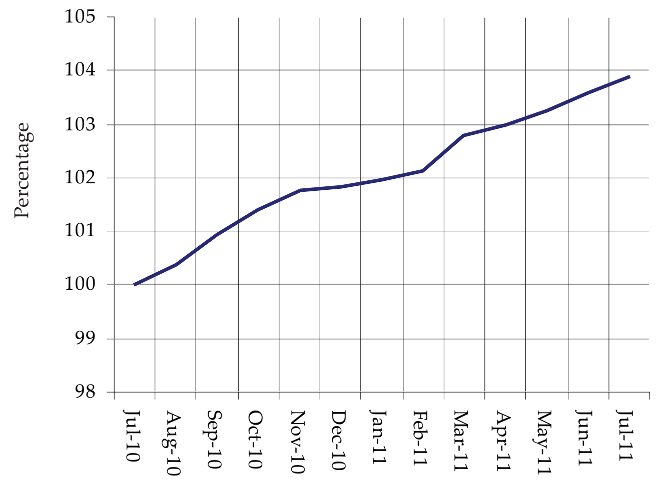
** Based on 66.67% of funds which have reported July 2011 returns as at 23rd August 2011*

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 Fixed Income Index over the last 5 years



Eurekahedge Islamic Fund Fixed Income Index over the last 1 year



Top 10 Islamic Fixed Income funds by key performance statistics by 3 month returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	CIMB Islamic Sukuk	CIMB-Principal Asset Management	3.44	Malaysia
2	Public Islamic Enhanced Bond	Public Mutual	3.18	Malaysia
3	Meezan Tahaffuz Pension Fund - Debt Sub	Al Meezan Investment Management	2.98	Pakistan
4	AmBon Islam	AmInvestment Management	2.26	Malaysia
5	PB Islamic Bond	Public Mutual	2.23	Malaysia
6	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	2.17	Pakistan
7	Public Islamic Bond	Public Mutual	2.13	Malaysia
8	BNI Dana Syariah	BNI Securities	2.06	Indonesia
9	RHB Islamic Bond	RHB Investment Management	2.05	Malaysia
10	Jadwa Global Sukuk	Jadwa Investment	2.01	Saudi Arabia
	Eurekahedge Islamic Fund Equity Index		**0.86**	

** Based on 91.43% of funds which have reported July 2011 returns as at 23rd August 2011*

Annualized Sortino Ratio for ALL Islamic funds

	Fund	Fund Manager	Annualized Sortino Ratio	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	12.31	Pakistan
2	Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	9.92	Guernsey
3	Commodity Trading - SAR	Riyad Bank	9.66	Saudi Arabia
4	Alliance Islamic Money Market	Alliance Investment Management	7.64	Malaysia
5	Kagiso Islamic Equity	Kagiso Asset Management	5.76	South Africa
6	Public Islamic Select Enterprises	Public Mutual	5.03	Malaysia
7	Public Islamic Bond	Public Mutual	3.42	Malaysia
8	PB Islamic Bond	Public Mutual	3.22	Malaysia
9	Al Dar Money Market	ADAM	2.85	Kuwait
10	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	2.77	Malaysia
	Eurekahedge Islamic Fund Index		**0.10**	

** Based on 84.81% of funds which have reported July 2011 returns as at 23rd August 2011*

Contact Eurekahedge
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Return to growth essential for the GCC

Cover story

Economic growth is the single most important driver of the insurance business in the GCC and insurers need to gear up to capitalize on the growth potential of the region's insurance sector, according to Alpen Capital's latest insurance industry report.

T M Lakshmanan, the chief operating officer at Alpen capital, reiterated the findings; commenting that: "Overall the outlook for the insurance sector in the GCC region is positive," and going further to state that: "While regional valuations are attractive, low insurance penetration and density reflect the opportunities for companies in the sector to position themselves strategically for periods of high growth."

The insurance industry in the GCC has not been immune to the financial crisis. The stellar growth rates seen in the region prior to 2007 fell off the cliff as oil prices troughed on receding global activity and tightening credit markets.

While the insurance sector has been resilient and has continued to register modest growth, it is Takaful that continues to steal the limelight and its 32% year-on-year growth rate continues to offset reductions in the conventional sector.

This growth is also aided by increased government spending due to budget surpluses attained through high oil prices and state-led diversification. The increasing acceptance of Takaful in the GCC region as a whole has however led to increased insurance penetration. Saudi Arabia registered the highest penetration of 1.04% followed by Bahrain at 0.45%.

According to Sameena Ahmad, the managing director of Alpen Capital, the GCC insurance industry is currently in a state of transition and "although the sector is relatively small when compared to other regions, it is expected to grow due to growth in GDP and favorable demographics".

According to the report, as the region recovers from the downturn the diversified economic growth of the GCC countries, supportive government regulations and favorable demographics are creating an environment that is conducive for increased growth over the next five years.

Increasing GDP remains the primary growth driver for the insurance sector and life insurance will also gain momentum with rising populations and escalating per capita income.

Abdul Muttalib Al Jaidi, the CEO of Oman Insurance, who is cited in the report, states that: "The GCC insurance industry is going through a challenging phase. There are a large number of players in the market and innovative capability, product diversity, tailor-made products and client-focused claims management will be the distinguishing success factors."

The GCC insurance industry remains relatively small with low levels of insurance penetration and density. While this points to the size of the growth opportunity, GCC insurers continue to face a number of challenges.

The insurance industry in the GCC is highly competitive, with predatory pricing in the region negatively impacting profitability and growth.

The region also suffers from a significant number of small insurers that lack sufficient capitalization and skills to underwrite or invest funds. The region therefore is highly dependent on reinsurers and is ripe for consolidation.

While there is an effort to diversify, the regional economy is dominated by the oil industry. A sharp decline in oil prices could strain resources and government spending, putting a brake on the developments that are currently underway. At the same time, the investment portfolios of the insurance companies are heavily tilted towards equities, making them vulnerable in a volatile market.

Overall, according to Alpen Capital's report, the outlook for the sector is positive. Low penetration and density reflect tremendous growth opportunities for insurance companies. There are a number of positive drivers for growth and GCC insurers need to gear themselves up by enhancing their investment management and underwriting skills to optimize their profitability and fully capitalize on this growth opportunity.

In this issue...

Promising growth

INDONESIA: Prudential Life Assurance (Prudential Indonesia) reported a 107.9% growth in new business premiums for its Takaful unit in the first half of 2011, to IDR296.3 billion (US$34.74 million).

Total premiums income stood at IDR6.3 trillion (US$738.57 million), an increase of 39.4% compared to the same period last year. New premiums income grew 57.7% to IDR3.4 trillion (US$398.59 million).

Funds under management rose 39.7% to IDR26 trillion (US$3.05 billion) while assets went up by 39.3% to IDR28.5 trillion (US$3.34 billion).

Good prospects

INDONESIA: Allianz Life Syariah reported an increase of 17% in its first half net premiums revenue, to IDR186.6 billion (US$21.84 million) compared to IDR159.5 billion (US$18.7 million) in 2010.

As much as 98.9% of the revenue is attributed to individual businesses, with the remaining being contributed by Health and Group Life Takaful.

Total premium income from Takaful was IDR7.1 billion (US$831,869).

Expansion to Indonesia

MALAYSIA: Etiqa Takaful, the Takaful arm of Maybank, is eyeing an entry into Indonesia by the middle of 2013 as it seeks to expand its business.

Shahril Azuar Jimin, the CEO of Etiqa, said that the firm is always open to mergers and acquisitions in an effort to balance its business and is on the lookout for prospects in its home market and abroad, with Indonesia representing a likely destination.

He said that Indonesia presents considerable potential for the Takaful market due to its large Muslim population, while Etiqa is also looking to leverage Maybank's presence in the country.

Etiqa owns about 45% of Malaysia's Takaful market and has businesses in Brunei, Singapore and Pakistan.

Shariah spin-off in 2013

INDONESIA: Asuransi Jiwa Sinarmas MSIG Life is planning to spin off its Shariah unit in 2013, said IJ Soegeng Wibowo, its director.

IJ Soegeng explained that the spin-off is part of the firm's organic expansion, following its acquisition by Mitsui Sumitomo Insurance Company.

Takaful in the UK market

The UK market offers good opportunities for the development of the Takaful industry. ELAINE HOUSBY discusses its potential in an extract from her book, 'Islamic Financial Services in the United Kingdom'.

The difficulty in practice with the 'ideal type' Takaful model of pure mutuality is that it can only generate sufficient funds to meet all possible claims if organized on a very large scale. Even the global Takaful industry would struggle to be viable if run on a purely mutual basis, and a Takaful company serving only the British Muslim market would have no chance of being able to meet all claims reliably on this basis.

One early Bangladeshi writer saw the UK scheme of National Insurance (a compulsory deduction from wages giving entitlement to state benefits) as an example of what Islamic insurance should be like.

This might suggest that British Muslims would be particularly well placed to develop the idea of non-profit-based social insurance, but there is unfortunately little or no sign of National Insurance providing this inspiration.

In the Muslim-majority world, health insurance has been an important market for Islamic providers, but in the UK the availability of universal free health care, one of the benefits provided through the Takaful-like system of national insurance, means that the market for private health insurance is very small.

The UK market is seen as offering good opportunities for the development of an Islamic insurance industry primarily because motor vehicle insurance is compulsory. Motor insurance was seen by the financial services industry as the initial market to enter with a Takaful product.

One newspaper located a British Muslim man who kept his conscience clear on the subject of motor insurance by only ever keeping a car until the free insurance provided by the dealer had expired and then buying a new one with another term of free insurance.

The other obvious area for Takaful product development is buildings insurance. This could be seen as a necessary corollary of Islamic house purchase finance.

The provider has to have some protection, but for an Islamic financier to have to force their customers to take out haram insurance is embarrassing. In the absence of Shariah compliant alternatives to conventional buildings insurance, the providers of Islamic home purchase plans have adopted a variety of ways of handling this problem.

The Islamic Bank of Britain is the only UK provider that absolutely requires home buyers to take out buildings insurance themselves. United National Bank 'recommends' that home buyers purchase buildings insurance themselves, but says that it understands that some Muslims may not want to deal with insurance companies, and is prepared in this case to take out the policy itself, in its own name, and charge the customer for it.

> ***"A future Takaful provider that attracts substantial interest from non-Muslims could potentially revolutionize the insurance industry"***

HSBC Amanah offers customers the choice of arranging insurance themselves, but will also take out the policy itself and add the premiums to the customers' monthly payments.

Home contents insurance is also considered desirable by most householders, but since it is not obligatory, it is not a driver of the market in the same way as buildings and motor insurance.

The third main type of Takaful product is the Islamic version of what in conventional finance is known as life insurance. In its Islamic form this is called Family Takaful. The demographic profile of the British Muslim population shows a high proportion of young families, who are the most likely customers for this type of service, and make this market an attractive one for the industry.

In addition, the growth in the market for this type of Takaful is also linked to the development of house purchase finance, because the buyer usually wishes to ensure that arrangements are in place to cover continued payments and enable the family to remain in their home in the event of his or her death or serious illness.

An uncertain start

Sadly, the optimism surrounding the development of a Takaful industry in the UK has not been justified by the fortunes of the first two companies to enter the market.

Coinciding as they did with the global banking crisis and severe economic recession, both failed in their first attempts. This does not reflect the true potential of the British market, and one hopes that in brighter economic times these two companies could still do well.

HSBC has well-established Takaful services in the Muslim-majority world, so it was a relatively simple matter for them to extend the provision of a Takaful product to the UK market. Home Takaful, with policies available for both buildings and contents, was introduced in the UK in July 2005, but discontinued in December 2008.

HSBC regarded its Takaful policy as a 'premium' or 'gold standard' product, and reported that sales were 'modest'. The bank never expected it to sell on the same scale as its Islamic home finance plans and current accounts, but it did believe that it was competitive with conventional insurance products aimed at the higher end of the market.

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The policy was supplied to HSBC by Hamilton Insurance, which was sold to Norwich Union (later renamed Aviva) in 2008 and was no longer able to supply the Takaful product. HSBC attempted to find another supplier, and at one stage entered into discussions with the independent Takaful provider, Salaam Insurance (see below), but sadly was not able to reach an agreement with any company. The decision to discontinue it seems to have been one that HSBC was not anxious to publicize more than necessary, which suggests that they hope to reintroduce it at some stage.

Salaam

The first stand-alone Takaful company in the UK was Salaam Insurance, launched in July 2008 after receiving approval from the FSA.

Salaam Halaal Insurance is the brand name for the UK business of Principle Insurance Holdings, known previously as British Islamic Insurance Holdings, which was funded by large amounts of investment [reportedly GBP60 million (US$98.89 million)] from several Muslim-majority countries, notably Saudi Arabia.

This company was formed in 2005 but took several years to develop a model that satisfied the UK regulator. It is noteworthy that it chose not to use the word Takaful in the brand name or marketing material of the British business, but rather to call it 'halal insurance'.

This suggests that their research showed limited recognition of the Arabic word among their target market. Salaam initially entered the market with only motor insurance, in line with the perception that this was the area that offered particularly good opportunities in the UK, but added home buildings and contents policies a year later.

It planned eventually to add Family Takaful to its range, but never reached that point. By its own account of its structure, it employed a pure Wakalah model: that is, all operating costs and a satisfactory profit for the shareholders were covered by an agency fee alone and all profits from investment were added to the pooled donations fund.

The surplus from the Tabarru pool was distributed to policyholders in the form of a discount on their next year's payment. (This is distinct from the usual 'no claims' bonus.)

> *"The lack of availability of re-Takaful is the most important factor hindering the growth of the Islamic insurance sector"*

The three members of the Shariah supervisory committee were Nizam Yaquby of Bahrain, Muhammad Elgari of Saudi Arabia and Abdul Barkatulla of the UK.

Salaam ceased to accept new customers in late 2009. At the time of writing it is still servicing existing policies, but these cannot be renewed. The launch of Salaam generated great excitement, so its closure caused correspondingly great disappointment.

The company reported that it had attracted about 10,000 customers, which was a creditable achievement, and there does not seem to have been anything intrinsically wrong with its business model.

The problem was that it was not able to generate sufficient reserve funds to satisfy the requirements of the FSA. This difficulty in meeting capital reserve requirements is a recurrent theme in the story of Islamic finance in the UK. Salaam hoped to raise GBP80 million (US$131.85

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million) in a rights issue, but the results fell short by GBP20 million (US$32.96 million). With hindsight, the launch of Salaam was disastrously ill-timed, with the company's brief existence coinciding with a period of banking crisis, recession and high fuel prices.

In fact, this period saw a fall in the number of cars on the roads of Britain for the first time ever, which was bad news for a provider of an alternative form of motoring insurance.

An especially interesting aspect of Salaam's original marketing was that the company claimed to be not only Shariah compliant, but able to offer cheaper premiums than the conventional competition.

It seems obvious enough that an insurance company that does genuinely redistribute some of its profits to its customers will be more attractive than one that retains all its profits in the conventional manner; attractive to everyone, regardless of religious conviction.

There must though be some doubt about how far a commercial concern will be able or willing to maintain a level of profit redistribution that would make its rates truly competitive with the conventional competition.

It is unfortunate that Salaam did not survive long enough to test this model properly. A future Takaful provider that attracts substantial interest from non-Muslims could potentially revolutionize the insurance industry.

Future prospects

Lloyd's of London is reported to be interested in entering the Takaful market. It is not likely to offer retail products to the general public, but would be focused on the secondary insurance and commercial markets.

The lack of availability of re-Takaful is the most important factor hindering the growth of the Islamic insurance sector, so the entry of such a major player into the market would give the development of Takaful a substantial boost.

The main problem with the provision of a secondary market to insure the insurers, as it were, in the Islamic sector is the need to ensure strict separation of Shariah compliant funds from those that are non-compliant.

The scale of funding needed is not easy to find from entirely compliant sources. Lloyd's apparently believes that the syndicate structure of its operations, with particular pools of funds dedicated to particular purposes, is well suited to ensuring this separation.

The constant dilemma that Islamic financial practitioners face is that in order to be competitive they must seek to be treated in the same way as conventional providers by the law and the regulators, while their appeal rests on maintaining that what they do is different in essence from conventional finance. This can sometimes seem like an endless attempt to square a circle.

Extract from 'Islamic Financial Services in the UK' by Elaine Housby, reproduced with the permission of Edinburgh University Press.

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Elaine Housby has a PhD in Islamic Finance in Britain from the Open University, UK.

Mohamad Salihuddin Ahmad, executive director and CEO, Great Eastern Takaful

Mohamad Salihuddin Ahmad joined Great Eastern Group to assist the group in securing its Takaful license in 2009. Great Eastern Takaful was launched in December 2010. Mohamad has led Great Eastern Takaful to become the number one Family Takaful company in Malaysia in 2011.

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

I started my career in the insurance industry in 1988. After spending eight years in general insurance, I joined a life insurance company in 1996. After 18 years in conventional insurance, I was given the opportunity to set up Prudential BSN Takaful in 2006. In 2009, I joined Great Eastern Group to assist the group in securing its Takaful license. In September 2010, Great Eastern was awarded a Takaful license by the central bank, Bank Negara Malaysia. Great Eastern Takaful was launched on the 10th December 2010.

What does your role involve?

I am involved in the overall management and running of the company.

What are your greatest achievements to date?

1) Turning around an ailing and unprofitable division into a profitable one with the same group of people.

2) Leading the new Takaful company to become the number one Family Takaful company in Malaysia within two years.

3) Setting up and launching Great Eastern Takaful within 100 days from the date of getting its license.

Which of your products/ services deliver the best results?

Our investment-linked product, i-GrEaT Damai, is our core product and our best selling product.

What are the strengths of your business?

1) Agency force. We currently have more than 3,000 Takaful agents and they have contributed to more than 80% of our new business.

2) Collaboration with OCBC Al-Amin. The product bundling proposition with the bank has produced significant results for our business.

3) Our staff are multi-talented.

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

1) Our shareholders. They are very focused and supportive.

2) Our brand name. The Great Eastern brand is well known in Malaysia and it makes it easier for us and our distribution partners to attract new customers.

3) Our staff. They embrace the principles of 'limited resources' and 'changing environment' and work within the limitations and challenges to deliver results.

What are the obstacles faced in running your business today?

1) The perception that Takaful is only for Muslims.

2) The perception that Takaful is a 'product' rather than a whole end-to-end Shariah compliant solution.

3) The perception that Takaful is replacing or taking away the conventional business. We share the same agency force with our sister company, Great Eastern Life (Malaysia), and this is one of the biggest challenges that we need to overcome.

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

I believe that the Islamic finance industry will continue to grow rapidly in the next decade. But to do so, the industry must continue to evolve from just replicating the conventional frameworks/guidelines and products to creating truly 'standalone' and different value propositions where the customers and the public as a whole can really see the beauty of Islamic finance.

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

The mentality that Islamic products are inferior/not so competitive compared with conventional products.

Islamic Development Bank's five-year US$750 million trust certificates

The Islamic Development Bank (IDB) launched their benchmark US$750 million Islamic trust certificates on the 25th May 2011. The latest issuance from the multilateral development bank is the fifth such issuance on their scaled up US$3.5 billion Islamic trust certificates program.

Despite the volatile economic environment in which they were introduced, the IDB achieved both a larger deal size and tighter pricing than in previous issuances, with the deal pricing 30 basis points inside secondary market levels.

According to Rizwan Kanji, a debt capital markets partner at King & Spalding: "This transaction is important because it sets a benchmark yield for IDB risk." Kanji also stated that he expects the issuance "to help re-energize the Sukuk market after a period of relatively low issuance".

Overall the deal saw strong participation from real money accounts and official institutions, providing credence to the IDB's credit strength. In addition, the deal also saw first time participation from other supranational institutions. Forty eight percent was allocated to central banks and other official institutions, followed by a 33% allocation to banks, 15% to fund managers and 4% to retail investors. Asia and the MENA region responded well, with good interest from European and US offshore investors, based on allocations of 26%, 53%, 16% and 5% respectively. The IDB's 'AAA' credit rating, strong financial position and relative insulation from regional events made a compelling story for investors who participated actively in the book.

Commenting on the success of the issuance, Dr Abdul Aziz Al-Hinai, the vice-president of finance at the IDB, expressed delight at the outcome of the deal and stated that the IDB had "achieved our main objectives for the transaction; to build on the success of last year's deal, to establish another liquid benchmark and further position IDB in line with its supranational peer group". Abdul Aziz also said he was particularly happy to see a number of new accounts come into an IDB Sukuk issuance for the first time.

However, as the US$3.5 billion Islamic trust certificates program of the IDB nears completion, the bank is faced with the dilemma of either introducing a new program, raising the current program's ceiling or deciding on alternative methods of financing for its future resource mobilization purposes.

The issuance was completed in a similar vein to previous international offerings, this being the IDB's fifth foray into the global debt capital market. Its first entrance was a debut US$400 million Sukuk; followed by subsequent issuances of US$500 million and US$850 million in 2009 and US$500 million in 2010.

The US$750 million tranche issued in May 2011 brings the total volume of IDB Sukuk to date to US$3 billion: the largest volume of Sukuk issued by any supranational. With the current ceiling of the IDB's trust certificates program standing at US$3.5 billion, the bank has only a further US$500 million of issuances to go. The ceiling was previously raised to accommodate 2010's US$500 million issuance.

According to market sources, the remaining tranche could be raised either through another Sukuk issuance or through a private placement. The IDB's funding requirements for 2011 are estimated at US$1.4 billion. Excluding the current Sukuk, this leaves a further US$650 million yet to be raised from the market.

However, the IDB's access to strong stakeholder liquidity means that it is in a privileged position to call on equity at any time. Many subscribers argue that the bank is sufficiently capitalized and that, armed with its zero risk weighting from the Basel committee and its 'AAA' rating by all three top international agencies, it should continue to raise funds from the capital markets.

In June 2011 Dr Ahmad Mohamed Ali, the IDB Group president, stated during the bank's 36th annual meeting in Jeddah that the total amount of development financing of the bank has exceeded US$70 billion since it commenced operations in 1975.

Islamic Development Bank (IDB)

US$750 million trust certificates

25th May 2011

Issuer	IDB Trust Services
Obligor	Islamic Development Bank
Issuance Price	US$750 million
Trustee	IDB Trust Services
Tenor	Five years
Yield	2.35%
Payment	Semi-annually on the 25th May and November per annum
Currency	US dollar
Maturity date	25th May 2016
Lead manager(s) and bookrunners	BNP Paribas, Deutsche Bank, HSBC, Standard Chartered
Governing Law	English law
Legal Advisor	King & Spalding
Listing	London Stock Exchange and Bursa Malaysia (under exempt regime)
Rating	S&P – 'AAA' Moody's – 'Aaa' Fitch – 'AAA'
Shariah Advisor(s)	IDB's Shariah committee
Tradability	Yes
Investor Breakdown	Asia – 26% MENA – 53% Europe – 16% US offshore – 5%
Face value / minimum investment	US$200,000 and multiples of US$1,000 thereafter

ISSUER	SIZE	DATE ANNOUNCED
Aramco	US$1 billion	21st August 2011
Nakheel	AED4.8 billion	10th August 2011
Chemical Company of Malaysia	RM120 million	5th August 2011
Hub Power Company	PKR2 billion	2nd August 2011
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
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

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partner, Mallesons Stephen Jaques

BANGLADESH: Md Sahmsuzzaman
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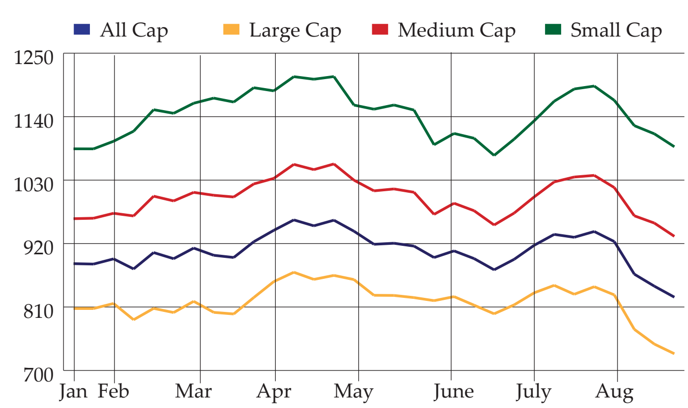
For more information about becoming an IFN Correspondent please contact sasikala@redmoneygroup.com

REDmoney Asia ex. Japan *6 Months*



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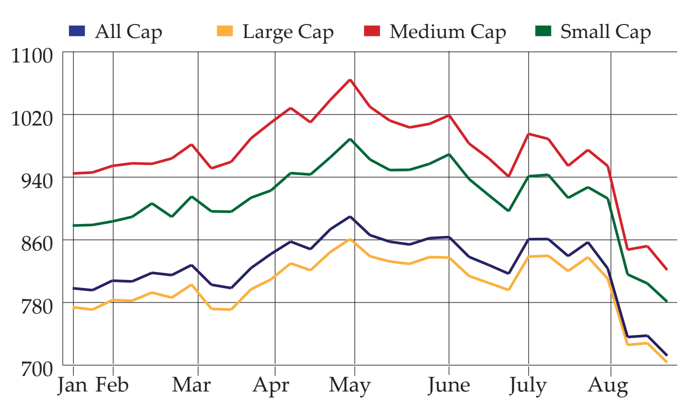
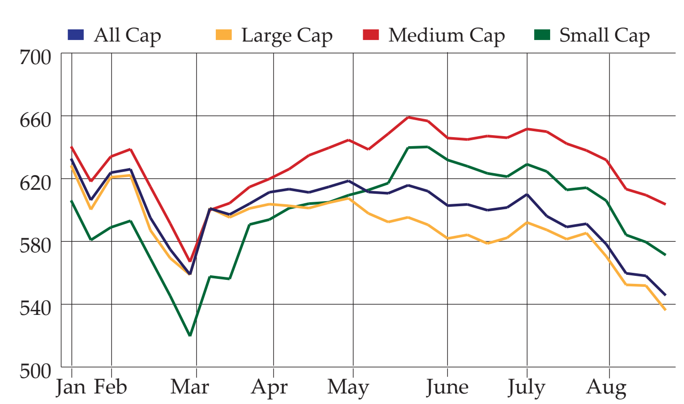


REDmoney GCC *6 Months*



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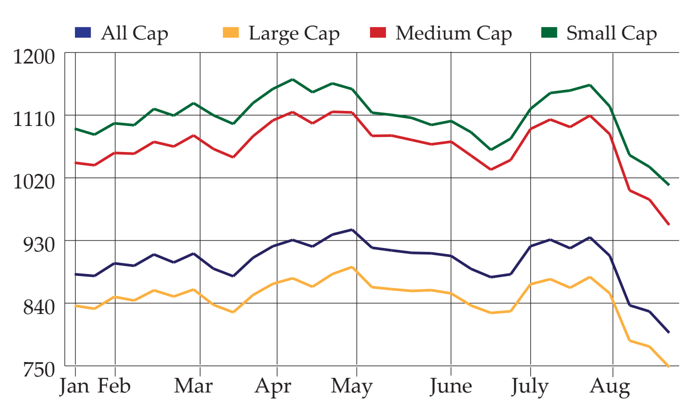
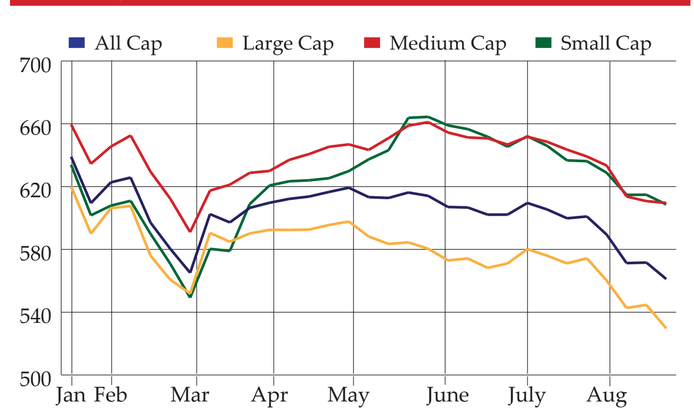
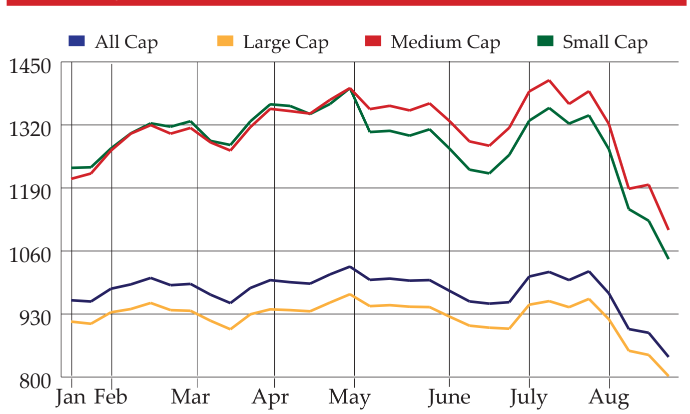


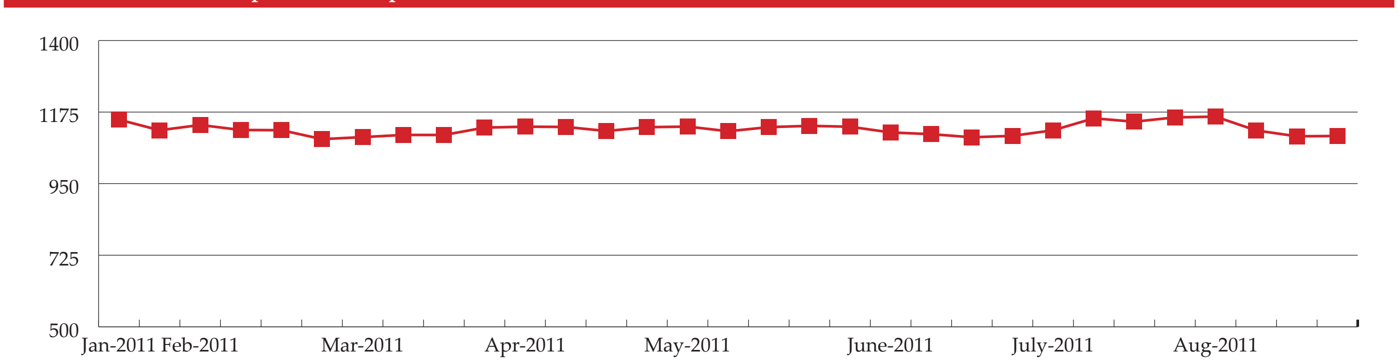
REDmoney MENA *6 Months*



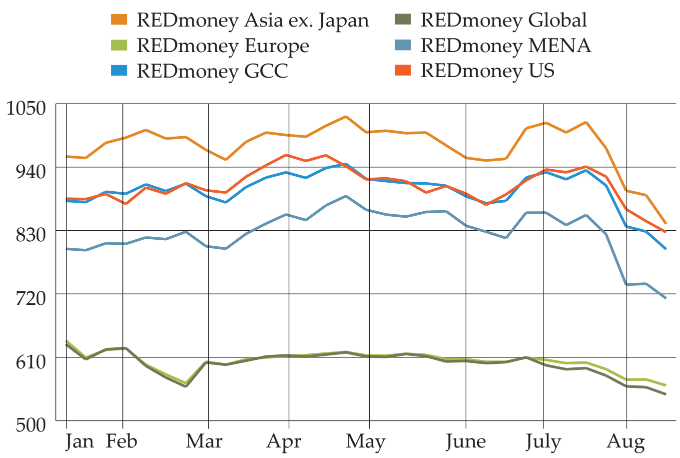
REDmoney US *6 Months*



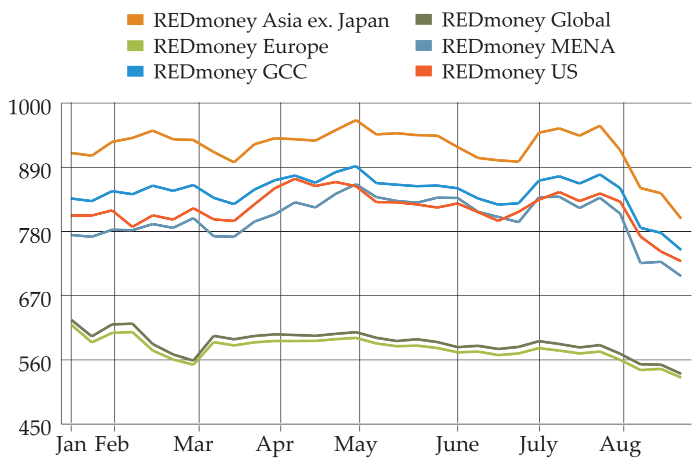
SAMI Halal Food Participation (All Cap) *6 months*



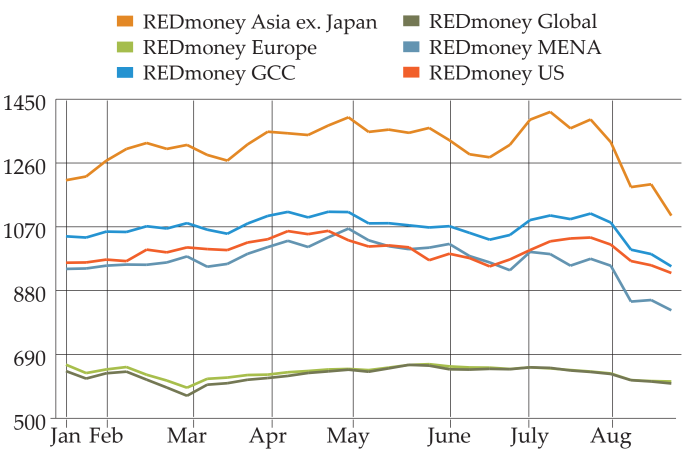
REDmoney Global Shariah Index Series (All Cap) *6 Months*



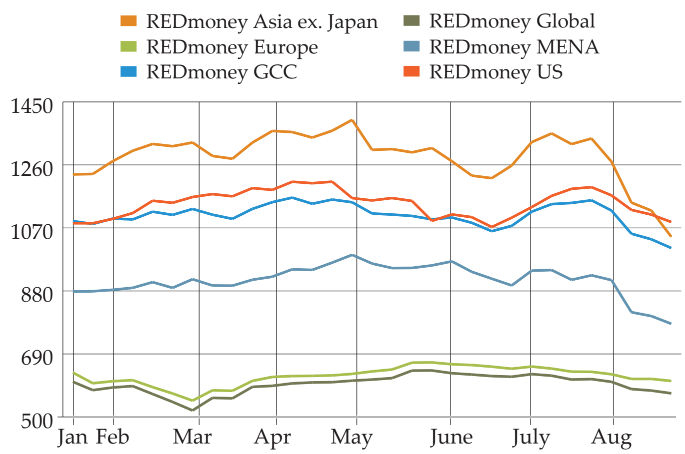
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



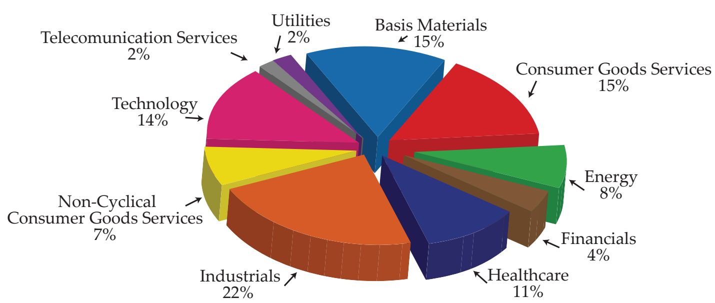
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

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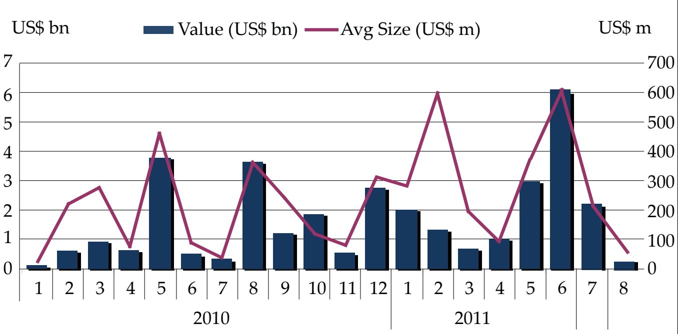
Tel +603 2162 7800

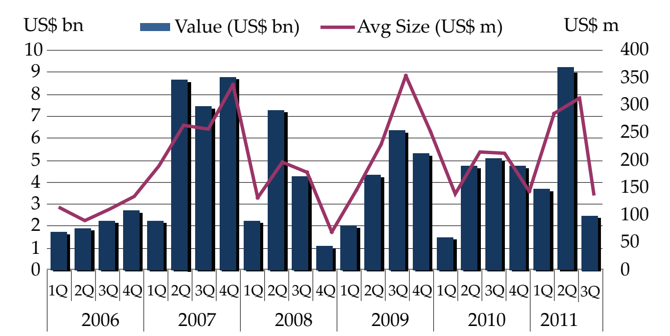
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
5th Aug 2011	Kencana Petroleum	Malaysia	Sukuk	Domestic market private placement	167	AmInvestment Bank
26th Jul 2011	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	CIMB Group, Maybank Investment Bank
26th Jul 2011	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	Standard Chartered, HSBC, Citigroup
21st Jul 2011	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	AmInvestment Bank
21st Jul 2011	Besraya (M)	Malaysia	Sukuk Mudarabah	Domestic market public issue	233	AmInvestment Bank
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	Domestic market private placement	1,910	CIMB Group, Maybank Investment Bank
16th Jun 2011	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	Maybank Investment Bank
14th Jun 2011	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	RHB Capital, AmInvestment Bank
13th Jun 2011	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	Deutsche Bank, Riyad Bank
8th Jun 2011	Bank Muamalat Malaysia	Malaysia	Sukuk	Domestic market private placement	133	DRB-HICOM, Maybank Investment Bank
2nd Jun 2011	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	Maybank Investment Bank
26th May 2011	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	HSBC
25th May 2011	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	229	CIMB Group, AmInvestment Bank, Maybank Investment Bank
18th May 2011	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
18th May 2011	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	Standard Chartered, HSBC
28th Apr 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	335	CIMB Group
28th Apr 2011	Westports Malaysia	Malaysia	Sukuk	Domestic market private placement	150	AmInvestment Bank, Maybank Investment Bank
21st Apr 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	332	HSBC, CIMB Group

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	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275	2	Maybank Investment Bank
4	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	1,250	2	Standard Chartered, HSBC, CIMB Group, Citigroup, Deutsche Bank, BNP Paribas
5	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
6	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
7	Cagamas	Malaysia	Sukuk Murabahah	Domestic market private placement; Domestic market public issue	838	15	Standard Chartered, AmInvestment Bank, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank
8	Qatar Islamic Bank	Qatar	Sukuk Ijarah, Sukuk Murabahah	Euro market public issue	750	1	HSBC, Credit Suisse, QInvest
8	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750	1	Standard Chartered, HSBC, Barclays Capital
10	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group Maybank Investment Bank
11	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
12	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
12	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
14	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
15	Malaysia Airports Capital	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1	CIMB Group, Citigroup
16	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
17	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
18	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	391	2	CIMB Group, AmInvestment Bank, Maybank Investment Bank
19	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361	1	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
20	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
21	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	280	13	CIMB Group
22	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
23	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
24	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	1	AmInvestment Bank
25	Besraya (M)	Malaysia	Sukuk Mudarabah	Domestic market public issue	233	1	AmInvestment Bank
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				**21,349**	**101**	

Top Managers of Sukuk

12 Months

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	4,797	29	22.5
2	CIMB Group	4,424	43	20.7
3	HSBC	3,754	17	17.6
4	AmInvestment Bank	2,058	27	9.6
5	Citigroup	1,306	6	6.1
6	Standard Chartered Bank	1,215	8	5.7
7	RHB Capital	994	5	4.7
8	Deutsche Bank	427	2	2.0
9	RBS	416	3	2.0
10	QInvest	250	1	1.2
10	Credit Suisse	250	1	1.2
10	Barclays Capital	250	1	1.2
13	Riyad Bank	240	1	1.1
14	BNP Paribas	188	1	0.9
15	OCBC	157	5	0.7
16	Affin Investment Bank	155	4	0.7
17	JPMorgan	133	1	0.6
18	DRB-HICOM	123	2	0.6
19	Lembaga Tabung Haji	78	2	0.4
20	Public Bank	68	4	0.3
21	Hong Leong Bank	40	2	0.2
22	Al-Rajhi Banking & Investment	16	1	0.1
23	Mitsubishi UFJ Financial Group	6	2	0.0
24	OSK	3	1	0.0
	Total	**21,349**	**101**	**100.0**

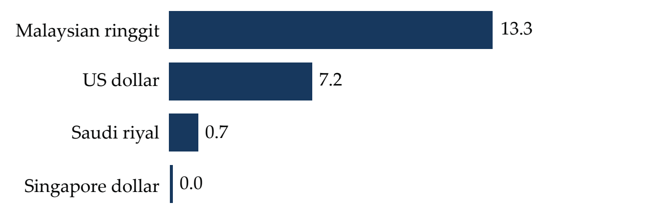
Top Islamic Finance Related Project Finance Mandated Lead Arrangers

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

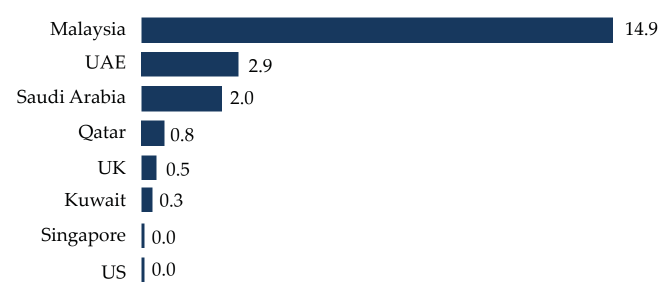
Sukuk Volume by Currency US$ (billion)

12 Months



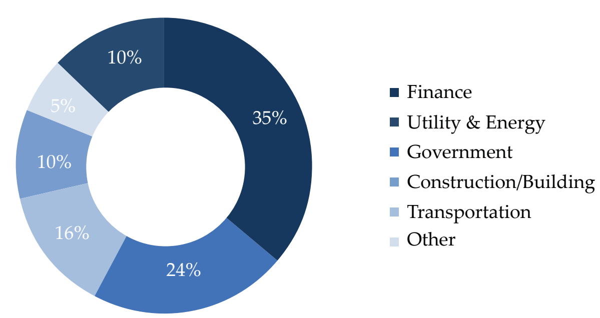
Sukuk Volume by Issuer Nation US$ (billion)

12 Months

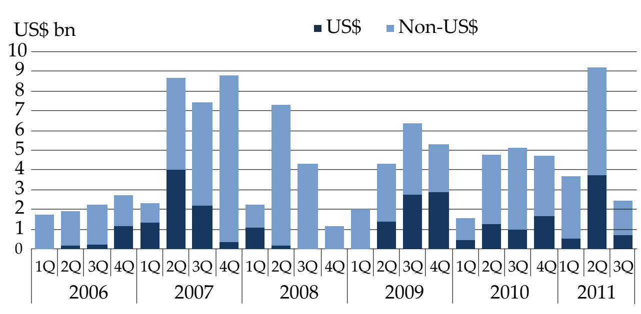


Global Sukuk Volume by Sector

12 Months



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisors 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	9.6
2	HSBC	1,060	6	9.1
3	Saudi National Commercial Bank	942	3	8.1
3	Banque Saudi Fransi	942	3	8.1
5	Maybank Investment Bank	824	5	7.1
6	Abu Dhabi Islamic Bank	654	3	5.6
7	Arab National Bank	554	2	4.7
8	AmInvestment Bank	471	3	4.0
9	Citigroup	385	4	3.3
10	Standard Chartered Bank	326	5	2.8
11	Al Hilal Bank	300	2	2.6
12	Al Salam Bank	240	1	2.1
13	RBS	233	1	2.0
14	BNP Paribas	209	4	1.8
15	Arab Banking Corporation	191	4	1.6
16	CIMB Group	180	2	1.5
17	WestLB	170	3	1.5
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	Bank of China	93	1	0.8
28	Union National Bank	92	1	0.8
28	First Gulf Bank	92	1	0.8
28	Bank of Baroda	92	1	0.8

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	3,486	3	29.8
2	Citigroup	444	4	3.8
3	Abu Dhabi Islamic Bank	378	2	3.2
4	HSBC	308	2	2.6
5	Maybank Investment Bank	237	1	2.0
6	RBS	233	1	2.0
7	WestLB	125	2	1.1
8	Standard Chartered	105	1	0.9
9	BNP Paribas	98	2	0.8
10	Bank of China	93	1	0.8

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

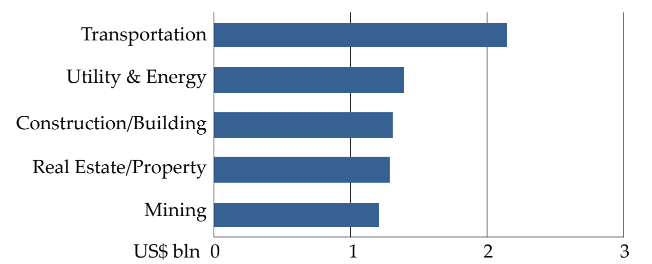
Top Islamic Finance Related Loans by Country

12 Months

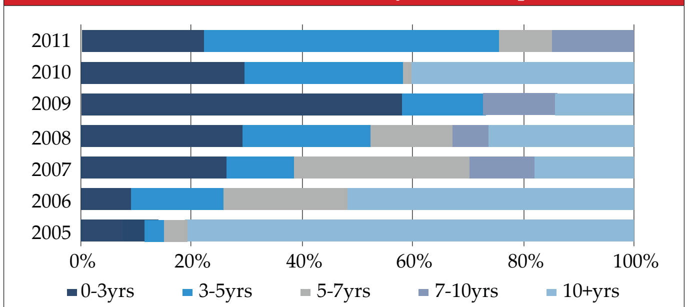
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	4,844	4	41.4
2	UAE	2,727	8	23.3
3	Malaysia	1,673	4	14.3
4	Turkey	881	5	7.5
5	Singapore	655	2	5.6
6	Indonesia	450	1	3.9
7	Bahrain	285	2	2.4
8	China	93	1	0.8

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

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

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

20th September 2011
2nd Islamic Finance Forum
Kazakhstan (*Akyl-Kenes Consulting*)

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

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*)

24th – 27th October
Islamic Investment and Finance Forum 2011
Istanbul (*IIR Middle East*)

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

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

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

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

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

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