Islamic Finance news

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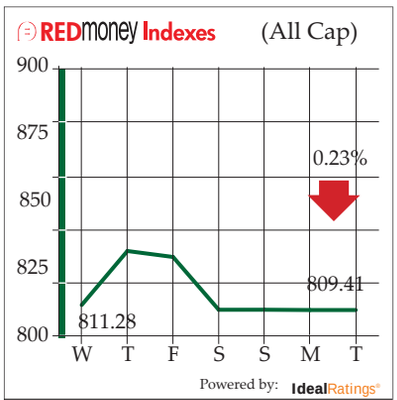

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Islamic private equity in the US: Boom or bust?

Cover Story

After grinding to a halt during the financial crisis, demand for Islamic private equity is once more on the rise. The asset class is dominated by Gulf investors, for whom the US represents an historically attractive market. But with at least one of the three US-based Islamic private equity firms closing this year, and a growing number of firms and funds active in the GCC, is there really sustainable potential in the US market - or should they be looking closer to home?

A perfect fit

Private equity is a popular choice for Islamic investors due to its prudent debt approach and flexibility in structuring deals, and is praised as being well-suited to Islamic finance, with a natural fit between providing risk capital to enterprises and Shariah law's profit and risk sharing principles. Unlike other Islamic investments such as Sukuk or mutual funds, private equity is largely restricted to institutional and sophisticated investors, as there are barriers to entry which inhibit retail investment.

Amar Meher, a senior associate with Vinson & Elkins in Dubai, points out that: "As a retail investor, if I want to go into a private equity investment, it is actually quite difficult to find a Shariah compliant private equity fund." However, for institutional investors and for Islamic financial institutions servicing private clients, Islamic private equity represents an attractive asset class not only in terms of returns, but also in terms of tradeability."There is more scope to be able to exit with private equity than with Sukuk. Sukuk is buy-to-hold, and the secondary market falls way behind. With private equity you can offload and get the upside."

The boom years

2007 was the heyday for Islamic private equity, heralded as the next big thing in Islamic finance. The 2007 Dow Jones Private Equity Report listed US$10 billion in private equity funds raised in the MENA region in 2006, of which approximately 10% were Islamic private equity funds. There were over 40 private equity players, with an average fund size of US$284 million (compared to US$80 million in 2003). In 2007 Islamic private equity investments in the Middle East had soared to US$3.8 billion from US$148 million in 2004, and Eurekahedge

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Bridging the gap

Editor's Note

In a an environment of global imbalances, perhaps one of Islamic finance's greatest successes is in bridging the divide between east and west: Between religious ideologies and between the haves and the have-nots. While skepticism of the industry remains, especially from non-Muslims, the industry has proven time and again that it provides an inclusive financial solution regardless of religious beliefs.

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NEWS

Central Bank of Nigeria grants approval for **Stanbic IBTC Bank** to launch mobile banking services

Oasis Group plans expansion to the UK

Sudan gets US$150 million from the **IDB** to fund dam construction in Khartoum

Bombay Stock Exchange to exclude **Grasim Industries** and **Motherson Sumi Systems** from BSE Tasis 50 Shariah Index

State Bank of Pakistan announces second profit coupon rate of 13.3% for government's Sukuk Ijarah

First Gulf Bank plans four more branches in Southeast Asia this year

Meezan Bank signs money remittance agreement with **Ria Financial Services**

Bank Indonesia plans to restrict local Islamic banks' gold pawn broking business

S&P has urged local participation (Islamic) banks to strengthen ties with their international owners

Malaysia has opened the tender for US$1.34 billion five-year Sukuk issuance

Bank Negara Malaysia to issue US$501.44 million and US$334.34 million Sukuk Murabahah

CIMB-Principal Islamic Asset Management plans to launch three equity funds by the end of this year

DRB-Hicom may issue Sukuk by 2012 to raise up to US$568 million

AAS Foundation Bahawalnagar to replicate **Farz Foundation**'s Islamic microfinance methodology

BLME records US$107 million-worth of leasing deals in the first half of 2011

Absa Group has acquired **Takafol South Africa (Takafol)**

BLME reports 12% increase in first half operating income to US$34.3 million

AAOIFI may publish Shariah standards for Islamic financial institutions in 2012

IDB to provide US$5 billion to help Egypt, Jordan, Morocco and Tunisia transition to democracy

National Bonds Corporation mulls return to real estate investments

Minister of state for financial affairs in the UAE assures banking system is resilient

Dow Jones Islamic Market World Index adds three companies to its index

Al Hilal Bank launches thumb verification system

SATORP launches public offering for 14-year Sukuk

KFH-Bahrain advising three local Islamic investment banks on merger

Path Solutions enters into partnership with **Apliman Technologies**

KFH's founding chairman passes away

Amanie Advisors opens new office in Cairo

Joint venture between **Qatar First Investment Bank** and **GulfMena Alternative Investments** unlikely this year

TAKAFUL

UnityKapital Assurance continues working on introducing Takaful as part of growth strategy

AIA AFG Takaful launches new Takaful plan A-Excel

ING Public Takaful Ehsan seeks to tap overseas Takaful market by 2015

AMAN mulls healthcare coverage plan for dependents of Arab expatriates

Amana Takaful (Maldives) proceeds with IPO plans

RATINGS

CI maintains **Union National Bank**'s foreign currency long-term and short-term ratings at 'A+' and 'A1' respectively

RAM reaffirms **Sabah Ports** US$26.8 million BaIDS and US$23.4 million MUNIF/ IMTN facility at 'AA3' and 'AA3/P1'

RAM reaffirms **Projek Lintasan Shah Alam**'s US$110 million Sukuk Ijarah and US$138.3 million Sukuk Murabahah at 'A1' and 'A3'

MARC affirms **Serissa Sinar**'s US$66 million ICP/IMTN and US$6.6 million junior IMTN at 'MARC-1ID/AAID' and 'A+ID'

Fitch downgrades **KFH**'s viability rating to 'bb+' and affirms long-term IDR at 'A+'

Fitch has affirmed Ahli Bank's long-term issuer default rating at 'A' with a stable outlook

Fitch has affirmed the long-term foreign currency issuer default rating of **Ahli United Bank (Kuwait)** at 'A'

MOVES

Vinson & Elkins elects **Mark Kelly** as chairman and **Scott Wulfe** as managing partner of the firm for a two-year term

Taib Securities names **Khaldoon Latif** as general manager

DFSA names **Saeb Eigner** as new chairman

Mashreqbank names **Julio de Quesada** as head of its corporate and investment banking group

Malaysia Deposit Insurance Corporation appoints **Alex Foong** as member of its board of directors

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predicted the sector would hit US$41 billion by 2011. In 2008, Shariah compliant private equity represented approximately 50% of total new private equity funds, compared to just 5% in 2005.

Of course, this was all brought to a standstill by the onset of the financial crisis, as liquidity dried up and deals disappeared. However, in 2011 the market looks to be recovering well. Overall global emerging market private equity deal volume jumped by 11% to US$14 billion in the first half of 2011, and fundraising doubled to US$22.6 billion, according to the Emerging Markets Private Equity Association (EMPEA). The MENA region saw US$91 million in total fundraising between January and June – a far cry from the US$41 billion in GCC Islamic private equity alone anticipated four years ago, but encouraging nonetheless. The value of deals in the MENA region in 2010 rose to US$993 million from US$680 million in 2009, suggesting that demand is indeed on the rise.

Demand driven by the Gulf

Reports suggest that in Malaysia some 30% of private equity funds are Shariah compliant, while Qasim Aslam, a senior associate at Herbert Smith in Dubai, also notes that: "Further afield, there has been an increase in demand amongst the consumers of Shariah investment products, with many western banks (particularly in the UK) offering private equity-type investments as part of their Shariah offering. There is some evidence that non-Muslim investors in the west are also becoming increasingly active." However, there is no question that the Middle East dominates the Islamic private equity space, and private investors in the Gulf are the ones who drive the demand. Meher confirms that: "The big investors are the sovereign wealth funds, the family offices. It is also the big Shariah private equity houses, because unlike in other parts of the world, we don't have superannuation pension funds."

Some significant deals have already occurred in 2010 and 2011, including Global Investment House and Millennium Capital's US$1 billion Islamic buyout fund, and Investcorp's Gulf Opportunity Fund 1 and Islamic Gulf Opportunity Fund 1, which raised over US$1 billion. In 2010 the UAE unsurprisingly saw the most activity, accounting for over 82% of private equity deals with six transactions worth US$816.5 million. Saudi Arabia, Egypt, and Jordan each recorded five deals in 2010, while Kuwait and Lebanon saw three deals and Tunisia and Bahrain enacted one each. While only a small proportion of these were Islamic transactions, the rise in activity demonstrates indisputable demand. Philip Ireland, a partner at Maples and Calder in Dubai, explains that: "Demand from Gulf Arab states is on the rise as investors seek safer harbors for their wealth, following the exposure of other asset classes as susceptible to debt issues and over-inflated estimates of performance during the financial crisis. Companies are also open to investments as private equity investors tend to have a prudent approach to the development of a business and are able to provide a capital injection in an enviornment where conventional financing can be difficult to secure, particularly for small or medium sized enterprises."

Industry estimates suggest that the non-government private equity industry in the Gulf is now worth around US$20 billion, with Islamic private equity reaching pre-crisis levels of around US$4 billion. As a result of this growth, there are now an array of private equity providers in the region.

Aslam notes that: "Within the Middle East, institutions such as Dubai Islamic Bank, EMP, Millennium Private Equity, Unicorn, Investcorp and Arcapita are well established." However, one of the most compelling attractions of Islamic private equity is the diversification of risk, and investors are seeking international as well as regional exposure. "Why do GCC investors look to these Shariah compliant equity funds as opposed to other forms of investment? Because these investors have had significant exposure to real estate and

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CLOSING BELL

QNB

QATAR: QNB has appointed **Jennifer Frost** as its senior vice-president and chief IT officer.

Frost was previously the director of operations and information technology at the Philadelphia-based Republic First Bank.

Murabahah financing closed

RUSSIA: AK BARS Bank has closed a one-year international Murabahah financing worth US$60 million to fund its Islamic financing activities in Tatarstan and other regions in Russia.

The financing is the first international Shariah compliant facility arranged by a Russian financial institution.

Citibank and the Islamic Corporation for the Development of the Private Sector acted as joint lead arrangers and bookrunners for the financing. Citi Islamic Investment Bank served as the documentation agent, while Citibank International was the investment agent.

Call for awareness

NIGERIA: The Central Bank of Nigeria should explain what Islamic banking is and the ways it could help the Nigerian economy, urged Adeolu Kolawole, a bishop of the northern diocese of the Church of the Lord (Aladura).

Kolawole explained that educating the Christian community on Islamic banking would help resolve the conflict over the proposal of the system in the country.

Invitation to finance projects

KYRGYZSTAN: The government has invited the IDB and the Saudi Fund for Development to participate in financing 40 strategic development projects in the country, suggesting that the two parties establish a joint venture to do so.

Seeking US$91 million in credit

KUWAIT: Munshaat Real Estate Projects Company is reportedly seeking Islamic financing worth KWD25 million (US$91 million) from Kuwait Finance House.

The money would be used to fund the Dar Al Qibla project in Madinah, Saudi Arabia.

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are trying to diversify their portfolio," explains Meher. "This is an investor class who already has invested either in deposits in bank accounts, investment accounts, treasury bills, or real estate. They are now looking to invest in a safe economy such as the US or UK, with a view to diversifiying their risk exposure in those countries."

Uncle Sam

The US dominates the global private equity space, and when looking to diversify into private equity both geographically and in terms of asset class, it is a natural destination for wealthy Islamic investors. The considerable investor demand from the Middle East combined with a relatively small domestic market means investors are seeking opportunity and diversity in more mature developed markets.

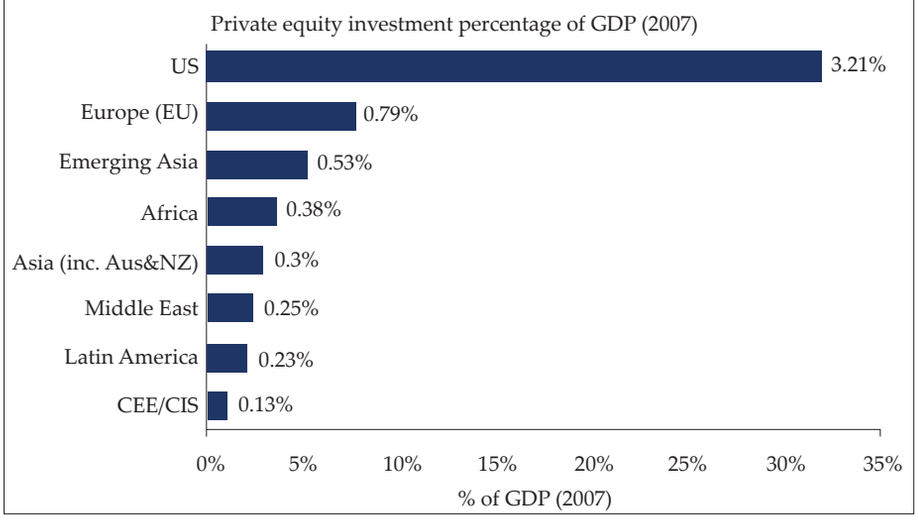
Umar F Moghul, a partner with US-based Murtha Cullina, explains that: "The US remains an important market for private equity, because there is a real deep market of potential targets for investment – the technology sector, the biotechnology sector, the healthcare sector - whereas some of the emerging markets are a little more shallow, at least right now, although that may change. But right now a lot of private equity capital that is raised has to come out of the [Gulf] region into North America and European markets."

The US has a strong infrastructure of regulations and business practices which are attractive to investors looking for stability. Moghul confirms that: "I don't see any legal or infrastructure hurdles to making these investments in the US – it is really a question of market conditions. I don't see a lot of the double taxation issues, for example, that we sometimes see in certain European jurisdictions." Instead, the issue appears to be a cultural one: "I think the challenge for the US, is can you convince the conventional lenders to enter into an Islamic financing - particularly in this market environment?"

Distressed assets

Islamic private equity in the US is certainly not booming in 2011. Moghul elaborates that: "Getting into 2008, we began to see a sharp drop-off in private equity investment coming from the Gulf… and we saw a couple of major players struggle a little with the US market." Although the market is now picking up again, there are concerns that Islamic funds lack the experience and ability to take advantage of the post-crisis opportunities. "We continue to see an uptake in real estate investments from the Gulf, particularly opportunistic types of investment, seizing upon market conditions and lower asset prices. We have seen some interest in doing the same thing in private equity, but we have not seen any transactions completed in terms of Islamic private equity buyers buying distressed assets.

PE Penetration in emerging vs. developed markets



Private equity is a very local animal and it's helpful to have human capital on the ground that can support your investment. I think with distressed assets you need specific talent as it is very different from non-distressed private equity investing, and I don't know if that talent was available to Gulf investors so that they could effectively compete with conventional US buyers in the US market."

Judging by the performance of the US-based Islamic private equity firms, this could indeed be the case. UIB Capital, the Chicago-based private equity arm of Unicorn Investment Bank, in August 2011 exited from its investment in California electronics firm Victron as part of its strategy to wind up its US business and exit the region altogether. Going forward, it plans to focus on private equity in the GCC and Turkey. Arcapita, the Atlanta-based private equity firm owned by Bahrain-based Arcapita Bank, is also rumored to be struggling. Between September 2008 and August 2011 it made just one acquisition, that of female clothing company J.Jill in April 2011. TransOcean Group, a Boston-based subsidiary of Gulf Investment House, only has one company currently in its portfolio, and it is notable that on its website it carefully avoids any mention of Islamic investment of Shariah compliance, instead promoting itself as having a "uniquely conservative approach."

In fact, the Islamic private equity space in the US is surprisingly limited. UIB, Arcapita and TransOcean were the only three Islamic private equity buyers with a physical presence in the US pre-crisis, and according to Moghul: "In terms of making new investments, they have been inactive for quite some time." Although there are other family offices and smaller buyers that may make smaller transactions and investments on an Islamic basis without having a permanent physical presence on the ground, Moghul notes that: "These are usually so small they may be under the radar."

Follow the money

While Islamic private equity investment within the US may be struggling, the flip side is growing apace as US private

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Islamic private equity in the US: Boom or bust?

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equity managers seek to take advantage of Gulf wealth both by attracting GCC investors and by investing themselves in the region. Meher explains that: "Private equity managers in the US are realizing that their markets are suffering from the economic downturn, and they are now looking to other markets as well." In 2010, US government agency the Overseas Private Investment Corporation committed to investing US$455 million in five technology-focused funds in the MENA region.

However, Meher warns that there is an issue between the conception and execution of deals which is restricting the development of the sector. "In the US, we are coming across many originators and fund managers who are looking to tap funds from the GCC, with American private equity instruments or assets. They come to us…and we tell them whether or not it is Shariah compliant, and how we can make it Shariah compliant. But the execution expertise is not there, so they have the framework but there's a lack of ability among fund managers, particularly in North America, to allow them to execute those investment strategies. So there needs to be a development in human capital, in human investment, to allow for the execution. The money is there, the demand is there – talking to investors here [Dubai] the US is definitely one of the markets where they are looking to invest. But it is down to the execution capabilities."

New potential

The US market certainly offers considerable potential, and remains an instrumental influence in Islamic private equity investment. Limiting its development however is a lack of experienced human capital able to develop and execute Shariah compliant transactions, and steps are now being taken to address this.

In July 2011 the Dubai-based Ethica Institute of Islamic Finance completed a two month course for 100 American Imams in association with Guidance Financial and the Islamic Society of North America to train them in the principles of Islamic finance. Earlier this year, a consortium of American Muslim lawyers and investment bankers also reportedly traveled to Dubai on a fundraising and factfinding mission for a proposed US-based, US-managed and US-focused Shariah compliant private equity fund.

There is a lot of liquidity sloshing around the Islamic investment space looking for a home, and the attractions of private equity are indisputable. If the US can address the issues restricting its development, it could kickstart a new phase of growth for the whole asset class.

Moghul concludes: "I think you're likely to see growth in the sector, but I cannot say when that will be. My sense is that GCC-based Islamic investors are generally cautious but optimistic. But if they do find the right asset and they have the cash on hand, you will see them pull the trigger."

Bridging the gap

Editor's Note

In an environment of global imbalances, perhaps one of Islamic finance's greatest successes is in bridging the divide between east and west: Between religious ideologies and between the haves and the have-nots. While skepticism of the industry remains, especially from non-Muslims, the industry has proven time and again that it provides an inclusive financial solution regardless of religious beliefs.

This week, we look at markets where Islamic finance does not necessarily receive top-of-mind recognition, but where opportunities for the industry to thrive exist nonetheless. Our cover story looks at the resurgence of interest Islamic private equity and the role played by non-Muslim regions such as the US in developing its growth.

In Russia, UFS Investment Company considers the role Islamic finance can play in the country's project and infrastructure funding needs.

Another market not immediately synonymous with Islamic finance is Brazil, and real estate professional services provider Cushman & Wakefield has written on the relationships being built between the country and those in the Middle East, paving the way for financial integration. We also have an IFN report which delves further into the Brazil-Middle East dynamic.

Meanwhile, with comparisons often drawn between Islamic and conventional finance, it is useful to take a quantitative look at some of the differences and this week, Kuwait's Shariah audit and advisory firm Al Mashora and Al Raya for Islamic Finance Consulting contributes a comparative study between Islamic and conventional banks in Kuwait.

In Indonesia, U Saefudin Noer, the senior vice-president and head of Shariah banking at CIMB Niaga, discusses the significance of the government's recent issuance of its first Shariah compliant treasury bill.

Dr Gerd Kloewer, an insurance and financial markets regulation expert for European Union projects, contributes our Takaful feature this week on the insurance, Takaful and financial markets in Cyprus, while Islamic Investor's Fund Focus puts the spotlight on the BNP Paribas Pesona Amanah fund.

Insider looks at the development of Deutsche Bank's Islamic business, while other IFN reports highlight BankMuscat's preparations for the launch of Islamic banking in Oman and Takaful in Brunei.

Our IFN Correspondents write on the mutual funds industry in Iran, prospects for an Islamic money market in Bangladesh and developments in Yemen following the crisis in the country.

AFRICA

Nod for branchless banking

NIGERIA: Stanbic IBTC Bank, a subsidiary of Standard Bank Group which was in July awarded a preliminary Islamic banking window license, has received approval from the Central Bank of Nigeria to launch branchless banking services in the country.

The bank expects to leverage the experience of its parent company, which operates mobile money services in various African markets, to launch mobile payment products and services to enhance financial inclusion in Nigeria.

Expanding to the UK

SOUTH AFRICA: Oasis Group will open an office in the UK later this year as part of its expansion strategy.

The South African asset management company also recently set up an office in the Dubai International Financial Center.

Financing for dams

SUDAN: The IDB has signed a financing agreement worth US$150 million with the Sudanese government to finance the construction of the Atbara and Setet hydropower dams located in the north of Khartoum.

The two dams, which will provide 200 megawatts of electricity within four years, will help boost agriculture activities and electricity generation.

ASIA

Off the list

INDIA: Bombay Stock Exchange (BSE) has decided to exclude Grasim Industries and Motherson Sumi Systems from the BSE Tasis 50 Shariah Index, as these companies have become non-Shariah compliant.

Both companies are removed from the Shariah index.

According to the index screening criteria, companies which have interest higher than 3% of total income are not permitted to be listed on the index, while their debt-to-asset ratio must be less than 25%.

The interest income of Grasim reached 5.74% at INR539.6 million (US$11.72 million) this year, while the debt-to-asset ratio of Motherson increased to 28.48% as its financings stood at INR7.9 billion (US$171.61 million) against total assets of INR27.72 billion (US$602.2 million) as of the end of March.

SBP declares second profit coupon rate

PAKISTAN: The central bank, State Bank of Pakistan (SBP), has announced a second profit coupon rate of 13.3% for the government's three-year Sukuk Ijarah.

The Sukuk will mature on the 7th March 2012.

First Gulf Bank expanding Asian footprint

SINGAPORE: First Gulf Bank (FGB) plans to establish four more representative offices in Southeast Asia as it looks to provide financing for energy and commodities projects in the region.

Mustaza Qasim, the chief representative of the bank's Singapore branch, said FGB is in the process of applying for licenses in Indonesia, South Korea and China, where it is looking to set up branches in Beijing and Hong Kong.

He said the licenses could be granted this year. The bank may also set up a presence in Vietnam.

The bank is also considering expanding its Islamic banking business to south Asia, although this will likely only materialize after it launches private banking services in Singapore, an option it is also currently mulling.

Money remittance agreement

PAKISTAN: Meezan Bank has signed a money remittance agreement with funds transfer company Ria Financial Services, a subsidiary of Euronet Worldwide Incorporation.

The agreement will enable customers to transfer money from Ria Financial Services' outlets worldwide to Meezan Bank's branches in Pakistan without requiring a bank account.

Limiting gold pawn broking

INDONESIA: Bank Indonesia, the central bank, is planning to

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Call for internationalization

TURKEY: S&P has urged local participation (Islamic) banks to strengthen ties with their international owners as they are unable to sustain growth through domestic momentum alone.

Rating Turkey at 'BB', its second highest junk rating, S&P said that the country's participation banking sector remains small in the domestic context despite total assets almost doubling in the five-year period between 2005 and 2010, from 2.8% to 5% of the country's total financial assets.

The ratings agency cited a lack of public awareness of Shariah compliant products and investable asset classes. There are currently only four participation banks in the country: Albaraka Türk, Bank Asya, Kuveyt Türk and Türkiye Finans.

Three of the four Islamic banks are owned by international institutions: Albaraka Türk is 56.6% owned by Al Baraka Banking Group, Kuveyt Türk is 62% owned by Kuwait Finance House, and Türkiye Finans is 64.7% owned by the National Commercial Bank.

Another factor contributing to the local banks' limited growth prospects is the absence of a Shariah compliant repurchase agreement which would enable participation banks to access liquidity from the Central Bank of the Republic of Turkey.

The ratings agency also added that it is unlikely the country will issue a sovereign Sukuk in the foreseeable future.

S&P recommended the adoption of a global Islamic banking template which could help standardize products, reporting and regulatory requirements as well as obtain established Shariah compliant repurchase agreements from other Gulf countries.

S&P explained that this could be accomplished through stronger relationships between the local banks and their international owners. These strengthened relationships could also aid the Turkish participation banking sector to reach a new level of maturity through the spread of common practices.

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restrict the gold pawn broking services offered by local Islamic banks.

Mulya Siregar, the director of Islamic banking at Bank Indonesia, explained that the fatwa on gold pawn broking states that it should only be used as a mode of financing of last resort, adding that the business should not be the main focus of Islamic banks but instead act as a complementary service.

He said that the new rules on gold pawn broking would be issued by the end of this year at the earliest, adding that the central bank will discuss the regulations with the local banks.

Sizeable Sukuk in the works

MALAYSIA: The government has opened the tender for the issuance of a RM4 billion (US$1.34 billion) five-year Sukuk maturing on the 15th November 2016.

According to the central bank, Bank Negara Malaysia, the sale is a reopening of the government's RM11 billion (US$3.68 billion) 10-year Sukuk program launched on the 15th November 2006.

The auction for the 3.82% notes will close on the 14th September 2011.

Upcoming Sukuk issuances

MALAYSIA: The central bank, Bank Negara Malaysia, will issue two Sukuk Murabahah valued at RM1.5 billion (US$501.44 million) and RM1 billion (US$334.34 million) on the 13th and the 19th September, respectively.

The maturity date for the RM1.5 billion Sukuk will be the 10th January 2012 while the RM1 billion Sukuk will mature on the 16th February 2012. Both Sukuk will be issued by the central bank's special purpose vehicle, BNM Sukuk.

Upcoming global equity funds

MALAYSIA: CIMB-Principal Islamic Asset Management is planning to launch three equity funds by the end of 2011 according to Noripah Kamso, its CEO.

She said that the funds will be distributed globally and will comply with the European Union Undertakings for Collective Investments in Transferable Securities (UCITS), adding that approvals for the funds' launch are expected to be obtained within the third quarter.

Dublin will be used as the global fund platform for the retail and mass market distribution of the funds, targeting markets in Asia, Europe and the GCC.

DRB-Hicom mulls Sukuk issuance

MALAYSIA: DRB-Hicom, the conglomerate which owns 70% of Bank Muamalat Malaysia, may issue a Sukuk by the end of next year to raise funds of up to RM1.7 billion (US$568 million) as part of its growth plans.

The funds will be used to finance its capital expenditure, expansion plans and its RM622.8 million (US$208.5 million) acquisition of the national postal service, Pos Malaysia.

Replicating methodology

PAKISTAN: AAS Foundation Bahawalnagar has signed an MoU with local Islamic microfinance institution Farz Foundation to replicate its Islamic microfinance methodology.

The AAS Foundation is a non-governmental organization which caters to 4,500 households in the Bahawalnagar district.

The Farz Foundation will provide advisory services for Islamic institutional development facilities as well as on its Islamic microfinance methodology to the AAS Foundation, which will in turn roll out Farz Foundation's Islamic microfinance solutions.

EUROPE

More leasing deals completed

UK: The Bank of London and The Middle East (BLME) has completed 57 leasing deals worth GBP67 million (US$107 million) in the first half of 2011, recording a 96% growth in the number of transactions completed from the same period last year.

The volume of deals completed in the first half of 2010 amounted to GBP19 million (US$30 million).

Local small and medium-sized enterprises and mid-tier companies accounted for the bulk of the business, with large corporates contributing to around 40% of the transactions.

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Absa Takafol established

SOUTH AFRICA: Absa Group has acquired Takafol South Africa (Takafol) for an undisclosed amount as the banking group looks to expand its Takaful offering throughout Africa. The acquisition follows a previous purchase completed by Absa Group last month, when it bought Mozambique-based insurer Global Alliance Seguros.

The acquisition was made through its subsidiary, Absa Insurance Company (AIC), after AIC reached an agreement with Takafol on the terms of the sale on the 9th September 2011. AIC has been underwriting Takafol's business since 2008, enabling Takafol's personal lines and commercial business to improve by 66%.

The integration of Takafol's products will allow AIC more direct control over the underwriting, management and pricing processes.

Takafol will be rebranded as Absa Takafol and will operate as a subsidiary under Absa Islamic Banking, which will work to ensure that the new entity's products meet the global standards of Shariah compliance. Uwaiz Jassat, previously CEO and managing director of Takafol, will head the new entity.

Amman Muhammad, the managing director of Absa Islamic Banking, explained that the bank has already been promoting Takafol's products, specifically its motor Takaful option for Absa's own motor financing - the only asset financing currently offered by the bank.

He added that the acquisition would enable new Islamic banking products to be introduced, such as Home and Travel Takaful, which currently only have conventional alternatives in South Africa.

The potential market for Takaful products in South Africa is currently estimated at ZAR3 billion (US$409 million), according to Amman.

Takafol is the sole Takaful firm in South Africa. It was established in 2003 and offers Family and General Takaful policies with business, household, motor, and personal coverage. Absa Group introduced its Shariah compliant investment products in 2005. The group is 56% owned by Barclays.

RATINGS

UNB retains 'A+' and 'A1'

UAE: CI has maintained Union National Bank's (UNB) foreign currency long-term and short-term ratings at 'A+' and 'A1' respectively, with a stable outlook.

Still stable

MALAYSIA: RAM has reaffirmed its ratings on Sabah Ports' RM80 million (US$26.8 million) Bai Bithaman Ajil Islamic debt securities (BaIDS) (2007/2017) and RM70 million (US$23.4 million) Murabahah underwritten notes issuance facility/Islamic medium-term notes facility (MUNIF/IMTN) (2007/2014) at 'AA3' and 'AA3/P1' respectively. The ratings have a stable outlook.

Consistently strong

MALAYSIA: RAM has reaffirmed the debt ratings of Projek Lintasan Shah Alam's RM330 million (US$110 million) Sukuk Ijarah (2008/2027) and RM415 million (US$138.3 million) Sukuk Murabahah (2008/2037) at 'A1' and 'A3' respectively. The outlook on both ratings is stable.

Leaning on its strengths

MALAYSIA: MARC has affirmed its ratings on Serrisa Sinar's RM200 million (US$66 million) Islamic commercial papers/Islamic medium-term notes (ICP/IMTN) and RM20 million (US$6.6 million) junior IMTN at 'MARC-1ID/AAID' and 'A+ID' respectively. The ratings have a stable outlook.

Thumbs down for KFH

KUWAIT: Fitch has downgraded Kuwait Finance House's viability rating from 'bbb-' to 'bb+' and affirmed its long-term issuer default rating at 'A+'. The outlook on long-term rating is stable.

Positive prospects

QATAR: Fitch has affirmed Ahli Bank's long-term issuer default rating at 'A-' with a stable outlook, and its viability rating at 'bbb-'.

Firm standing

KUWAIT: Fitch has affirmed the long-term foreign currency issuer default rating of Ahli United Bank (Kuwait) at 'A-'. The outlook for the rating is stable.

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According to Graeme Laing, the head of leasing at BLME, the growth in demand for Islamic leasing has been partly due to the current economic climate.

The bank has also reported a 12% increase in its operating income to GBP21.6 million (US$34.3 million) for the first half of 2011.

Profit before tax and impairment charges stood at GBP2 million (US$3.2 million) for the six month period compared to GBP2.2 million (US$3.5 million) in the previous corresponding period.

The bank's performance is attributed to the strong showing of BLME's US dollar income fund, which is supported by the Sukuk credit markets, as well as the improved level of diversification in its businesses.

GLOBAL

New Islamic standards

GLOBAL: AAOIFI may issue Shariah standards for Islamic financial institutions next year after completing research on Shariah and auditing standards and guidelines.

The upcoming publication is expected to comprise 35 Shariah standards.

US$5 billion financing aid

GLOBAL: The IDB will take part in a joint effort by eight Middle Eastern and western governments to provide up to US$38 billion in financing to aid Egypt, Jordan, Morocco and Tunisia in their transition to democracy.

The IDB will finance US$5 billion in projects aimed at supporting economies and creating jobs.

MIDDLE EAST

Return to real estate

UAE: National Bonds Corporation is considering investing in the local real estate sector for the first time in two years, according to Mohammed Qasim Al Ali, its CEO.

The firm's investment team is continuously assessing opportunities in the UAE property market as part of its asset allocation strategy, he said.

Mohammed Qasim added that the firm views Nakheel's recently issued AED4.8 billion (US$1.3 billion) Sukuk as a good investment opportunity due to its high yield-to-maturity and the property developer's future plans.

Banks standing strong

UAE: Obaid Humaid Al Tayer, the minister of state for financial affairs, has confirmed that the UAE's banking system remains resilient against international economic pressures.

He added that the government will continue to be vigilant and is prepared to ensure sustained confidence and liquidity in the emirates' banking system, which has eight fully fledged Islamic banks and 12 Islamic banking windows.

Three companies added

BAHRAIN: The Dow Jones Islamic Market World Index will add Germany-based BASF, UK-based Pearson and US-based PPG Industries to its index.

Following its regular quarterly review, 130 stocks will be added and 103 will be removed from the index, increasing the number of components in the index to 2,618.

As of the 6th September 2011, the index's free-float market capitalization amounted to US$12.8 trillion.

New verification system

UAE: Al Hilal Bank has launched a thumb verification system which will be used to identify customers' identity for teller transactions.

However, the facility is not compulsory and customers can still conduct banking transactions through the conventional procedure.

Public offering for Sukuk

SAUDI ARABIA: Saudi Aramco Total Refining and Petrochemical Company (SATORP) has launched the public offering for its 14-year Sukuk after receiving approval from the Capital Market Authority.

The Sukuk's 16-day offer period began on the 10th September 2011. However, the total size of the offering is yet to be

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determined. Proceeds from the Sukuk will be used to finance the US$12 billion refinery project in Jubail.

The Sukuk will be issued through the Arabian Aramco Total Services Company, a special purpose vehicle formed by SATORP to issue the Sukuk.

Its joint lead managers and joint bookrunners are Deutsche Securities Saudi Arabia, Samba Capital and Saudi Fransi Capital.

KFH-Bahrain in advisory role

BAHRAIN: Kuwait Finance House-Bahrain (KFH-Bahrain) is advising three local Islamic investment banks that are seeking to merge, said Abdulhakeem Alkhayyat, its managing director and CEO.

Abdulhakeem explained that the planned merger will create a new entity with a capital of US$400 million and assets of US$500 million, although he did not reveal the banks involved.

Technology collaboration

LEBANON: Path Solutions has entered into an agreement with telecommunications solutions provider Apliman Technologies.

Under the agreement, Path Solutions' iMAL*2Mobile offering will utilize Apliman's SMS Gateway and USSD Gateway to provide mobile banking channels through SMS and Unstructured Supplementary Services Data (USSD).

The partnership will also enable Path Solutions to offer Apliman's phone banking services including call center services and interactive voice response.

In memoriam

KUWAIT: Ahmad Bazeia Al-Yaseen, one of the country's most well-known Islamic finance figures, passed away in Geneva on the 9th September 2011 at the age of 83.

Ahmad Bazeia was one of the founders and the first chairman of Kuwait Finance House (KFH).

He was also the chairman of The Investment Dar Shariah Supervisory Board since its establishment in 1994 and headed the Shariah supervisory boards of A'ayan Leasing Company and The International Investor.

New consultancy office

EGYPT: Dubai-based Islamic finance consultancy Amanie Advisors has established an office in Cairo. Ibrahim Zahaf will be the CEO of the new office.

He was previously a team member at the group's Dubai office.

Holding back for the year

QATAR: A joint venture between Qatar First Investment Bank (QFIB) and GulfMena Alternative Investments is unlikely to be approved by this year, according to Emad Mansour, the CEO of QFIB.

The two firms are forming a Shariah compliant asset management firm aimed at providing exposure to the Chinese, Indian and Middle Eastern markets.

Emad explained that the firms will seek an official license after they have received approval from their regulators, which is expected within the next four to six weeks.

He added that QFIB is not likely to exit any of its investments as the current economic conditions are unfavorable. The firm said in July that it planned to exit its 14% investment in Al Noor Medical through an initial public offering in 2012.

However, the firm is still expected to close up to two acquisitions before the end of 2011.

Coming up...

Volume 8 Issue 37 – 21st September 2011

Features

Current challenges of Islamic finance: By Murat Yoluker, compliance manager at KBH Kaanuun, UAE.

Syndicated financing in the Islamic world: Where is the market going? By David Roberts, head of Islamic debt origination at Eiger Trading Advisers in London.

How to protect your wealth in these turbulent times — strategic gameplan in the Islamic way: By Shan Saeed, financial economist and commodity expert.

MOVES

VINSON & ELKINS

GLOBAL: Legal firm Vinson & Elkins (V&E) has elected **Mark Kelly** as its chairman and **Scott Wulfe** as its managing partner, both for a two-year term starting the 1st January 2012.

They will succeed Joe Dilg, who will continue to serve as the firm's managing partner until the end of 2011.

Kelly is currently the global business chair, capital markets practice group leader and a member of the management committee at V&E, while Wulfe is the co-head of V&E's corporate department and is also member of the firm's management committee.

TAIB SECURITIES

BAHRAIN: Taib Securities has appointed **Khaldoon Latif** as its general manager.

Khaldoon was previously the head of the international equity sales desk at AKD Securities in Pakistan.

DFSA

UAE: The Dubai Financial Services Authority (DFSA) has appointed **Saeb Eigner** as its new chairman.

DFSA has also extended the term of its current board members for three years. The members are Saeb Eigner, Abdul Wahid Al Ulama, Apurv Bagri, Fadel Abdulbaqi Al Ali, David Currie, David Douglas, Georg Wittich, J Andrew Spindler, Michael Blair, Robert L Clarke, Paul Koster and Robert Owen.

MASHREQBANK

UAE: Mashreqbank has appointed **Julio de Quesada** as the head of its corporate and investment banking group.

De Quesada was previously the head of the institutional banking group at Saudi Arabia's Bank Aljazira.

MALAYSIA DEPOSIT INSURANCE CORPORATION

MALAYSIA: Malaysia Deposit Insurance Corporation has appointed **Alex Foong** as a member of its board of directors.

Foong was previously the CEO of British American Life Insurance, Great Eastern Life Insurance and John Hancock Life Insurance.

Insurans Islam TAIB ratings withdrawn

In August this year, Fitch Ratings withdrew its Insurance Financial Strength Rating (IFS) of 'BBB+' for Insurans Islam TAIB, previously known as Takaful TAIB, due to "insufficient information provided" to the ratings agency. The insurer had initially approached Fitch Ratings in 2008 to be assessed, making it the first Islamic financial institution in Brunei to receive a rating from an international ratings agency.

According to reports from Fitch Ratings, the company's initial rating of 'BBB+' was based on its credit strength, longstanding operational history (since 1997), stable profitability, prudent investment mix, and the implied parental support from its 100% state ownership. Fitch also noted Insurans Islam TAIB's "modest" size in a relatively small domestic market, in comparison with other larger Takaful markets in the region.

The rating also indicated a low expectation of ceased or interrupted payments from the insurer, according to a Fitch statement at the time.

General Takaful, particularly vehicle Takaful, has been extremely successful in Brunei; being the largest non-life insurance segment by value. And although sectors such as Family Takaful are still experiencing relatively slow growth; industry players have expressed confidence in the country's Takaful sector as the country slowly shifts its focus to savings and investments. "It would be crucial for the Takaful industry to tap this opportunity by introducing family Takaful products that have a savings feature attached," revealed an industry player.

However, despite seeing a growth of 5.2% from BND189 million (US$144.2 million) in 2008 to BND198.9 million (US$151.8 million) in 2009 in terms of assets, Brunei's Takaful and life insurance industry took a slight hit in the second quarter of last year, witnessing a 0.02% decline in total assets, according to the ministry of finance. However, motor insurance, which is dominated by Takaful operators, represented 44% of the country's total non-life gross premiums for the second quarter of 2010: Followed by marine, aviation and transit with 12.2%, workmen compensation at 5.9% and fire insurance at 9.5%.

In 2008, the country introduced the Takaful Order to essentially govern the activities of the domestic Takaful industry and provide a legal platform for a level playing field between conventional insurers and Takaful operators. "With the introduction of the Order, insurance companies were required to be better capitalized, well structured and properly governed to remain operational in the Brunei market," a source revealed. However, some believe that the Order could potentially cause further fragmentation between Family and General Takaful businesses in the country, due to the separation of both businesses.

Industry players believe that creating a more competitive market through strategic mergers and acquisitions; such as the 2010 merger between Takaful BIBD and Takaful IBB and the allowance of foreign Takaful operators into the market, could potentially spur the industry and prevent domestic competition from flat-lining.

BankMuscat all set for Oman's budding Islamic banking market

Industry players in Oman have moved quickly to capture the opportunities presented by the authorities' decision to allow Islamic banking in the country, announced in May this year. Already, newly set up Bank Nizwa and Al Izz International Bank have been awarded Islamic banking licenses; Alpen Capital has been given the nod to provide Islamic financing advisory services; and Al Madina Gulf Insurance has been granted approval in principle to convert to a fully fledged Takaful company.

BankMuscat has emerged as one of the latest banks in the country to express interest in participating in the local Islamic banking market. As Oman's leading bank and with the extensive Islamic banking experience of its subsidiaries, the bank appears prepared to hit the ground running once the country's Islamic finance industry takes off.

In a statement accompanying the bank's second quarter (ended the 30th June 2011) financial results, Khalid Mustahail Al Mashani, the chairman of the bank's board, said that in line with the authorities' approval for the set up of Islamic banks and windows: "The bank has in place a comprehensive strategy to cater to the financial needs of people, subject to obtaining final regulatory approval. As the nation's leading financial services provider, BankMuscat is well positioned to roll out Islamic banking products and services."

In August, the bank conducted Islamic banking courses for over 250 of its staff, covering general awareness of the industry and modules on retail and corporate banking, project and trade finance, treasury, Sukuk and Islamic funds.

"Organizing the comprehensive suite of Islamic finance courses reaffirms the bank's commitment to develop the competencies of its human capital and ensure they are provided with unique learning and development opportunities that [will] enable the bank to maintain its leading position in Oman," said Salim Al Kaabi, the assistant general manager of human resources management at BankMuscat.

Although the Omani market was closed to Islamic banking prior to the May announcement, BankMuscat is no stranger to Shariah compliant finance. "BankMuscat currently offers Shariah compliant products in the form of structured financing and has also developed in-house capabilities to offer those products in the near future," noted Gulf Baader Capital Markets in a recent report following an investor meeting with BankMuscat at the Muscat Securities Market.

Additionally, the Omani bank owns 49% of Bahrain-based BMI Bank, a conventional bank which offers Islamic

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retail and corporate banking services. BMI Bank, in turn, also owns 21.33% in Gulf African Bank, the first Islamic bank in Kenya.

> ***"The bank has in place a comprehensive strategy, subject to obtaining final regulatory approval"***

As at the 30th June 2011, BMI Bank's Islamic financing assets amounted to BHD62.41 million (US$165.52 million), representing 18.24% of the bank's financing portfolio and 11% of its total assets.

On top of the Islamic capabilities of its associates, BankMuscat has the advantage of being Oman's largest bank in terms of assets, which amounted to OMR6.28 billion (US$16.31 billion) as at the 30th June this year. As at the 30th November 2010, its market share of Oman's banking industry assets amounted to 38.6%.

Having reported a profit of OMR29.39 million (US$76.33 million) in the second quarter of this year compared to OMR22.55 million (US$58.56 million) in the previous corresponding period, the market also sees bright prospects for BankMuscat. "With the stronger operating performance led by a revival in credit growth, we estimate the financial year ending the 31st December 2011 earnings of BankMuscat to grow by about 1.3% year-on-year to OMR120.18 million," said Gulf Baader in its note.

It added that BankMuscat's provisioning is also projected to decline with the stabilization of assets in the second half of this year, while the bank is also expected to record double digit growth in its financing portfolio and core income this year.

With its stable fundamentals and the ability to leverage the Islamic finance capabilities of its associates, BankMuscat appears well-positioned to make a foray into Oman's budding Shariah compliant financial industry.

Brazil: Courting the Middle East

Brazil, as the ninth largest economy in the world and with expectations of reaching fifth place in the next decade, today represents one of the best markets for foreign investment. With trade between Brazil and the Middle East reaching new heights, the number of foreign investors interested in making capital contributions in Brazil has risen sharply, buoyed by the current macroeconomic climate and new opportunities available.

The massive development programs being implemented across the Middle East, their expanding populace, changes in their agriculture strategy, increasing requirements for industrial materials, agricultural products and technical know-how have led the leading Arab economies to increasingly look around for new partners. Brazil, with abundant natural resources, agricultural commodities and a strong industrial sector, has all the necessary features to meet such demands.

The consolidation of Brazil's new foreign policy agenda has paved the way for closer bilateral relations and economic avenues for both parties, with economic relations proving to be an increasingly prosperous aspect of relations between both. Thus, the Middle East has become an important destination for investment and development of new businesses that offer many opportunities for Brazilian companies. Also, the opportunities available for foreign direct investment in Brazil are vast, in view of the high liquidity of Middle Eastern governments, government-linked companies and private individuals.

At the multilateral level, relations between Brazil and the Middle East have followed a positive trend over the last decade. Brazil became an observer of the Arab League in 2003 and has launched a bid for observer status in the OIC, while Mercosur (the economic and political union of Argentina, Brazil, Paraguay and Uruguay) and the GCC signed an agreement for economic cooperation in 2005. The two blocs are now negotiating a free trade area that will certainly bring many benefits to both trading regions.

Between January and July 2011 exports from Brazil to the countries of the GCC totaled US$7.8 billion, a 31.7% increase on the same period last year. Sugar and meat-related products led the figures, contributing US$2.09 billion and US$1.97 billion respectively. Imports from the Arab nations meanwhile totaled US$5.5 billion and were primarily petroleum-based. Brazil's main export markets amongst the Arab nations are Saudi Arabia, Algeria, Egypt and the UAE.

Brazil also increasingly represents a major food source for the GCC, the world's largest food-importing region, supplying beef and poultry, fruit juices, sugar and sugar cane ethanol. In 2009 Saudi Arabia became the twentieth-largest food importer in the world, and in 2010 was Brazil's ninth-largest market in the food sector.

Michel Alaby, CEO of the Arab-Brazilian Chamber of Commerce, believes that there remains further potential to generate more business between Brazil and Saudi Arabia. Sergio Luiz Canaes, the Brazilian ambassador to Saudi Arabia, also postulates that: "Bilateral relations have never been so close and perspectives have never looked so promising," following a policy of closer relations with the Middle Eastern region.

On a commercial level, trade has increased to unprecedented levels with Saudi Arabia, with a broadening of the list of products exchanged, and the Brazilian ministries have worked together to best seize the opportunities Saudi Arabia's expanding domestic market offers. The agricultural authorities in Brasilia have also become familiar with Saudi Arabia's paradox: A shortage of food supply opposed to cash liquidity to invest overseas in food production as a means to secure access to food imports.

According to Canaes: "Given the desert nature of its territory, the kingdom has very limited food production capacity." Moreover, the world has faced, since the middle of 2008, a noticeable decrease in the supply of basic food commodities due to increasing demand and rising prices. The combination of these two factors has raised the profile of "food security" in the country and led to the adoption of the King Abdullah initiative for agro-investment overseas.

The UAE has also been targeted as a potential hub for Brazilian trade in the Middle East, representing a growing market for Brazilian Halal food exports. According to Mauricio Borges, the business director of the Brazilian trade and investment promotion agency Apex-Brasil: "Brazil needs to discover the potential of trade ties with the UAE," where there is huge growth potential.

With a trade volume of US$1.47 billion in the first half of 2011 alone, trade between Brazil and the UAE has nearly doubled year on year. However, the UAE at present only accounts for 11% of Brazil's trade with the Arab world. According to Borges: "There is a high demand for halal food in the Middle Eastern region," going on to confirm that: "Brazil is one of the largest producers of chicken and beef in the world with the UAE among the top five importers of Brazilian halal meat".

As mature markets continue to struggle to recover from the global economic downturn, Brazil is making headlines as a key emerging market. "For those seeking to generate returns in markets beyond their comfort zone, the country is increasingly core to the asset allocation strategies of international investors," says Alessandro Teixeira, the president of Apex-Brasil.

However, amid easing western demand for the emerging world's goods, growth is slowing in Brazil, where prices are being driven up by food-supply shortages, consumer demand and wage increases. Brazil has already indicated its concern over the slowing growth, with the central bank cutting interest rates this year despite inflation accelerating to 7.2%.

In June the IMF cut its forecast for Brazil's economic growth by around half a percentage point for 2011 and 2012 (to 4.1% and 3.6% respectively), and now predicts that Brazil will grow less than most other emerging economies.

As the world economic climate continues to deteriorate, bank loans for much needed project funding are becoming increasingly scarce. Many projects are turning directly to the capital market, raising the opportunities for possible Sukuk issuances to finance infrastructure and construction projects. Angela Martins, the director of Bank ABC Brazil, a subsidiary of the Arab Banking Corporation, has said that in a scenario of a lack of international credit, ABC Brazil should seek greater volumes of funds on the Islamic financial markets and should fight to convince Islamic banks to participate in operations that are not headed by the institution itself, but by third parties; utilizing their knowledge of the market and allowing Islamic investors to tap into the Brazilian market until the country's regulatory system adapts itself to the Islamic model.

Mutual funds in Iran: A positive outcome

IRAN

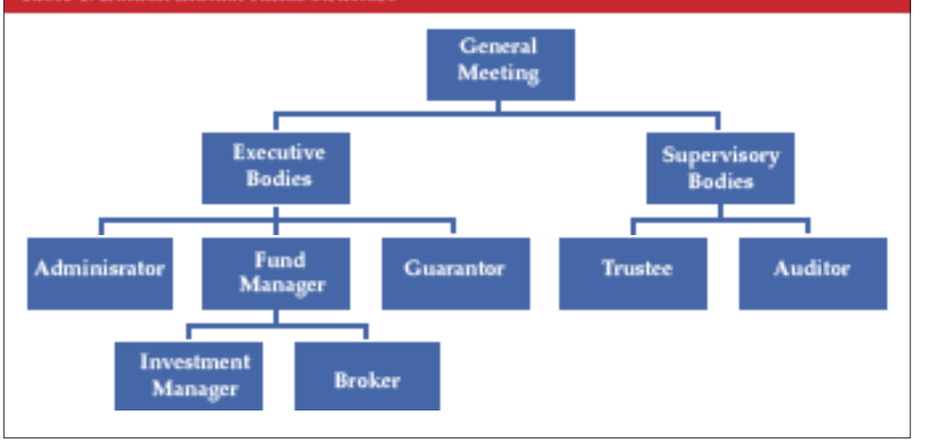
By Majid Pireh, IFN Correspondent

Mutual funds in Iran, acting as financial intermediaries, have the potential to convert the investments made by non-professional investors from a direct state to an indirect state and will in the wake of such conversion bring about a wide range of benefits and privileges both for capital markets and investors, which include:

1) Promoting indirect investment by individuals in the capital market;
2) Paving the way for quantitative and qualitative growth and sustainable development in the capital market.

Mutual funds in Iran are among those financial institutions which have been established in recent years and are therefore not mentioned in most principal rules and regulations relating to national economic activities: including the commercial code, companies registration law, civil code and taxation law. They were first presented in the Securities Market Act of Iran, ratified by parliament (Islamic Consultative Assembly) in 2005.

Table 1: Iranian mutual funds structure



According to a report issued by the Securities and Exchange High Council, if investors invest in capital market products indirectly through mutual funds, they will behave more rationally and react less to emotional behaviors.

The report states: "Now many commercial banks are launching mutual funds and participating in the market directly or indirectly. By this, a huge amount of money is directed towards the capital market."

Furthermore, the report stated that around 38,000 real investors and 600 legal entities are investing in mutual fund units in Iran. This shows that mutual funds are becoming attractive institutions for those who have previously not entered the market, perhaps due to risk or lack of information.

The Iranian mutual funds structure is illusrated in Table 1.

The funds' units fall under two grades of preferred and ordinary units, as follows:

- Preferred units are in general purchased by the fund's founder or founders before the start of the initial subscription period. These units are non-redeemable but transferable to other parties.

- Common units are issued during the initial subscription period or after formation of the fund. Such units are redeemable but non-transferable to other parties. The maximum number of common units outstanding is stated in the prospectus.

It is noteworthy that since trading non-Shariah compatible instruments in Iran's capital market is not permitted, mutual funds can invest only in Shariah compatible instruments. For this, in Iran, the mutual funds structure does not yet include any separate Shariah board.

Majid Pireh is an Islamic finance expert at the Securities and Exchange Organization, Iran and he can be contacted at m.pireh@seo.ir.

Creating crises is one way to rule Yemen

YEMEN

By Moneer Saif, IFN Correspondant

Political tension has heightened as the opposition parties announce a revolutionary 'escalation' to get out of this crisis, which in turn is likely to create an outbreak of armed clashes in the capital, Sanaa. Heavy deployment of forces, republican guards and central security can be seen in all main entrances of the streets in Sanaa.

These forces are deployed in Seventy Square, which is located near the presidential palace in south Sanaa. People are aware that military intervention is the only solution to end this suffering.

Banks versus markets

The World Bank has warned of a food crisis facing Yemen due to the current high food prices on a global level. The World Bank attributes this to the fact that Yemen depends on imports for 82% of its needs. Yemen does not have reserves of wheat or grain large enough to feed its people even for a month. Therefore, life is becoming difficult again after Ramadan. Rising oil prices, fuel shortages and the risk of electricity blackouts are looming once more. The market has not improved at all.

When fuel prices rise, all commodities are negatively affected. In addition, the disruption of transportation is one of the reasons attributing to an increase in the price of commodities, as the insurance rates rise. This high inflation will surely lead to uncertainty in the economy.

The banks are also affected by the ongoing crisis. Many banking services and investments are paralyzed. Islamic financing in some banks has declined by up to 80% while other banks' investments have increased by up to 29% as they focus on financing big businesses and imports of food commodities.

Furthermore, customers are constantly worried when dealing with banks, especially those banks that are managed by leading anti-government figures.

Transportation has also become a problem. Many banks are located outside Sanaa and military forces are prohibiting the bank staff from entering the capital. This is likely to affect the liquidity operations of the banks, and over the last few months has driven investors to deposit their money abroad rather than in Yemen.

The Yemeni Chamber of Commerce has indicated that domestic trade in Yemen is in a serious recession, especially in the clothing sector, apart from a brief respite during the festive event of Eid. The IMF also predicted earlier this year that the inflation rate in Yemen will be the highest since the 1990s and is likely to get worse.

Dr Moneer Hasan Saif is the head of the Islamic division at CAC Bank and he can be contacted at saifmoneer@gmail.com.

Hope for the Islamic money market: Opening doors through the government Islamic bond

BANGLADESH

By Md Shamsuzzaman, IFN Correspondant

Islamic banking in Bangladesh started its journey in 1983 with Islami Bank Bangladesh (IBBL), the first Islamic bank in Southeast Asia. At present Bangladesh has eight fully fledged Islamic banks including one foreign bank, and two banks which converted from the conventional system. Seventeen conventional banks also offer Shariah-based services through Islamic banking branches or windows.

About 20% of the US$10.7 billion banking business of the country is currently handled by Islamic banks, whose market share is increasing rapidly. All Islamic banks ran their business under existing banking guidelines until 2009, when the central bank issued a separate guideline for Islamic banks. Prior to this, Islamic banks could not invest their surplus funds in the securities market due to Shariah constraints. Islamic banks have also maintained their statutory liquidity requirement (SLR) only in currency form.

In 2004, the central bank introduced the Bangladesh government Islamic investment bond to facilitate Islamic banks' investment of surplus funds and to maintain the funds under the SLR for efficient liquidity management.

However, due to different limitations in the formation of the bond, Islamic banks could not invest their surplus funds in a cost effective way.

A separate Islamic money market can only mitigate the demand of the fund management of Islamic banks. As a result of continuous persuasion and tremendous pressure from different parties, the central bank is going to introduce a separate Islamic money market very soon.

In line with the formation of an Islamic money market and to ease the liquidity management of Islamic banks and popularize the Bangladesh government Islamic investment bond, the central bank is amending the rules of the bond, including selling the bond through an open tender to be issued by the government for specific purposes against definite sectors and assets. Under the framework, a long-term bond can be issued under the Mudarabah and Murabahah mode.

On the other hand, idle funds of Islamic banks can contribute to the government's development projects. In the amending proposals, Islamic banks will be facilitated to buy and sell the bond among them, as in a repo market, which will help Islamic banks manage their surplus funds efficiently.

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

Deutsche Bank's Islamic business floundering?

As a foreign bank in Malaysia, Deutsche Bank is in the coveted position of owning an Islamic window license and an international Islamic banking license in one of the world's largest Islamic financial markets.

However, just over a year since the launch of Deutsche Bank International Islamic Bank (DBIIB), the banking group's Islamic operations appear to be floundering, with few deals completed.

With the departure of key personnel, a lack of Islamic finance expertise and limited dealflow, how much value has the Islamic business been able to add to the German banking group's bottom line and is it an opportunity still worthwhile pursuing?

Lack of direction

Launched in March last year, DBIIB's license allows it to provide foreign currency-denominated Islamic commercial and investment banking services to institutional clients, while the business of Deutsche Bank's Islamic window, operated via Deutsche Bank (Malaysia), is centered around deposit-taking.

With Jamzidi Khalid, the CEO and head of Islamic structuring for Asia ex-Japan, leaving for BNP along with other colleagues also departing the bank, DBIIB has been left somewhat under manned.

It is also understood that Deutsche Bank's Islamic structuring desk in Dubai suffered a similar fate, with a number of the team there having left for UBS.

According to an industry observer, the slow take-off of Deutsche Bank's Islamic business is mainly due to a lack of awareness on Islamic finance from the bank's top brass in Germany.

"There were no clear objectives set out to be carried out by the Islamic team," said the source, who added that the departure of Deutsche Bank's Islamic bankers has left the bank with little or no Islamic finance expertise to work with.

The lack of direction of the Islamic banking operations has resulted in the slow growth of the business, with total assets amounting to just RM45.03 million (US$14.76 million) as at the 30th June 2011 from RM54.5 million (US$17.86 million) at the end of December last year. In comparison, Deutsche Bank (Malaysia)'s total assets stood at RM13.69 billion (US$18.72 billion) in the second quarter of this year.

Even more unfortunate for the bank is that it has no financing assets on its books, with its asset base mainly made up of cash and short-term funds.

Limited value-add

In terms of profitability, Deutsche Bank's Islamic banking operations have added little value to the German banking giant's overall bottom line.

In the second quarter ended the 30th June 2011, income from Deutsche Bank (Malaysia)'s Islamic banking operations amounted to RM308,000 (US$100,920), compared to the Deutsche Bank group's net income of EUR1.2 billion (US$1.64 billion),

Additionally, although Deutsche Bank's Islamic operations are supposed to be centered in Malaysia, its Malaysian business has failed to capture any notable deals, while the work of other Deutsche Bank subsidiaries has propelled the banking group to the position of eighth-top manager of Sukuk in the last 12 months up to September, according to Dealogic data.

However, the data also shows that Deutsche Bank has only managed two Sukuk deals during the period, amounting to US$427 million, and lead arranged one Islamic loan worth US$150 million.

Deutsche Bank's performance in Dealogic's league tables also trails the likes of its competitors, Citigroup and Standard Chartered, which have managed six transactions worth US$1.31 billion and seven deals amounting to US$1.2 billion, respectively.

Of the global Sukuk managed by Deutsche Bank in the past 12 months, one comprised a US$1.25 billion Euro market public issue by the Islamic Development Bank (IDB), which it managed with Standard Chartered, HSBC, CIMB Group, Citigroup and BNP Paribas, while the other consisted of Saudi International Petrochemical's (Sipchem) US$480 million issuance, which Deutsche Bank managed with Riyad Bank.

A further source suggested that Deutsche Bank's capabilities in the IDB and Sipchem deals were likely provided by its conventional side, as co-managed deals do not require much Islamic finance expertise from the individual banks.

With the strength of its conventional business allowing the bank to undertake sizeable Islamic deals and with little headway made at DBIIB in Malaysia, is it only a matter of time before its Islamic arm is reconsidered?

> ***"There is a lack of awareness and clear objectives on the Islamic business from top management"***

Headed for the red?

With DBIIB completing few deals since its inception, it is speculated that the bank runs the risk of being red-carded by BNM.

"Clearly, there is an awareness that if DBIIB does not step up its business, the central bank could retract its license," said a source.

Furthermore, its core capital ratio stood at 1,216.92% in the second quarter of this year. Against a capital base of RM26.11 million (US$8.56 million), this would suggest that the bank has not deployed its capital efficiently.

With Deutsche Bank's Islamic banking operations lacking Islamic finance expertise and the division losing out on deals to its conventional counterpart, can the bank continue to justify operating a separate Shariah compliant division or is the business in danger of running aground?

Islamic versus conventional banks in Kuwait: A competitiveness analysis

NASER AL ZIYADAT provides a comparative study between the Islamic and conventional banks in Kuwait.

Ten years ago, no one expected the banking sector in Kuwait to be divided almost equally between Islamic banks and their conventional counterparts. Even Kuwait Finance House (KFH), the second largest Islamic bank in the world, had been working under a private licence not equivalent to bank status until several years ago.

As of the end of 2010, four out of the nine banks in Kuwait are Islamic. Ahli united bank has fully converted into an Islamic bank, preceded by Kuwait International Bank.

This is in addition to the incorporation of Boubyan Bank as an Islamic bank. Moreover, the market is closely watching the operations of Warba Bank, whose conversion would make the banking sector in Kuwait equally divided (5:5) between conventional and Islamic banks.

The status quo of the market reflects competition not only between Islamic banks and their conventional counterparts, but also between banks of the same ideology as well.

This bodes well for customers who will be able to choose their banks according to their preferences. In fact, customers have started to witness the enhancement of good customer service in all banks.

With the rise in competition, it appears that Islamic banks outperformed (by a significant margin) conventional banks in terms of the growth of deposits in 2009 and 2010.

> *"Kuwaiti conventional banks outperformed Islamic banks in 2010"*

Notably, total deposits at conventional banks decreased by KWD286.3 million (US$1.05 billion) and KWD735.8 million (US$2.69 billion) to KWD24.1billion (US$87.98 billion) and KWD23.4 billion (US$85.83 billion) respectively in 2009 and 2010, with negative annual growth rates of -1% and -3%.

Conversely, total deposits of Islamic banks amounted to KWD10.5 billion (US$38.33 billion) in 2009 and KWD11.9 billion (US$43.44 billion) in 2010, with annual growth rates of 8% and 12% respectively, marking an increase of KWD740.1 million (US$2.7 billion) between 2008 and 2009 and KWD1.3 billion (US$4.75 billion) between 2009 and 2010.

It should be noted that the figures of ahli united bank, which completed its conversion into Islamic operations in 2010, is not included in this analysis to avoid bias in the results.

Remarkably, these figures are a precedent in the Kuwaiti banking sector and might be extended to include the GCC banking sector. Results from the database of Al Mashora and Al Raya for Islamic Finance Consulting (M&R) suggest that the Saudi banking sector could potentially see the same phenomenon.

Challenges for Islamic banks

However the question is: why have the deposits of the Kuwaiti Islamic banks increased at the expense of the deposits of conventional banks, especially while Islamic banks have concurrently been suffering from an increase in provisions

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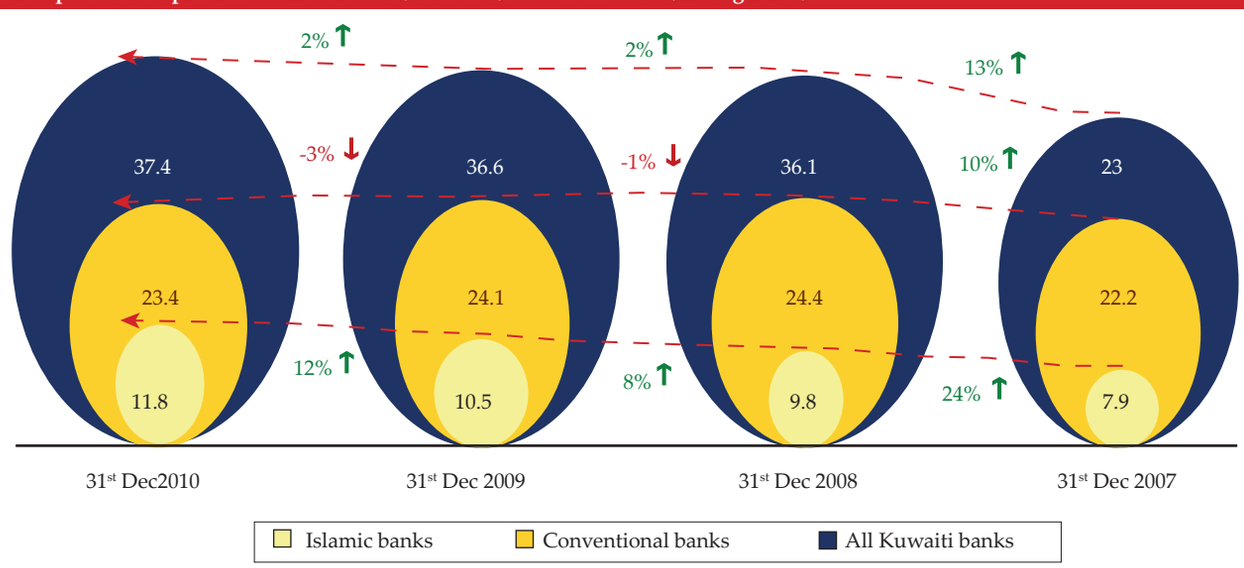
Development of deposits of Kuwait banks (2007-2010) In KWD billion (% for growth)



Source: M& R Kuwait 2011. Excluding Al Ahli United Bank from the Islamic group

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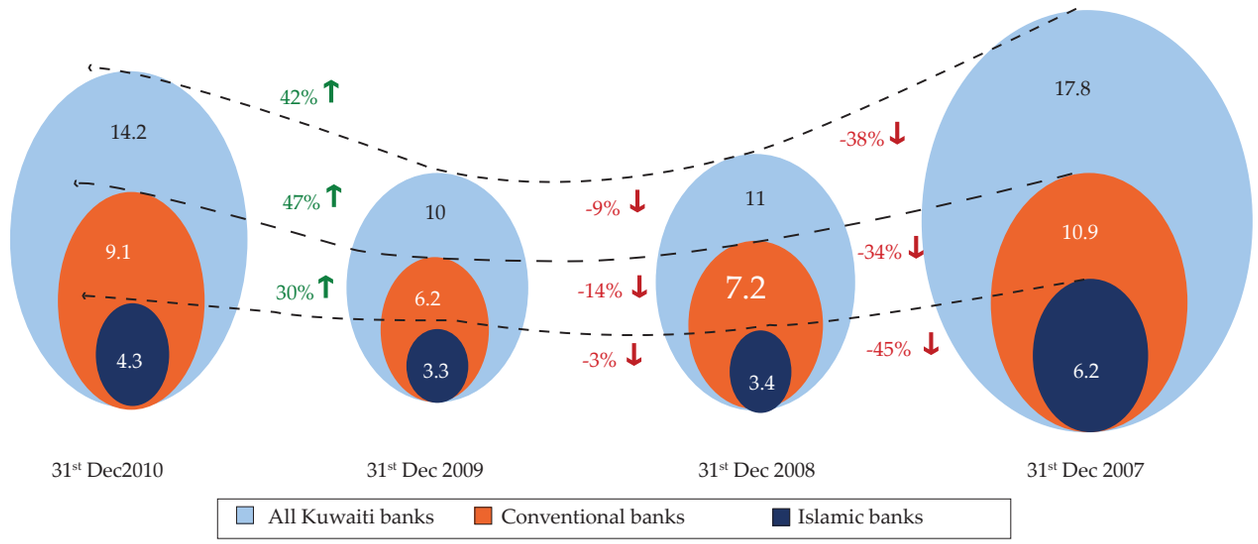
Development of the market value of Kuwait banks (2007-2010) In KWD billion (% for growth)



Source: M& R Kuwait 2011. Excluding Al Ahli United Bank from the Islamic group

for problem financings and devaluated investments?

Analyzed logically, some individual events may have affected the map of the deposits in the Kuwaiti banking sector. Nonetheless, the database of M&R shows that all Kuwaiti conventional banks (without exception) saw their deposits decrease in 2010. Meanwhile, three out of four Islamic banks recorded growth in their deposits in the same year.

This fact reduces the probability of the occurrence of an individual event (i.e. the deposits of one Islamic bank increasing and affecting the total deposits of the banking sector) although KFH alone, the oldest Islamic player in the market, recorded an increase in its total deposits amounting to KWD1.1 billion (US$4.02 billion) in 2010, with an annual growth rate of 13%.

However, the case of KFH cannot be considered as an individual event. There is other analytical evidence that reduces the probability of an individual event.

The total increase of KWD1.3 billion (US$4.7 billion) in the total deposits of Islamic banks is logically justified by the sum of the increase of money supply (M3) and the absolute decrease of the total deposits of conventional banks in 2010.

According to data from the Central Bank of Kuwait, the increase of M3 between December 2009 and December 2010 exceeded KWD595 million (US$2.17 billion). This number, when added to the decrease in conventional banks' deposits in 2010 [KWD735.8 million (US$2.69 billion)] should be equivalent to the total increase in the deposits of Islamic banks in the same year, of KWD1.3 billion.

Eventually, if the growth in deposits is considered an indicator of competitiveness, the analytical findings indicate that Kuwaiti Islamic banks outperform their conventional counterparts in attracting deposits, or in other words, in attracting customers.

Nonetheless, an analysis of competitiveness from a financial viewpoint can include more indicators other than deposits.

This may take the analysis to another arena, related to the efficiency in managing the deposits as a factor of attraction for the deposit holders.

Positively speaking, it is assumed that depositors might be attracted by the profitability results of a bank because profitability is reflected in the rate of return on the deposits.

The analysis of the data indicates that this assumption in the case of Kuwaiti banks is paradoxical. Kuwaiti conventional banks outperformed Islamic banks in 2010. Conventional banks achieved a 10% return on equity (ROE) and a 1.5% return on assets (ROA) while the ROE for Islamic bank was 6% and their ROA was only 0.8%.

> ***"Islamic banks allocated more money to be distributed to deposit holders than their conventional counterparts"***

To be more precise, it is assumed that the financial results of a given year may influence the depositors' and investors' decisions in the next year (i.e. financial results leading customers and investors' decisions are lagged for the next year).

Accordingly, it can be assumed that the profitability indicators of 2009 might have influenced the depositors' decisions in 2010.

Conventional banks versus Islamic

Nonetheless, Kuwaiti conventional

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banks also outperformed their Islamic counterparts in terms of profitability indicators in 2009.

Conventional banks had an ROE of 8% and an ROA of 1% in that year; while Islamic banks had 3% ROE and 0.4% ROA.

Furthermore, the market value of conventional banks grew at an annual growth rate of 47% in 2010 (based on the closing price as at the 31st December in both years) while the market value of Islamic banks grew at 30%. In fact, a growth of 47% for the market value of conventional banks, of more than KWD6 billion (US$21.92 billion), was much greater than the 30% growth of KWD3 billion (US$10.96 billion) for Islamic banks.

These findings may indicate that conventional banks were more attractive to market investors than Islamic banks.

In other words, investors in the capital market penalized Islamic banks for their profitability performance, especially when taking into consideration the fact that the market price of a share of the portfolio of all Kuwaiti Islamic banks was US$6.32 in the last day of 2007, compared to US$5.85 for the portfolio of Kuwaiti conventional banks.

Apparently, the profitability analysis is on the side of conventional banks rather than Islamic banks. However, there is still one indicator that may provide justification for the success of Islamic banks in attracting deposits. It is the profit distributed to the deposit holders.

By the nature of the Shariah rules governing their operations, Islamic banks are more flexible in distributing profits to their deposit holders in comparison to conventional banks, who have their interests locked from day one of receiving the deposit.

It is difficult to extrapolate distributions to deposit holders directly from the financial statements, especially when consolidated statements are used to analyze groups of players in one industry.

However, results can be obtained using calculations on total income. Islamic banks reported a total income of KWD849 million (US$3.1 billion) and KWD826.5 million (US$3.02 billion) in 2009 and 2010 respectively, while conventional banks recorded KWD1.1 billion (US$4.01 billion) and KWD1.1 billion for the same years.

If the provisions are deducted from the total income of both groups of banks the results will be KWD532 million (US$1.94 billion) and KWD598 million (US$2.19 billion) for Islamic banks in 2009 and 2010, in comparison to KWD560 million (US$2.04 billion) and KWD752 million (US$2.74 billion) for conventional banks, respectively.

> ***"It is expected that Islamic banks in Kuwait will outperform conventional banks with regards to deposit attractions by the end of 2011"***

Given the fact that Islamic banks announced net income of KWD59 million (US$215.6 million) and KWD123 million (US$449.46 million) while conventional banks announced KWD283 million (US$1.03 billion) and KWD413 million (US$1.51 billion) in 2009 and 2010 respectively, this means that the residual from total income minus provisions minus net income was distributed between operational cost and distributions to deposit holders.

In fact, the residual was KWD473 million (US$1.72 billion) and KWD474 million (US$1.73 billion) for Islamic banks in comparison with KWD277 million (US$1.01 billion) and KWD333 million (US$1.22 billion) for conventional banks in 2009 and 2010, respectively.

Taking into consideration that the size of Islamic banks as a group is less than the size of conventional banks, the operational cost of conventional banks is also greater than for Islamic banks.

Consequently, Islamic banks allocated more money to be distributed to deposit holders than their conventional counterparts.

If these facts are accepted, it is expected that Islamic banks in Kuwait will outperform conventional banks with regards to deposit attractions by the end of 2011, taking into consideration that the deposit distributions of Islamic banks in 2010 will lead the depositors' decisions in 2011.

The future

Meanwhile, it is expected that the market value of conventional banks will outperform their Islamic counterparts if the latter continue to suffer from provisions and increase the distribution for deposit holders at the expense of net profit available for shareholders.

Clearly, the above analysis is conducted from a positive viewpoint (based on numerical facts). Nonetheless, there are some normative opinions that can be added.

For example, the Kuwaiti society is Muslim and shows significant respect for Islamic traditions. This may have influenced the decisions of deposit holders in choosing Islamic banks.

In fact, the increasing number of Islamic banks in Kuwait may support this opinion because the newly established or converted Islamic banks reflect a demand in the market.

Additionally, and from another view, the market value of the Kuwaiti conventional banks may be a reflection of a significant number of market investors who seek wealth maximization rather than following Islamic values.

Conclusion

But in all cases, it appears that the rationale of the values of Islamic banking is still underdeveloped in this innately Muslim society.

These opinions are just normative, however, and need to be further investigated.

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Project and infrastructure finance in Russia: Opportunities for Islamic finance

ROUSTAM VAKHITOV and SERIK ISKAKOV discuss whether it is possible to structure infrastructure projects in Russia in a simultaneously Shariah compliant and tax efficient manner?

Good infrastructure is vital for Russia's development due to the vastness of its territories. This includes roads, railways and related machinery, industrial plants, airports and aircrafts, oil and gas pipelines power lines as well as power stations and other projects.

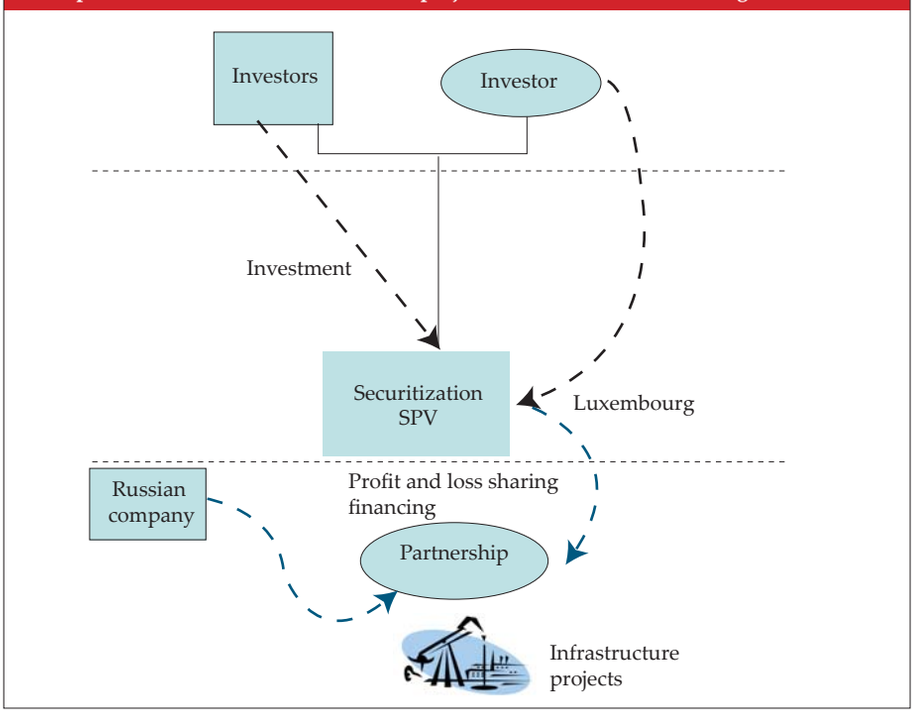
Most of these infrastructure projects in Russia were implemented 50 years ago and now the lifetime of these assets is approaching the end of their exploitable economic life. Therefore the replacement or renovation of a significant quantity of infrastructure assets in the future will be an important part of the Russian economic landscape.

> ***"In principle it is possible to structure Shariah compliant project financing investments in Russia even without the use of special tax regimes in Luxembourg"***

Considering the importance of this matter, the majority party United Russia has launched a special project called 'Infrastructure in Russia', which will cover transport infrastructure, Euro-Asian transport corridors, energy streams and regional infrastructure.

The funding of these projects, due to their size of investment, is not always feasible and efficient through the existing funds of current owners. The state often prefers or is occasionally compelled to contribute to such investments due to the strategic importance of the assets, and its interest in issues such as maintaining security and environmental safety. At the same time, 100% state financing is not often efficient or feasible.

Example 1: Investments in infrastructure projects via a SPV in Luxembourg



Private-public partnership is an increasingly popular way to fund infrastructure projects in Russia. However at present there are more projects than available funds. Project owners would definitely therefore be interested in attracting the resources of Shariah compliant investments.

Tax and legal structuring

Is it possible to structure such projects simultaneously in a Shariah compliant and tax efficient manner?

Typically, infrastructure projects are financed via a special purpose vehicle (SPV) and/or partnership, where the parties are project managers, possibly a state agency or a state-owned bank, as well as independent financial institutions.

The basic form of such a financing for a Shariah compliant venture could be a partnership/Musharakah. Subsequently the asset could be sold to a future owner, leased or securitized. Under Russian laws, a partnership does not have a legal personality. It is transparent for tax purposes.

Establishing a partnership in Russia requires at least two partners, who may decide to operate the partnership jointly or to grant authority to operate the partnership to one of the partners. It must be noted that irrespective of the civil law provisions, under the Russian tax law, if the partnership has Russian partners, tax accounting and tax reporting must be done by the Russian partner. The major tax consequences are as follows:

VAT implications

In practice, the Russian partner responsible for tax accounting would run a separate record of VAT-able transactions carried out within the

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activities of the partnership, and act as a front person for all the partners in the transactions. Therefore under regular circumstances foreign partners should not be affected by the VAT implications.

Corporate income tax implications

The general corporate income tax rate in Russia is 20%. Under domestic rules, Russia taxes the income of corporate residents, non-residents operating in Russia through a permanent establishment, and certain income from Russian sources including interest, profit distributions, dividends, lease payments and royalties.

Profit distributions from a partnership to a non-resident partner are taxable at source. Distribution to a non-resident partner in a partnership is taxable in Russia under domestic law at the rate of 20%.

Recording of revenues and expenses in a partnership is generally done under the regular provisions of the tax codes, which are in general lines gross taxable revenues less deductible expenses. Non-deductible expenses include excessive interest, excessive marketing expenses, non-business expenses and similar items.

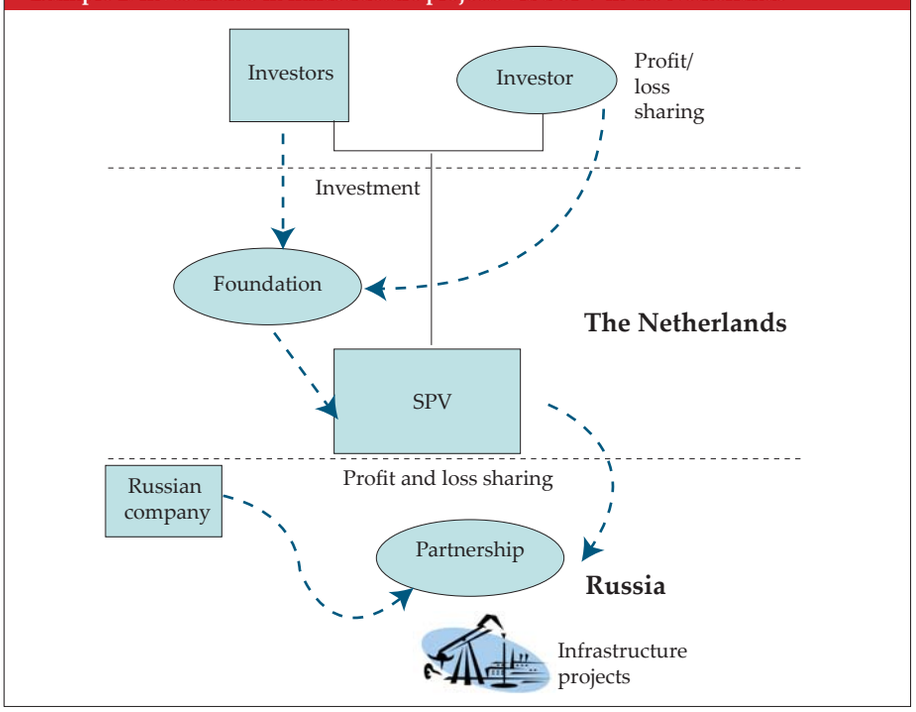
Upon recording of revenues and expenses this data is reported by the partner responsible for tax accounting to partners. A significant number of double tax treaties with Russia exempt such a payment from withholding tax in Russia.

Under Russian tax treaties with the Netherlands, Luxembourg and a number of other countries, distributions from partnerships are exempt from taxation at source in Russia due to the fact that these distributions would not qualify as dividends or other taxable in the country of source income.

Treatment of income in intermediate jurisdictions

As mentioned above, the treatment of distributions in a partnership should be tax efficient regarding the distribution made to a SPV in the Netherlands or Luxembourg. However, if such a SPV simply receives payments without having deductions from a tax base, the relevant taxation would be 25% in the Netherlands and in many cases 28.6% in Luxembourg.

Example 2: Investments in infrastructure projects via a SPV in the Netherlands



The question is whether this could be structured more efficiently. The use of certain specifically developed instruments could allow this.

> ***"Islamic finance has the potential to play a significant role in this process, as existing Russian legislations already allow tax efficient and sound structuring of such investments"***

As indicated in Example 1, the use of a securitization company in Luxembourg could deliver a more efficient result. Within the securitization company, taxable base could be reduced by payments to investors which the vehicle committed to undertake.

It must be noted that under this regime, distributions to corporate non-resident investors are exempt from Luxembourg tax at source; therefore distributions can also be made to investors located in countries without tax treaties with Luxembourg or Russia.

If such distributions are significant, then the tax base at the level of SPV may be fairly low, thus allowing tho repatriatriation of profits in a tax efficient way. Surely, there must be a business purpose behind such a structuring, as purely tax savings arrangements may be disregarded by the Russian courts and authorities.

In principle it is possible to structure Shariah compliant project financing investments in Russia even without the use of special tax regimes in Luxembourg. For example, in case of the Netherlands the investment structure may look slightly different, but remains tax efficient.

Unlike the Luxembourg solution, the intermediate company could be a company operating under the general tax regime. The new element would be a foundation, which is also a legal entity,

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although without standard shareholders. Its role in the structure would be the collection of funds from numerous investors and the granting of the financing to the SPV in the Netherlands.

The relevant revenues from the Russian partnership would be distributed to the Dutch SPV, free of the Russian withholding tax due to the provisions of the Russia/the Netherlands tax treaty.

The tax base at the level of the Netherlands would be reduced due to payments to the foundation, which would further transfer payments to investors abroad.

Such payments would be exempt from tax in the Netherlands and from the withholding tax under domestic law, hence investors may benefit from this arrangement irrespective of where they are located.

Conclusion

The Russian economy needs significant investment in order to complete the needed infrastructure renovations, reconstructions and new development projects. There is support for such projects from the government and major political powers.

> ***"The Russian economy needs significant investment in order to complete the needed infrastructure renovations, reconstructions and new development projects"***

Considering the involvement of the government and the length and size of the projects, this could be an interesting opportunity for strategic investors.

Islamic finance has the potential to play a significant role in this process, as existing Russian legislations already allow tax efficient and sound structuring of such investments; if necessary via SPVs in countries with stable economic, investment, tax and legal environments such as the Netherlands and Luxembourg.

In this article we have considered only the most simplistic solutions. It should be noted that there are no significant obstacles for the issuance of Sukuk in Russia either.

There is a significant precedent for the structuring of conventional projects along similar lines, so no visible obstacles for Islamic infrastructure and project financing exist at present in Russia.

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Good news for the Indonesian Islamic T-Bill

U SAEFUDIN NOER highlights why the first Islamic T-Bill has received an encouraging response from the financial market.

On the 4th August 2011, the government of Indonesia issued its first Shariah-compliant Islamic treasury bill (T-Bill) for the amount of IDR570 billion (US$66.82 million). The issuance was based on the Sovereign Sukuk Act No. 19 2008. During its auction on the 2nd August 2011, it was decided that the Islamic T-Bill would have a six-month maturity period ending on the 3rd February 2012.

The investment instrument has an average yield of 3.8% with Ijarah sale and leaseback as its underlying scheme. The Indonesian Islamic T-Bill is defined as a rupiah currency-based short-term Sukuk with a 12-month period, repaid by time of maturity as its nominal value.

> ***"The Islamic T-Bill could become an effective instrument for Islamic banks to better manage their liquidity"***

For Indonesia, the first Islamic T-Bill issuance is good news and has brought about positive responses from the market. During its auction, the market appetite to invest funds in the short-term instrument was high.

According to the directorate general of debt management of the Indonesian ministry of finance (DGDM-MOF), the Islamic T-Bill auction was oversubscribed by more than 14 times. The fund placement offering reached IDR8.26 trillion (US$965.74 million) with its lowest yield bidding at 3.75% and it highest yield bidding at 8%.

Based on further DGDM-MOF data from the 4th August 2011, the government had a total sovereign bond of IDR1,139.95 trillion (US$113.28 trillion), consisting of 77% tradable sovereign bonds at IDR873.38 trillion (US$102.11 billion) and 23% non-tradable sovereign bonds at IDR266.57 trillion (US$31.17 billion).

The sovereign Sukuk contributed IDR63.67 trillion (US$7.44 billion), or 6%, of the total sovereign bond, while the conventional sovereign bonds contributed IDR1,076.29 trillion (US$125.84 billion) or 94%.

The sovereign Sukuk consisted of 67% tradable sovereign Sukuk of IDR42.88 trillion (US$5.01 billion) and 33% non-tradable sovereign Sukuk of IDR20.78 trillion (US$2.43 billion). The tradable sovereign Sukuk consisted of a fixed coupon Sukuk of IDR21.38 trillion (US$2.5 billion), retail Sukuk of IDR20.93 trillion (US$2.45 billion) and Islamic T-Bills of IDR570 billion (US$66.64 million). The only non-tradable sovereign Sukuk was the Indonesian hajj fund sovereign Sukuk.

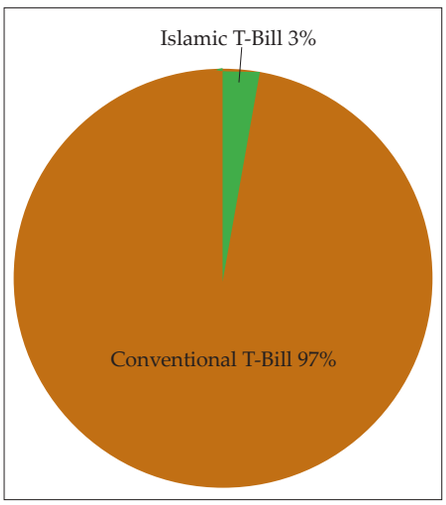
Compared to the overall Indonesian market, the Islamic T-Bill amounted to 0.1% of the total sovereign bonds. It also contributed 0.9% of total sovereign Sukuk and 1.3% of total tradable sovereign Sukuk. Despite its small size, the Islamic T-Bill is expected to grow significantly due to the positive market response.

The first Islamic T-Bill issuance is significant for the Indonesian government for several reasons. One of the most fundamental is that the Islamic T-Bill represents a market investment fund alternative instrument to support the country's budget.

It is also welcomed as an instrument to diversify the country's budget financing capabilities. The government now has a wider range of suitable and favorable instruments from which to raise funds, which should help to support better budget management.

The first Islamic T-Bill issuance could also become an investment fund placement instrument, offering investors the opportunity of risk-assured Shariah compliant returns.

In addition, the Islamic T-Bill has the potential to become a benchmark for



corporations and financial institutions issuing their own short-term corporate Sukuk.

Islamic banking liquidity instruments

The first Islamic T-Bill issuance is also significant in terms of supporting the growth of the Islamic banking business in Indonesia. The Islamic T-Bill could become an effective instrument for Islamic banks to better manage their liquidity.

This is because Islamic banks now have the option of placing some of their third party funds into the Islamic T-Bill on a temporary basis, while they wait for the Islamic financing disbursements for customers to grow. However, this also brings the potential risk of an income decrease, due to a temporary reduction in the growth of financing compared to an increase in funding growth.

Nevertheless, from the Islamic banking liquidity perspective the Islamic T-Bill issuance has undoubtedly diversified the landscape of Islamic fund placement instruments. Islamic banks in Indonesia now have a range of market liquidity instruments including both the Islamic Certificate of Bank Indonesia and the Islamic T-Bill. This means better liquidity management options for Islamic banks.

The first Islamic T-Bill issuance also brings another benefit to Islamic banks in

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Indonesia as it offers a more competitive yield.

As previously mentioned, the current Islamic T-Bill average yield is 3.8% for six months or 7.6% per annum, while the Islamic Certificate of Bank Indonesia's return per annum is 6.78% (based on the Islamic Certificate of Bank Indonesia auction results on the 10th August 2011).

According to Indonesian Islamic banking statistics issued by Bank Indonesia, Islamic banking fund placement in the Islamic Certificate of Bank Indonesia in April 2011 reached IDR4.15 trillion (US$485.21 million), an increase of 37% from IDR3.03 trillion (US$354.26 million) as per April 2010.

Year-to-date Islamic banking fund placement in the monetary authority instrument declined by 23% from IDR5.41 trillion (US$632.53 million) as per December 2010. The Islamic Certificate of Bank Indonesia fund also contributed 34% of total Islamic banking fund placement at Bank Indonesia as per April 2011, which was IDR12.33 trillion (US$1.44 billion).

It also contributed 3% of total conventional and Islamic banking fund placement in the Certificate of Bank Indonesia, which was IDR133.57 trillion (US$15.62 billion).

> ***"Islamic banks allocated more money to be distributed to deposit holders than their conventional counterparts"***

Increased participation from Islamic banking industry

During the first Islamic T-Bill issuance process, 12 banks participated in the auction as primary dealers including 11 conventional banks and one fully fledged Islamic bank.

In order for Islamic T-Bills to support Islamic banking liquidity management, government support is urgently needed to implement a policy to encourage greater participation from fully fledged Islamic banks and Islamic banking units of commercial banks in time for the next issuance. Moreover, the government needs to increase education and socialization of the Islamic T-bill among Islamic banking players.

The Islamic T-Bill is essentially a new Islamic short-term sovereign Sukuk and therefore the more knowledge of the instrument there is within the industry, the more Islamic banks and Islamic banking units are likely to actively participate in using the T-Bill as a liquidity management instrument. Based on Islamic banking statistics from Bank Indonesia, there are currently 34 Islamic banking players in Indonesia, consisting of 11 fully fledged Islamic banks and 23 Islamic banking units.

Year-on-year, their assets have increased by 43% from IDR70.15 trillion (US$8.2 billion) in April 2010 to IDR100.57 trillion (US$11.76 billion) in April 2011. Year-to-date, Indonesian Islamic banking assets have also increased by 3%: from IDR97.52 trillion (US$11.4 billion) in December 2010.

In addition, Islamic banking financing and third party deposits have also shown significant growth. The Islamic banking financing sector increased by 47% from IDR51.65 trillion (US$6.04 billion) in April 2010 to IDR75.73 trillion (US$8.85 billion) in April 2011, while year-to-date financing increased 11% from IDR68.18 trillion (US$8.05 billion) in December 2010.

Islamic banking third party deposits also increased by 47%, from IDR54.04 trillion (US$6.32 billion) in April 2010 to IDR79.57 trillion (US$9.3 billion) in May 2011, while year-to-date, third party deposits increased 5% from IDR76.04 trillion (US$8.89 billion) in December 2010.

The article is the writer's personal opinion. It does not necessarily represent any institution.

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Brazil: Justified potential in real estate

The recent proactive approach by the Brazilian government to engage with the Middle East should pave the way for some form of financial integration in the future.YAHYA ABDULLA discusses.

As the largest economy in South America and a top three exporter of halal meat, with an abundant supply of natural resources and strong growth forecasts, Brazil shares many potential synergies with Middle Eastern countries.

The Brazilian economy was one of the first to recover from the global financial crisis and continued to expand rapidly in 2010. GDP grew by an estimated 7.5% (with some states including Espiritu Santo growing by more than 12%) over the year on the back of stimulus measures, strong internal demand, export recovery, and improved credit availability.

Salaries and employment levels have continued to rise, translating into strong consumer confidence and a growing middle class.

Despite the limited Muslim population in Brazil, the recent proactive approach by the Brazilian government to engage with the Middle East (including various trade pacts which have recently been or are currently being negotiated) should pave the way for some form of financial integration in the future.

A GDP of about US$1.98 trillion ranks Brazil within the top 10 global economies (in terms of size): more than five times larger than the economies of Saudi Arabia and Malaysia. Combining the size of the economy with a population of about 190 million, it is a country with considerable potential.

This potential has started to translate into actual investment, as has been indicated by property market investment volumes, which almost quadrupled between 2009 and 2010; from EUR1.25 billion (US$1.76 billion) to EUR4.58 billion (US$6.44 billion).

It is worth noting that, as in other BRIC nations, a contractionary monetary policy has been implemented to counter the threat of over-heating, and Brazil's interest rate is therefore among the highest in the world, with a reference rate of 12% per year.

However, the long-term outlook suggests a reduction in interest rates with the long-term reference rate expected to fall to somewhere between 7% and 8%.

Brazil: Facts	
Population	190.7 million
Top cities	
Sao Paulo	
Metropolitan area	19.6 million
Belo Horizonte	
Metropolitan area	11.6 million
Porto Alegre	
Metropolitan Area	3.9 million
2010 estimate	
GDP	US$1.98 trillion
GDP per capita	US$11,250
GDP growth	7.5%
CPI inflation (average)	5.9%
10-year bonds (year end)	5%
Unemployment (average)	5.7%
Politics	
Dilma Rousseff of the Workers Party won the October 2010 presidential run-off election and took office on the 1st January 2011.	

Property market	
2009 Investment volume	EUR1.25 billion (US$1.76 billion)
2010 Investment volume	EUR4.58 billion (US$6.45 billion)
Change from 2009	266.6%
Interest rate (December 10)	10.67%
Currency (December 10)	US$1=BRL 1.66 EUR1=BRL 2.23
Rent measurement	R$/sq.m//mth

Source: Cushman&Wakefield

Trading costs	
Total transaction cost average 6.25% — 7%	
Transfer tax	2%
Notary	0.25% — 0.5%
Legal	1% — 1.5%
Agency	3%
Others	n/a

Source: Cushman&Wakefield

This may be viewed as an opportunity for Islamic financial institutions (IFIs) seeking to provide financing in an already expensive interest rate environment. Real estate investment returns are considerably higher than the traditional IFI foreign stepping stone of the UK, and perhaps more comparable to markets in the GCC and Asia.

Given the shifting dynamic of global economics, it would be wise for IFIs to position themselves to take advantage of the Brazilian opportunity.

As a result of strong investor demand and rising asset values associated with the anticipated reduction in long-term interest rates, yields have fallen sharply (see Figure 1) and currently stand at record lows of 8.5-11%, still with annual inflation adjustments and are expected to remain stable in 2011. However, there are still considerable opportunities across all sectors.

Office market

The Brazilian office market (potential) is characterized by:

- Limited large-scale property ownership and professional real estate platforms (though this is changing);
- Significant (but unintentional) owner-occupied real estate due to a historic lack of third party funding which has forced corporations to own properties (headquarters, warehouses, etc);
- Insufficient asset quality (in most cases) to meet corporate requirements and growth needs.

The office market has recently gained depth, with local and international investors being the main agents in the value added and speculative space, joined by pension funds, financial institutions and local capital markets for the core opportunities.

There is considerable under-supply of high quality, modern stock and occupier

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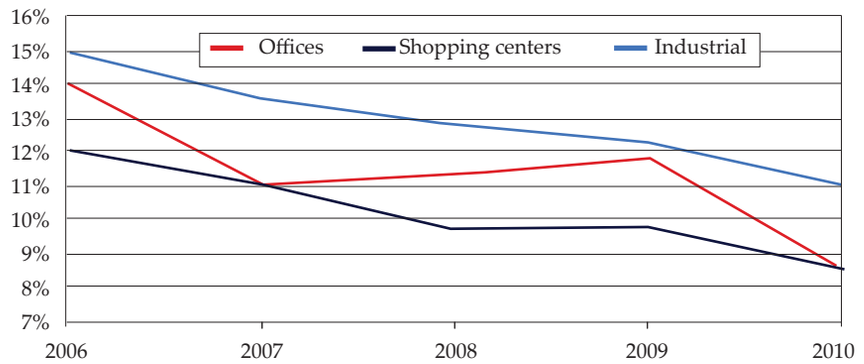
Figure 1: Headline prime yields



Source: Cushman &Wakefiled

demand remains strong. Rents are rising although expected to peak in the near future, with an increase of high-quality office space expected in 2011-2013 following the completion of a number of class A developments.

Key attractions

- High returns
- Growing investment interest across residential, hospitality and commercial property
- Strong economic growth and emerging middle class
- Possibility of development funding up to 80%

Key drawbacks

- High cost of assets (particularly offices)
- Uncertainty about the strategies of the new presidential administration
- Exchange rates issues (local currency overhauled)
- High interest rates

Industrial market

The industrial market is basic and outdated. Assets have low technical specifications and are designed for a single user (usually the ow ner), and generally do not meet the requirements of tenants and/or investors.

A developing economy coupled with a growing middle class/consumer market is causing substantial changes in the industrial real estate segment.

Major opportunities exist for speculative developments (due to a lack of quality products) and ongoing improvements in infrastructure are likely to create new investment opportunities in the industrial and logistics sectors nationwide.

Retail segment

Brazil has the world's 11th largest shopping mall market based on the number of malls in operation translating to 5 m^2 per 100 people. In comparison to the US (187 m^2 per 100 people), it is clear that the supply of Brazil's shopping center space is below equilibrium. However, it is interesting to note that the rental rates of some Brazilian malls are within the top five for the Americas, comparable to Rodeo Drive in Los Angeles.

There are not many examples of IFIs capitalizing on the Brazilian real estate market. Some IFIs were considering the market prior to the financial crisis and based on recent discussions have only recently dusted off their plans for Brazil.

The most high profile Middle Eastern transaction in the Brazilian real estate space was the acquisition of the Ventura Towers by the Abu Dhabi Investment Authority (ADIA) in 2008.

Value addition through the development phase (it was acquired during the construction phase), market yield compression and favorable currency movements will probably result in extremely positive returns for ADIA.

Given the current state of the global economy, it is probably wise for IFIs to start diversifying a proportion of their currency exposures into emerging markets such as Brazil.

Increased efforts

There will need to be an increased lobbying effort with Brazilian authorities in order to increase awareness of the Islamic financial market and its associated benefits – which could be a protracted affair.

The easiest way for IFIs to create market visibility would be to start building an investment track record. Those institutions which establish platforms to take advantage of the BRIC nations growth will be the future success stories.

Without an intrinsic religious demand for Islamic products, as is the case in Asia or Africa, the key for IFIs interested in tapping Brazilian potential will be to market themselves effectively as an economically justifiable alternative to local finance providers.

The first step would be to collaborate with local players in transactions which would allow IFIs to build a track record and develop regional expertise.

> ***"A GDP of about US$1.98 trillion ranks Brazil within the top 10 global economies (in terms of size)"***

Conclusion

In the medium-term, the run-up to the football World Cup in 2013 and the Olympic Games in 2016 looks set to create further opportunities in the real estate market, particularly in the hospitality and tourism sectors.

With such high profile international events over the next five years, the potential for Brazilian real estate is indeed justified.

Yahya Abdulla is a senior surveyor of EMEA Capital Markets at Cushman & Wakefield. He can be contacted at Yahya.Abdulla@eur.cushwake.com.

Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 36

In fixed income funds we trust

Cover Story

Last month the research division of investment company Kuwait Financial Center, better known as Markaz, released a report on the current climate of the asset management industry in the GCC. It highlights that assets under management derived from 325 funds in the region – both conventional and Islamic – stood at US$28.9 million as at the 31st March 2011.

Markaz also notes that while conventional funds still dominate the asset management industry in the GCC (176 funds as opposed to 149 Islamic funds), assets under management (AUM) of these Islamic funds constitute 61% or US$17.6 billion of the total funds landscape.

The figures differ from those of research firm Cerulli Associates in its third quarter Asia Pacific report released last week, which place the number of Islamic funds in five GCC countries (Saudi Arabia, Kuwait Bahrain, UAE and Qatar) at 247 with total AUM of US$21.36 billion.

However, both reports agree on the increasing popularity of fixed income funds in the region. Cerulli states that in 2010, Islamic fixed income funds constituted 41.2% of the market, trailing only slightly behind equity funds which held 42.1% of total asset classes. Cerulli believes that GCC investors (both men and women) have over the years developed a strong preference for investing in this asset class. It adds that even during the bull market of 2007, 29% of investments were placed in fixed income funds.

Islamic Funds by Investment Objective in the Middle East, 2007–March 2011

Instruments Traded	2007	2008	2009	2010	March 2011
Balanced	1.0%	1.1%	1.0%	0.9%	1.0%
Cash	15.2%	19.6%	18.5%	14.7%	16.1%
Equities	53.8%	46.2%	43.0%	42.1%	46.5%
Fixed income	29.2%	32.3%	36.4%	41.2%	35.0%
Real estate	0.8%	0.8%	1.1%	1.1%	1.3%

Sources: Eurekahedge, Cerulli Associates

According to the Markaz report, fixed income and money market funds provided better returns than equity funds in the GCC in the first quarter of 2011. Islamic fixed income funds were the top performers in the GCC (+1.4%) and Saudi Arabia (+0.2%).

It suggests that the poor performance of these equity funds, with the majority posting negative returns, could be attributed to the plunge in the stock markets across the GCC region during the first quarter of 2011.

The investment company also named Al Mal Capital's Mena Income Fund as the best-performing fixed income fund, posting a return of 2.06% while generating alpha (based on Markaz's benchmark not that of the asset management company) of 1.2%.

Analysts say Sukuk, particularly investment grade, are currently in demand from investors, particularly from pension funds and insurance companies, which are seeking safe haven assets. The bulk of issuances have been mainly focused in Malaysia, which is regarded as a leading Sukuk market. The unrest in several countries in the Middle East caused a slowdown of issuances in the first quarter of 2011.

However, the market has begun to pick up in the region with issuances mainly in the UAE and Saudi Arabia. Data provided by Dealogic reveals that during the first half of 2011, five Sukuk were issued out of the Middle East worth US$2.4 billion. These issuances (from the UAE and Saudi Arabia) formed 18.6% of total global Sukuk issuances. HSBC Amanah is also optimistic about the Sukuk market this year, forecasting more issuances out of Europe, Middle East and Asia.

As long as the global markets remain volatile, investors – retail or institutional - will continue to diversify their investments into safer assets and are thus likely to place a higher proportion into fixed income funds. With a rosy picture painted for the Sukuk market, asset managers handling Islamic fixed income portfolios will have a good variety of issuances to pick up and generate alpha for their funds.

In this issue...

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Heading in a new direction

Pierre Oberlé examines the implications and opportunities of the Alternative Investment Fund Manager Directive for managers of Shariah compliant funds in the European Union.

Several European countries have passed specific Islamic finance legislation. This is not the case at the level of the European Union, where there is no legislation relating specifically to Islamic finance. Nevertheless, most EU legislation targeting the financial sector has an indirect impact on Islamic finance business. This is especially true for the new Alternative Investment Fund Manager Directive (AIFM).

The European regulatory framework: a key driver for the growth of Shariah-compliant funds

Some European jurisdictions, such as Luxembourg, are rapidly becoming important domiciles for Shariah compliant funds. There are two main drivers behind this recent interest.

The first is that several financial groups involved in the Islamic funds business in different parts of the world have reached a certain size and want to expand internationally. Having a UCITS product can help them extend their investor base and penetrate new markets. The second driver is client demand for transparency in the aftermath of the global financial crisis.

UCITS and the distribution passport

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

One key aspect of UCITS is the "European passport," which makes it easy for a fund domiciled in one EU country to be sold to investors in all the others. Over the years, UCITS has become a strong global brand, and these funds are now widely accepted in non-European jurisdictions.

Luxembourg has emerged as the leading cross-border distribution center with 75% of all cross-border UCITS registrations belonging to Luxembourg funds. Today Luxembourg-domiciled investment structures are distributed in more than 65 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East. Ease of international distribution is a key driver in the development of Shariah compliant funds in Europe.

> *"A consequence of the financial crisis is that regulators and policy makers all over the world have taken action to enforce greater transparency, better client information and ultimately better protection"*

AIFMD: Europe's answer to the financial crisis

The second driver is the demand for transparency and increased investor protection which resulted from the financial crisis. The trend in the financial sector is now towards high quality regulation.

This is what an increasing number of investors expect and what Europe has to offer. Indeed, a trend for relocating offshore funds onshore has been observed over the past three years and well established European domiciles such as Luxembourg have been among the clear beneficiaries of such fund migrations.

A consequence of the financial crisis is that regulators and policy makers all over the world have taken action to enforce greater transparency, better client information and ultimately better protection.

The G20 has decided that there should be no unregulated managers or products in the marketplace: the United States answered with the Dodd-Frank Act and Europe's answer was a new Directive called the Alternative Investment Fund Managers Directive, better known under its acronym: AIFMD.

The Directive was finally approved by the European Parliament on the 11th November 2010 and was published in the Official Journal of the European Union on the 1st July 2011 after 26 months of intense debate and negotiations between the European Commission, the European Council of Ministers and the European Parliament. Member States now have a period of two years to transpose it into national law.

The new regulatory regime will therefore only enter into force on the 22nd July 2013. In the meantime, ESMA (the European Securities and Markets Association) is working on technical advice to the European Commission on possible implementing measures.

ESMA published a 438-page consultation paper that sets out the proposed rules for the organization of firms under the AIFM regime. It also includes depository, leverage and transparency requirements, which will support the functioning of the Directive when it will be enforced.

This article will not go into the details of the Directive nor of the 438 page consultation paper but rather focus on the point directly impacting the managers of Shariah compliant funds, i.e. the distribution aspect.

The scope for EU and non-EU managers

The scope of the Directive is pretty large. It is applicable to all managers of non-

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UCITS collective investment schemes "which raise capital from a number of investors with a view to investing it in accordance with a defined investment strategy for the benefit of those investors".

Managers of non-UCITS Shariah compliant funds will therefore also be covered by the Directive. Indeed, this Directive is designed to regulate all managers involved in activities that are not compliant with UCITS rules, such as real estate, private equity and hedge funds. A large number of Shariah compliant funds invest in real estate or private equity so this Directive will have a direct impact on them.

The Directive will be applicable to the AIFM established in the EU but also outside the EU if they manage or distribute funds to professional investors within the European Union. Non-European Shariah compliant fund managers targeting or looking to target a European client base should therefore be aware of the potential impact the AIFMD will have on their strategy.

The definition of a "professional investor" as used in the AIFM Directive is the definition of a "professional client" from the MiFID Directive. Investment firms, credit institutions, insurance companies, UCITS, pension funds, central banks and national governments all fit into this category. Retail clients may also be treated as professionals on request if certain criteria are met.

A new distribution passport

Currently, alternative investment funds are regulated at national level and managers willing to market their funds in the European Union have to face up to 27 different authorization regimes. The good news is that the AIFMD will put an end to this by setting up a single authorization regime.

Once authorized, the EU managers will be entitled to market the EU AIF that they manage to professional investors, using the simplified regulator-to-regulator notification mechanism established under UCITS Directive.

Just like UCITS, these funds will therefore also be granted a European passport and this passport will also, at a later stage, be available to non-European managers and funds that comply with comparable regulation. The passport will initially (from the 22nd July 2013) be accessible only to EU alternative investment fund managers managing and distributing EU-domiciled AIF within the European Union.

After a period of four years after the entry into force of the Directive, i.e. not before 2015, and dependent upon an additional decision by EU Institutions (the European Securities and Markets Association-ESMA and the EU Commission), non-EU funds and managers may also benefit from the passport if they comply with all the provisions of the Directive.

> ***"UCITS is, and AIFMD will be, a truly European project with a common goal: quality products made in Europe"***

During this period of four years and up to 2018, existing national private placement rules (with a few additional AIFMD requirements) will continue to apply to funds being marketed in the EU without a passport.

Between 2015 and 2018, non-EU funds and managers will have the possibility either of benefitting from the passport, if they comply with the requirements of the Directive, or distributing without the passport, on the basis of national private placement rules.

In 2018, three years after the granting of the passport to non-EU AIF and non-EU AIFM, the Commission will, on the basis of an opinion of ESMA, decide on the termination of national private placement regimes.

The question of the distribution passport and the treatment of non-EU AIF and non-EU managers generated a significant number of discussions. Policymakers had to balance two objectives: ensuring a level playing between local and foreign managers and avoiding the creation of trade barriers.

At the beginning of the discussions on the Directive, some expressed the concern that the industry might end up in a "Fortress Europe" and "Prison Europe" situation, whereby non-EU based alternative managers would not be able to market their funds in the EU, and EU residents would not be able to buy offshore funds.

The issue has been solved by creating a dual system that allows the existing private placement rules to continue until at least 2018, while phasing in an option for non-EU funds and managers to benefit from the passport if they meet the requirements of the AIFM Directive.

It should also be noted that the Directive does not apply to what is called "reverse solicitation" (i.e. passive marketing). Professional investors can therefore still invest in funds at their own initiative, no matter where the fund or the manager is located. In addition, the AIFM Directive also offers the possibility of delegating certain activities, including portfolio management or the risk management function, to a non-EU entity.

UCITS is, and AIFMD will be, a truly European project with a common goal: quality products made in Europe. Despite the initial concerns, AIFMD will not create a "Fortress Europe": non-European Shariah compliant fund managers will still be able to target European investors.

The new framework that is being put in place via the Directive and its implementing measures, and in particular the distribution passport, will certainly reinforce the attractiveness of European domiciles for Shariah compliant funds and also accelerate the re-domiciliation of funds from offshore centers to European domiciles such as Luxembourg.

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

BNP Paribas Pesona Amanah

The fund's objective is to provide an attractive level of capital growth over the long-term. It invests a minimum of 80% and a maximum of 100% in Islamic Shariah compliant equity instruments sold through an IPO and/or traded on both onshore and offshore exchanges, and between 0% and a maximum of 20% in other Islamic Shariah compliant investment instruments, including money markets.

What led to this fund being launched?

To fulfil the equity investment needs of Indonesian investors in accordance with Shariah principles.

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

The fund's performance is mainly driven by: the ideal mix of a disciplined investment process and the conviction of an experienced local fund manager; a two-tier investment process combining top-down industry calls and bottom-up stock selection conducted by the local investment team; strong, on-the-ground presence of a local Indonesian team that has vast knowledge of the Indonesian economy and maintains close relationships with the management of Indonesian firms, communicating with their stakeholders in the local language as it conducts in-depth fundamental research.

Who are your investors (profile)?

Domestic retail and institutional investors with an aggressive risk profile and long-term investment horizon.

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

Like any other equity funds, this fund carries risks related to the equity market, where the value of investments and the income they generate may go down as well as up, and it is possible that investors will not recover their initial outlay.

How often do you review this fund?

The fund's performance is reviewed on a monthly basis, while the investment strategy, i.e. asset allocation, sector weighting, stock selection, portfolio construction and risk, is monitored daily.

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

We favour domestic-related sectors such as consumer, automotive and property. These sectors are still benefiting from the surge in investments, bank lending and the growth of middle-income consumers. As inflation peaked in January, we do not expect any further interest rate hikes this year. Indonesian businesses and consumers should benefit further from low borrowing costs: the 10-year Indonesian government bond yield has dipped below 7%, only slightly higher than the key policy rate of 6.75%. Economic growth should be resilient as domestic consumption makes up two-thirds of the growth rate. The continuing momentum in domestic growth is already clear, with car sales reaching new record highs and FX reserves rising further, to US$123 billion in July.

What is the market outlook for this fund?

Indonesia's economy has doubled in size over the past five years and is forecast by the IMF to grow more than 6% annually over the next three years, underpinned by a healthier democracy and government efforts to attract foreign investment and expand local infrastructure and the country has a robust domestic-driven economy supported by an early credit growth cycle and fast-growing consumption. Its young demographic profile suggests it will soon have the world's third-fastest growing workforce.

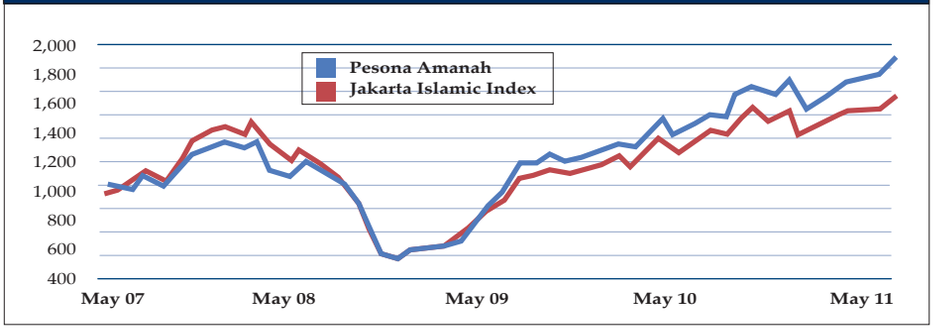
FACT SHEET

Fund manager	Mohammad Anggun Indallah, BNP Paribas Investment Partners.
Trustee	HSBC, Jakarta
Shariah advisors	Dr H Yunahar Ilyas, DSN – MUI (National Board of Shariah – Indonesian Council of Ulama) Ir H Adiwarman A Karim, Karim Business Consulting
Benchmark (Index)	Jakarta Islamic Index (JII)
Domicile	Indonesia, registered with the Capital Market and Financial Institution Supervisory Agency (Bapepam & LK)
Inception date	7th May 2007
Fund characteristics *(as at 29th July 2011)	**Fund type** Open-ended – Equity (Shariah) **Fund size** IDR256.5 billion (US$29.9 million) **NAV per share** IDR1,893.82 (22.1 US cents) **Minimum / Subsequent investment** N/A **Management fee** Max 2% p.a. **Dividend policy** At fund manager's discretion.

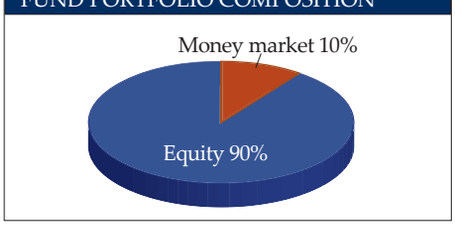
***PERFORMANCE SUMMARY**

Total returns	BNP Paribas Pesona Amanah	Jakarta Islamic Index
1 Year	25.83%	17.34%
3 Years	20.26%	13.51%
Since Inception	16.3%	12.24%

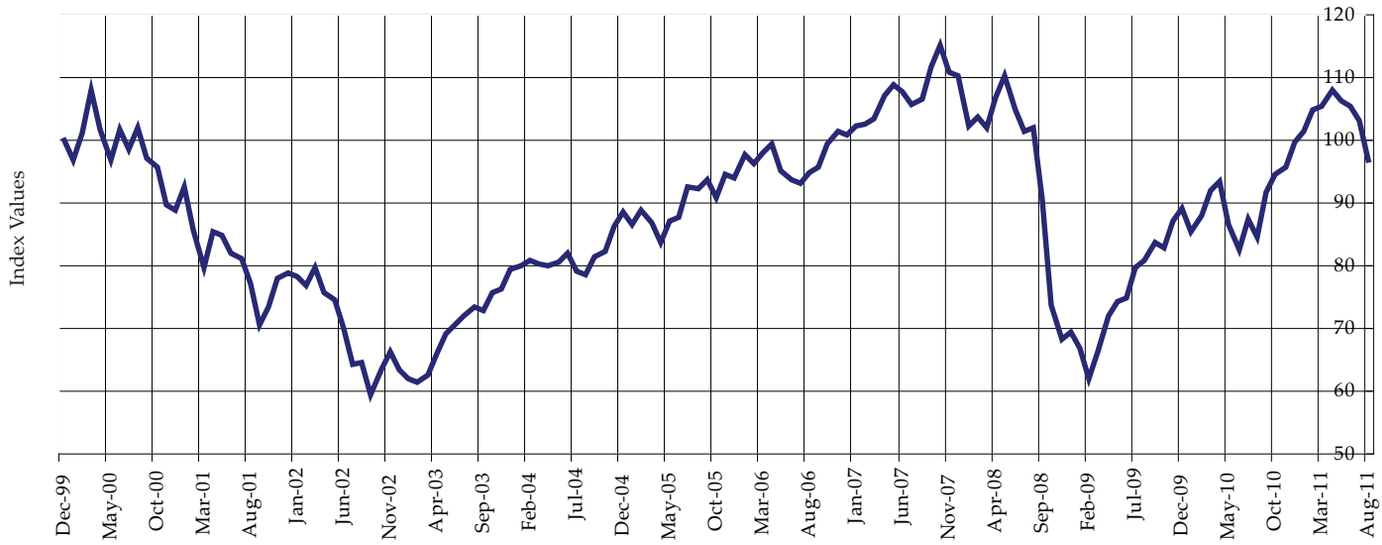
***COMPARISON PERFORMANCE: FUND PERFORMANCE VS BENCHMARK**



***FUND PORTFOLIO COMPOSITION**



Eurekahedge North America Islamic Fund Index



Top 10 Annualized returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Silver	ETFS Metal Securities	27.11	Jersey
2	ETFS Physical Gold	ETFS Metal Securities	24.04	Jersey
3	ETFS Physical PM Basket	ETFS Metal Securities	21.35	Jersey
4	Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	20.60	Guernsey
5	ETFS Physical Palladium	ETFS Metal Securities	17.15	Jersey
6	Public Islamic Select Enterprises	Public Mutual	15.83	Malaysia
7	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	15.24	Malaysia
8	AlAhli Saudi Trading Equity	The National Commercial Bank	14.44	Saudi Arabia
9	Mega Dana Syariah	Mega Capital Indonesia	14.40	Indonesia
10	IPB Syariah	Kresna Graha Sekurindo Tbk	13.77	Indonesia
	***Eurekahedge Islamic Fund Index**		**2.19**	

* *Based on 69.19% of funds which have reported August 2011 returns as at 13th August 2011*

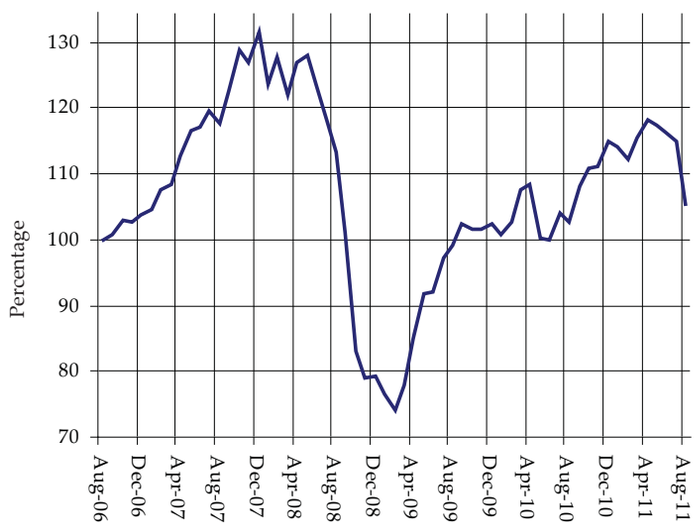
Top 10 Annualized standard deviation for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	RHB Islamic Income Plus 1	RHB Investment Management	0.10	Malaysia
2	Public Islamic Money Market	Public Mutual	0.15	Malaysia
3	PB Islamic Cash Management	Public Mutual	0.16	Malaysia
4	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.18	Malaysia
5	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.24	Saudi Arabia
6	PB Islamic Cash Plus	Public Mutual	0.27	Malaysia
7	CIMB Islamic Deposit	CIMB-Principal Asset Management	0.28	Malaysia
8	RHB Cash Management - Institutional	RHB Investment Management	0.28	Malaysia
9	AlAhli Euro Murabahat	The National Commercial Bank	0.31	Saudi Arabia
10	Watani USD Money Market	National Bank of Kuwait	0.36	Cayman Islands
	*** Eurekahedge Islamic Fund Index**		**9.04**	

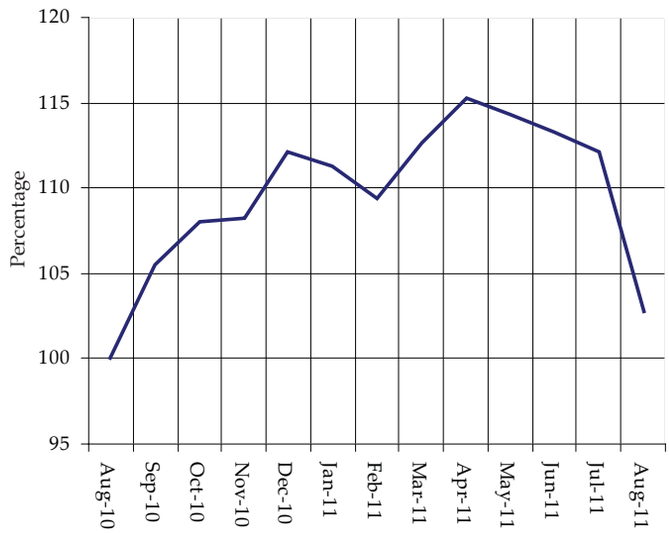
* *Taking into account funds that have at least 12 months of returns as at 31st August 2011*

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 Equity Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Returns for Islamic equity funds by 3 Month

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Solidarity Global Growth	Solidarity Funds Company	-1.53	Bahrain
2	Prudential Dana Dinamik (PRUdana dinamik)	Prudential Fund Management	-2.01	Malaysia
3	CIMB Principal Islamic Equity Growth Syariah	CIMB-GK Securities	-2.65	Indonesia
4	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	-3.03	Pakistan
5	InterPac Dana Safi	Inter-Pacific Asset Management	-3.33	Malaysia
6	IPB Syariah	Kresna Graha Sekurindo	-3.96	Indonesia
7	NBAD UAE Islamic (Al Nae'em)	National Bank of Abu Dhabi	-4.15	UAE
8	Islamic Absolute Return Certificate on HFR Emirates	ABN AMRO Bank NV	-4.22	Not disclosed
9	Public Islamic Dividend	Public Mutual	-4.35	Malaysia
10	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	-4.48	Pakistan
	*** Eurekahedge Islamic Money Market Fund Index**		**-10.15**	

** Based on 67.22% of funds which have reported August 2011 returns as at 13th September-2011*

Top 10 Returns for Islamic globally investing funds by 3 Month

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	ETFS Physical Gold	ETFS Metal Securities	17.91	Jersey
2	ETFS Physical PM Basket	ETFS Metal Securities	10.20	Jersey
3	ETFS Physical Silver	ETFS Metal Securities	6.85	Jersey
4	DWS Noor Precious Metals Securities Fund - Class A	DWS Noor Islamic Funds	5.49	Ireland
5	Solidarity International Real Estate Fund	Solidarity Funds Company	2.66	Bahrain
6	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	1.43	Malaysia
7	ETFS Physical Platinum	ETFS Metal Securities	0.81	Jersey
8	AmPrecious Metals	AmInvestment Management	0.66	Malaysia
9	ETFS Physical Palladium	ETFS Metal Securities	0.65	Jersey
10	Jadwa Global Sukuk	Jadwa Investment	0.46	Saudi Arabia
	*** Eurekahedge Islamic Money Market Fund Index**		**-5.30**	

** Based on 80.00% of funds which have reported August 2011 returns as at 13th September 2011*

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

Brought to you by Takaful IKHLAS

14th September 2011

Pricing is everything

Cover story

With competition in the GCC Takaful sector only likely to increase further as more players enter the market, there appears to be a growing trend of operators utilizing unsustainable business models with aggressive under-pricing to stimulate rapid and immediate growth. With many Takaful and insurance business models left unchanged following the crisis, their current outlooks do not reflect the economic factors present after the financial downturn.

Shareholders need to balance their expectations with market realities, with reduced fees, new policyholder growth will increase in the short-term but may result in a capital flight when companies realise that this model is not going to be profitable in the long-term.

The insurance industry in the GCC is highly competitive with predatory pricing in the region negatively impacting profitability and growth. Product pricing should be competitive, yet sustainable. In a crowded industry such as insurance where competition is fierce, Takaful needs to match, if not surpass, conventional insurance in terms of product benefits and pricing. It is important for both the shareholder and the participant to receive optimum returns on their investment.

The GCC markets are currently in the process of gaining critical volume and are evolving from a protected industry to a globally competitive sector. As economies in the region mature, the Takaful sector is expected to expand rapidly. However, insurers in the region need to gear up significantly to capitalize on the opportunity and remain competitive in the evolving landscape.

Although the insurance and Takaful sector in the GCC is growing, it is still highly fragmented. There are more than 180 insurance players operating in the region. As a result, insurance companies seem unable to generate scale, retain a sufficient volume of premiums, build meaningful risk pools and underwriting capacity, and innovate. There is severe price competition in the region as many players are attracting the same set of demographics. It is for this reason that historically, GCC Takaful insurers have focused on developing commercial lines of insurance, due to the higher premiums and profits.

Hussain Mohammad Al Meeza, the managing director and CEO of Aman (Dubai Islamic Insurance and re-insurance), has said that new premium generation has been very slow in all sectors and that this issue is no longer limited to one or two sectors, adding that clients are increasingly being attracted by the 'new' rates that are available in the market.

With premiums touching historical lows, Hussein is unable to offer a rational answer as to why the rates are so low, stating that at their current levels "there is no way to cover even the basic operating costs, forget profitability".

Hussein believes that the intense competition between insurers in the GCC market is driving the need for consolidation. However, he warns that this is not an easy proposition, as with many Takaful companies being publically listed, it would require majority consent from the shareholders.

"In terms of capital requirements, size, the risk profile, and particularly since the financial crisis, it is a good time to look at working together," he adds.

Consolidation within the industry has been mooted for some time now, particularly in the developed Takaful markets of the GCC and Malaysia. However, with huge potential for organic growth still available across multiple sectors and with consistently high growth rates, it might be difficult to slow down the rapid run-out of unsustainable Takaful policies in the short-term.

Unable to offer a solution, Hussein is still insistent that something needs to be done, and soon, accusing new market players of being short sighted in their business models as in the long-term these pricing models will not be sustainable.

He confirms that that there is currently an over-saturation in the market and this could eventually have an impact on the Takaful businesses of all the providers.

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Takaful in the works

NIGERIA: UnityKapital Assurance will continue with its efforts to introduce Takaful products, according to Falalu Bello, its chairman.

The move is part of its strategy to diversify its business and increase its market share in the industry.

A-Excel launched

MALAYSIA: AIA AFG Takaful has launched A-Excel, its new Takaful plan, which offers protection of up to 20 years to its certificate holders.

Certificate holders will be able to benefit from savings and accumulating investments upon maturity. They will also have the option to receive fixed cash payments every two years during the coverage period.

Spreading its wings

MALAYSIA: ING Public Takaful Ehsan (Takaful Ehsan) has set its sights on penetrating the overseas Takaful market by 2015, said Saiful Yazan Ahmad, its CEO.

The Takaful operator plans to leverage the presence of its shareholders, ING and Public Bank, in foreign markets such as China, India and Indonesia.

However, Saiful said that Takaful Ehsan first needs to strengthen its local infrastructure and market penetration before expanding abroad.

The company also aims to capture a 10% market share of the Malaysian Takaful market, with projected contributions of over RM800 million (US$268 million) by 2015.

New Takaful plan

UAE: Dubai Islamic Insurance and Reinsurance Company (AMAN) is planning to provide a healthcare coverage plan for the dependents of Arab expatriates in the UAE.

The scheme will be based on AMAN's existing medical Takaful schemes for Indian expatriates in the country, which were launched with India's ICICI Lombard General Insurance Company in May this year.

AMAN is expected to introduce the product by early next year.

IPO on track

MALDIVES: Amana Takaful (Maldives) will launch its offer for shares on the 20th September through to the 19th October as it proceeds with its plans to list on the Maldives Stock Exchange.

The firm plans to offer 800,000 of its shares for subscription at MVR20 (US$1.32) per share. However, it has yet to confirm its listing date.

Proceeds from the IPO will be used to strengthen the firm's capital base and expansion programs, which will in turn help the company negotiate better terms in re-Takaful by allowing it to take higher risks.

Insurance, Takaful and financial markets in Cyprus

DR GERD KLOEWER highlights the developments and challenges faced by the Takaful industry in Cyprus.

The accession of Cyprus into the European Union (EU) in 2004 led to a major overhaul of the insurance legislation and, as part of the harmonization procedure, the local legislation has been amended to incorporate all the acquis communicaire in insurance.

An economy's financial markets are critical to its overall development. Banking systems and stock markets enhance growth, which is the main factor in poverty reduction.

Cyprus insurance and reinsurance companies benefit from a sound legal and regulatory framework and smooth running of the insurance business.

Cyprus has a highly developed insurance industry which is growing with the banking and investment funds business. EU insurance companies in Cyprus benefit from a low corporate tax rate of 10% and the exemption of profit on disposal of securities from taxation, which is attractive to foreign investors.

Strong financial systems provide reliable and accessible information that lowers transaction costs, which in turn bolsters resource allocation and economic growth. Indicators here include the size and liquidity of stock markets; the accessibility, stability, and efficiency of financial systems; and international migration and workers/remittances, which affect growth and social welfare in both sending and receiving countries.

Financial crisis and insurance sector development

The sharp contraction of the Cypriot economy in 2009-2010, under the impact of the worst global recession of the postwar period, took its toll on the insurance industry.

As the economy gradually comes out of recession in the course of 2010, there is room to be optimistic that the industry too will slowly return to faster rates of growth.

Key data for the industry demonstrates that 2009 and 2010 were years of decelerating activity. Total gross premiums written went up to EUR797 million (US$1.08 billion), a rise of 4.9% (compared to 8% in 2008 to EUR760 million (US$1.03 billion) and 11.5% in 2007). As was the case in 2008, the life segment of business was particularly hit by the recession, with total gross written premiums growing by just 3.5% (6% in 2008 and 11% in 2007) to EUR353 million (US$479 million).

On the investment side, investments undertaken rose 4.3% to EUR2.05 billion (US$2.8 billion), representing a return to growth after the previous year's decline.

> *"Cyprus has a highly developed insurance industry which is growing with the banking and investment funds business"*

The industry's tenacity to remain in a positive growth territory despite the economy's contraction boosted its contribution to the GDP, which expanded to 5%. Still, even that figure remains well below the 9%/GDP average for many west European countries.

The insurance sector presently provides full time employment to more than 4,000 staff and intermediaries as well as creating new business for a broad spectrum of professional services firms — from doctors to repairers, accountants and lawyers.

There is, in addition, the social dimension to the industry's operations, namely the paying out of substantial amounts of benefits and compensation to policyholders. The sum total for compensation and benefits paid out last year amounted to EUR461 million (US$625.73 million), up 11% on 2008.

The transition to the new regulatory regime of the Solvency II directive has started. The directive, designed to take effect as of the 31st December 2012, forms part of a broader initiative by the EU to promote confidence in the soundness of the European insurance sector, provide adequate protection to consumers and revamp the regulatory and supervisory framework of the industry.

The new regulatory framework should comprise both quantitative requirements as well as qualitative supervision in the fields of governance and organizational structure.

Pension reform

At the local level, the insurance industry and pension funds regret that there are still no signs of government commitment towards a reformed legislative framework in the area of pensions.

The vast majority of Cypriot consumers continue to depend on state pensions, though these are widely acknowledged to be inadequate to secure a decent living standard. At the same time the state fails to address the urgent need for drastic measures to alleviate the consequences of demographic ageing on public finances.

An appropriately-reformed economic environment, conducive to the supplementing of state pensions with payments from the private sector, will pave the way for the industry to take an active part in this area. An actively engaged insurance industry will not only alleviate fiscal pressures from the public sector, it will also provide supplementary income to improve the standard of living at a time of reduced means.

Equally important, there is a real prospect that the reformed framework

Continued

Continued

could create new opportunities for Cyprus by attracting foreign interest in this area. The disappointing scene on the pensions issue is, no doubt, the direct consequence of the absence of a permanent, structured framework of dialogue among all insurance stakeholders, from the public as well as the private sector.

> ***"On the investment side, investments undertaken rose 4.3% to EUR2.05 billion (US$2.8 billion), representing a return to growth after the previous year's decline"***

Till now, the government of Cyprus has failed to recognize the potential supplementary role the industry could play in such critical areas as health and pensions. The EU axiom of better regulation till now has not had much application in the context of Cyprus.

Recently, the House of Representatives of Cyprus approved a bill establishing an office of financial ombudsman. The insurance industry took an active interest in the setting up of the institution and offered, along with other sections of the financial services sector, to co-finance the operating costs of the office.

The industry welcomed the development as a long-awaited step for setting up a permanent mechanism to resolve disputes between companies and clients in the broader financial services sector, according to Philios Zachariades, the chairman of the Association of Insurance Companies.

Takaful development

Insurance companies like Neova Sigorta are set to implement Takaful in Turkey and Cyprus.

Neova Sigorta plans to implement the Takaful system once it begins to make a profit in three to four years. The Takaful insurance system may be adapted to all the non-compulsory insurance products, according to Özgür B Koç, the CEO of Neova Sigorta. "We can call this an interest-free insurance. In Turkey, there is only one regulation in the insurance sector. We do not have a special regulation for Takaful-styled insurance. We will consider some of the principles implemented abroad." Turkapital, an investment holding company established by Kuwait Finance House, holds 53% of Neova shares. Kuveyt Türk also owns 7% of Neova.

"We aim to make Neova one of the key brands of the sector within five years," Koç said, adding that Neova hopes to begin operations in Turkey in the future.

"Our main partner, Kuwait Finance House, has businesses in Azerbaijan and Tatarstan. Kuveyt Türk is also establishing a bank in Kazakhstan. Our group will invest in Turkey and Cyprus. Neova wants to open up to Central Asia." Automobile and traffic insurance constitute 83% of the total premiums, Koç said.

Conclusion

2010 was quite difficult for the insurance sector. "The Turkish banking sector obtained historic profits and the automotive sector took its highest sales figures.

The residential sector passed the best year in its last three years and Turkish industry increased its over-capacity significantly."

Despite all these good evaluations, the insurance sector was not able to obtain the results it expected. There are various reasons for this situation, like in many other European markets with sharply rising costs and claims.

Therefore the insurance sector could not make a profit in 2010, even though it grew more than the inflation rate. According to reported data from November last year, the sector showed 5% real growth but claims and costs (i.e. losses) increased more than premiums.

Dr Gerd Kloewer is an insurance and financial markets regulation expert to European Union projects and he can be contacted at Gerd.Kloewer@gmail.com.

Q "What are the prospects for Islamic project and infrastructure finance deals given the current uncertainty in the global economic going?"

A The current uncertainty over global economic growth should not adversely impact Islamic project and infrastructure finance as these are largely influenced by national policy priorities.

Saudi Arabia, for example, has embarked on many new infrastructure projects, but these will proceed even if the oil price falls as global growth slows. The kingdom has adequate reserves which insulate it from short-term global developments, the priority being to meet the aspirations of local citizens.

In Southeast Asia infrastructure developments are linked to regional rather than global economic growth. As Indonesia is expected to achieve rates of growth in excess of the global average this should help Islamic finance. Similarly Malaysia's position is expected to remain stable with a predictable flow of infrastructure projects, many of which will be financed by Islamic banks.

PROFESSOR RODNEY WILSON
Director of postgraduate studies, Durham University

A Investments in infrastructure projects often increase during periods of economic prosperity and decline when the economic cycle turns. Increased uncertainty about the origin of funding in combination with reduced government spending are the main underlying causes. The current crisis is no different, with many projects put on hold. Although project and infrastructure finance do not represent the most glamorous side of the financial sector, the underlying projects are generally associated with economic progress and include, but are not restricted to hospitals, schools and roads. The combination of the type of sectors and the social and economic benefits is highly compatible with Shariah. The fact that Islamic financial institutions are generally highly liquid places them in a good position to become the project and infrastructure financiers of choice.

DR NATALIE SCHOON
Formabb

Next Forum Question:

"What are the barriers to the growth of Islamic stock broking and trading and how can these be improved?"

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 23rd September 2011.

Peter Measures, partner, Ince & Co

Peter Measures has extensive experience acting for owners and banks on the financing of ships and offshore oil and gas assets (such as oil rigs and floating production, storage and offloadings), including loan and lease financing (both conventional and Islamic). He is currently acting for owners in connection with the financing of a new-building program in China, as well as the combined equity, debt and lease financing of container ships.

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

I embarked on a career in asset finance back in 1982 when I joined a leading firm of solicitors in London, specializing in shipping and aviation matters. In 1995 I took a three-year break from private practice to work in-house for Arab Banking Corporation in Bahrain, where I first learnt about Islamic finance and was fortunate enough to work with a number of people who went on to lead and establish other Islamic financial institutions and consultancies. I returned to private practice in London in 1998 to once again work for a firm with a substantial Middle Eastern practice and presence, where I concentrated on asset and trade finance work (both conventional and Islamic). In the last decade I have expanded my practice to also cover corporate and energy-related matters. I joined Ince & Co in 2007 as a partner in the business and finance group in the London office, and relocated to Dubai at the beginning of 2011.

What does your role involve?

I am the partner in charge of non-contentious (transactional) finance, corporate and energy work in our Dubai office.

What is your greatest achievement to date?

In terms of Islamic finance the most pleasurable was a syndicated lease

financing of the topsides of a floating production, storage and offloading vessel employed in the offshore of Peninsular Malaysia. This gave rise to a number of interesting legal issues and the clients were seasoned Islamic banking professionals for whom it was a delight to work.

Which of your products/ services deliver the best results?

We offer commercial advice working in partnership with our clients to seek solutions to problems and help to develop new business opportunities on the transactional side. Our Islamic finance work spans across the corporate, trade and asset finance areas. We pride ourselves in acting for many of the world's leading entities in our core business sectors.

What are the strengths of your business?

Ince & Co is an international commercial law firm founded in 1870. Our aim is to deliver a premium service at a competitive price on both dispute and transactional work. We are among the market leaders in our core business areas and have many years' experience and a thorough knowledge and understanding of the industry sectors in which we operate.

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

A willingness to listen to our clients, to understand their business and to offer business-driven advice, solutions and assistance in support of the commercial objective — without compromising on issues involving legal risk.

What are the obstacles faced in running your business today?

The banking crisis of 2008 followed more recently by the sovereign debt crisis, have profoundly affected the ability of small and medium entities to access new capital. In such conditions it has been a challenge to maintain market share in relation to new transactional work (corporate and finance) in particular, and there has been a clear need to adapt to the changing market conditions, to diversify where necessary and, especially, to demonstrate innovative thinking in an increasingly competitive environment.

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

During the last 20-25 years the Islamic finance sector has seen steady growth with new Islamic finance providers opening in a number of jurisdictions globally. Islamic banks expanded their assets in 2009 by 28.6%. Shariah compliant assets are now said to total about US$1 trillion, making this a significant source of liquidity. With the advent of new products to manage short-term liquidity and the development and expansion of new derivatives products, the future looks bright for the short to medium-term. The continuing expansion of the Sukuk market, the introduction of new derivatives products and, most recently, the introduction of instruments to manage short-term liquidity, show willingness on the part of the industry to innovate and compete for new business and so the future looks very positive.

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

A move towards a more standardized corporate governance and risk management approach (with institutions such as the IFSB and the AAOIFI playing a central role in the future), coupled with the introduction of a jurisdiction-based Shariah supervisory council for the finance industry in each such jurisdiction (such as the Shariah Advisory Council in Malaysia).

Nakheel's five-year US$16 billion restructuring

The 24th August finally saw troubled Dubai property developer Nakheel conclude its long-running financial saga, implementing the restructuring of a total amount in excess of US$16 billion in liabilities and the legal separation of the Nakheel from the rest of the Dubai World group.

The amount and nature of the liabilities involved and the large number of creditors made this one of the most complex restructurings in the region to date. Nakheel's liabilities comprised a series of bank debts, Sukuk, government debt, trade creditor liabilities, customer liabilities and inter-group debt.

The bank debt facilities included a mixture of both conventional and Islamic facilities and a number of hedging arrangements. To make the restructuring even more complex, more than 30 financiers were involved on the debt restructuring side.

The restructuring also involved a unique trade creditor settlement structure due to the complex nature and range of claims involved. This included an agreed claims resolution procedure and, importantly, an element of upfront/ pre-completion settlement payments in order to ensure remobilization/continuation of works at Nakheel's existing property developments.

Agreed trade creditor claims outstanding after the upfront payments are to be settled through Sukuk, AED3.8 billion (US$1.03 billion) of which were successfully issued by Nakheel to trade creditors on the 25th August, immediately following the implementation date for the bank debt restructuring. Tap issuances will follow as further claims are agreed with creditors.

The use of Sukuk to settle outstanding trade creditor claims marks a first for a restructuring in the Middle East. The structure is also the first Sukuk to allow for a tap issue to be fungible with a pre-existing issued series.

The result is that former creditors are now Sukukholders, and as a result this has opened up a new avenue of enforcement action in the region. It should also have a positive knock-on effect for the secondary market as it increases the pool of trade creditors.

It is also worth noting that the separation of Nakheel from the Dubai World group was a huge undertaking, involving the settlement of numerous inter-group liabilities and a large number of asset transfers.

Robin Abraham, a partner at Clifford Chance in Dubai, commented that: "It took a herculean effort on the part of our banking, capital markets and corporate teams to close the bank and trade creditor restructurings, as well as the legal separation from the Dubai World group, all in the same week."

Debbie Walker of Clifford Chance added that: "It was certainly a huge challenge to pull the transaction together. There was no template to follow and there were so many parties involved with different interests."

> ***"This has opened up a new avenue of enforcement action"***

Nakheel, the developer behind the Palm Jumeirah and the World islands, was at the heart of Dubai's crippling debt crisis in 2008 after a property bust brought the company to its knees. The developer has since offered creditors repayment of 40% cash and the remaining 60% in the form of an (as yet to be listed) AED4.8 billion (US$1.31 billion) Sukuk at a profit rate of 10%.

Ali Rashid Lootah, the chairman of Nakheel, added that the Sukuk will not be backed by the government but by Nakheel's assets, adding that: "No assets have yet been sold as part of the restructuring. It has been a tough 18 months - a period in which we have managed to successfully restructure our debts and the company. This is the end of an era and the start of a brighter Nakheel."

Nakheel's five-year US$16 billion restructuring

NAKHEEL

US$16 billion

24th August 2011

The total restructuring involves some AED59 billion (US$16 billion) of liabilities, including AED32 billion (US$8.71 billion) to the Dubai government, AED19 billion (US$5.17 billion) to trade creditors and AED8 billion (US$2.18 billion) to banks.

The developer said it had settled about 60% of liabilities linked to buyers in its stalled real estate projects, representing about AED10 billion (US$2.72 billion), by offering investors homes in completed Nakheel projects or a credit switch to another investor or project.

"Our liability on the long-term projects is approximately AED10 billion (US$2.7 billion) and we've managed to solve and find and accommodate people for a value of AED6 billion (US$1.63 billion) in one and a half years," said Lootah.

Sanjay Manchanda, the acting CEO and CFO at Nakheel, added that with the new Sukuk the company might not require any further debt issuance. "I do not foresee the need for further debt issuance. Hopefully this is the last one," he said.

Manchanda added that: "At that time, we had a total liability of US$16 billion, part of which was paid by the Dubai government in the form of cash investment - from where we paid our creditors about AED8.6 billion (US$2.34 billion), and the rest was in the form of equity."

ISSUER	SIZE	DATE ANNOUNCED
Bank Negara Malaysia	RM1 billion	6th September 2011
Indonesian finance ministry	US$1 billion	6th September 2011
Bank Syariah Mandiri	IDR450 million	25th August 2011
Aref Investment Group	TBA	24th August 2011
Kuala Lumpur Kepong Berhad	RM300 million	22nd August 2011
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

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BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

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director/CEO, Research Intelligence Unit

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

TURKEY: Cenk Karacaoglu
vice president of financial institutions division, Bank Asya

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

UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

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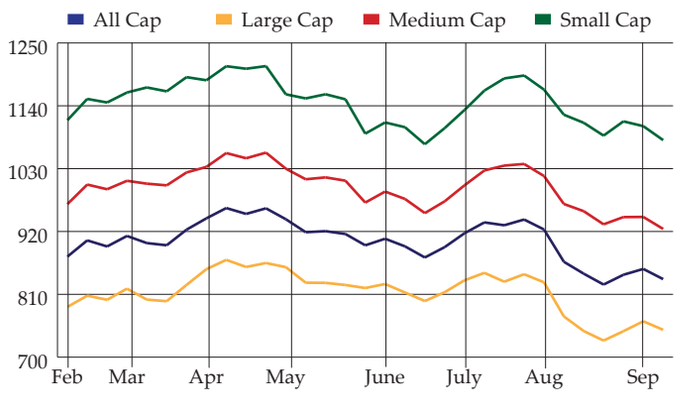
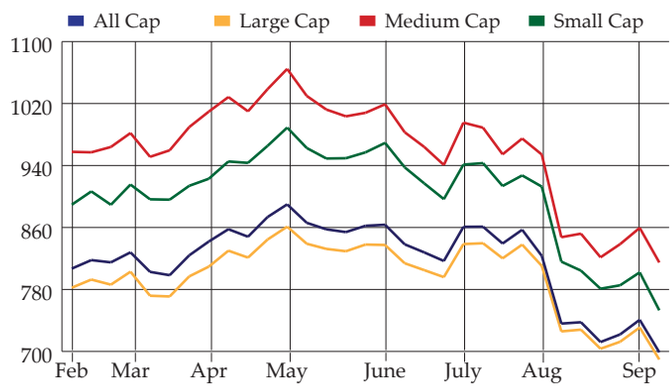
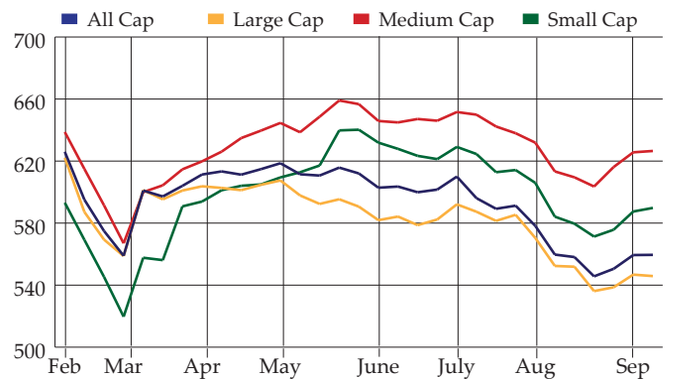
REDmoney Asia ex. Japan *6 Months*



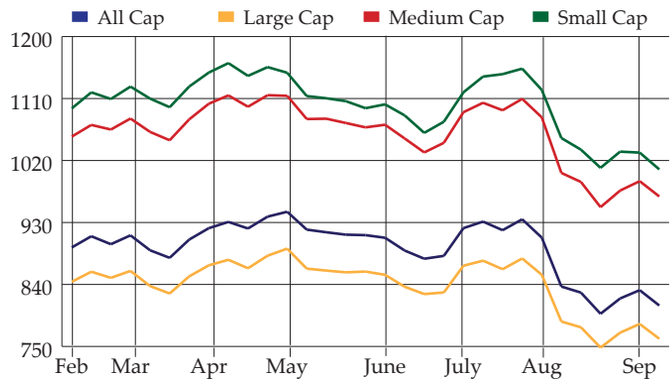
REDmoney Europe *6 Months*



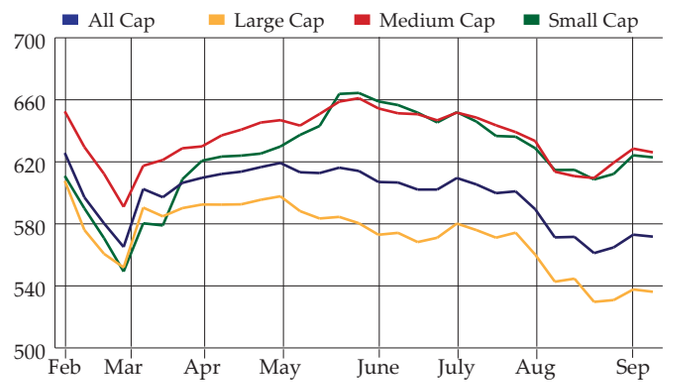
REDmoney GCC *6 Months*



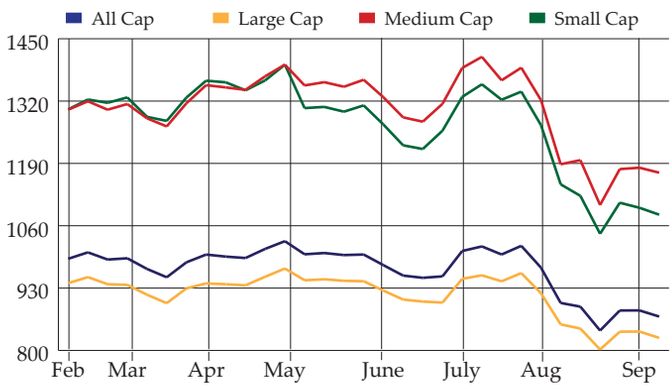
REDmoney Global *6 Months*



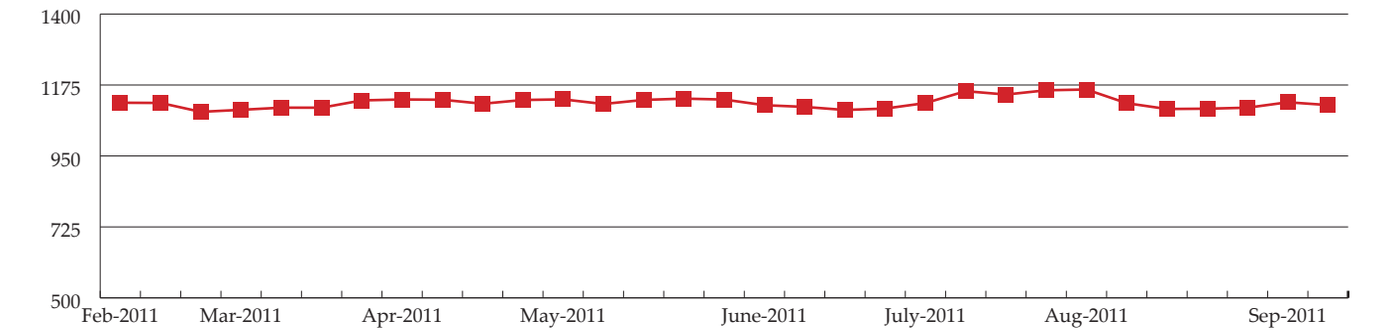
REDmoney MENA *6 Months*



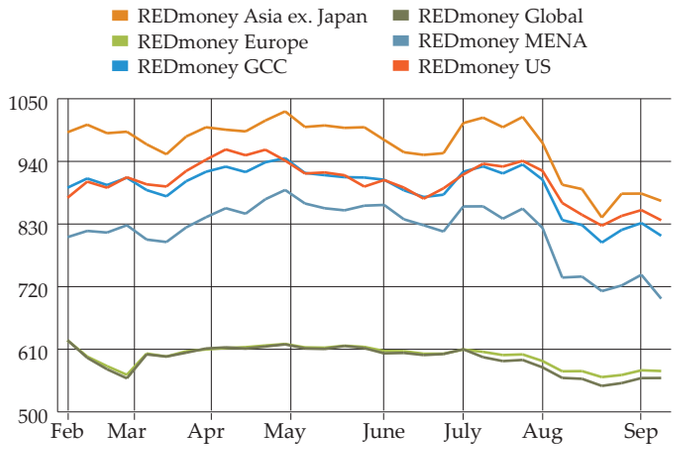
REDmoney US *6 Months*



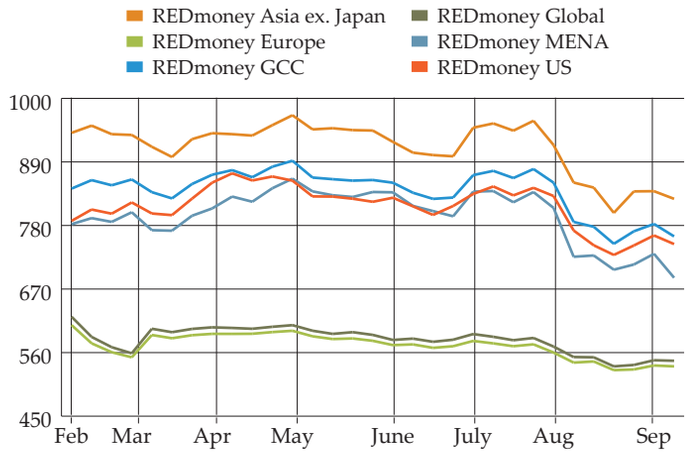
SAMI Halal Food Participation (All Cap) *6 months*



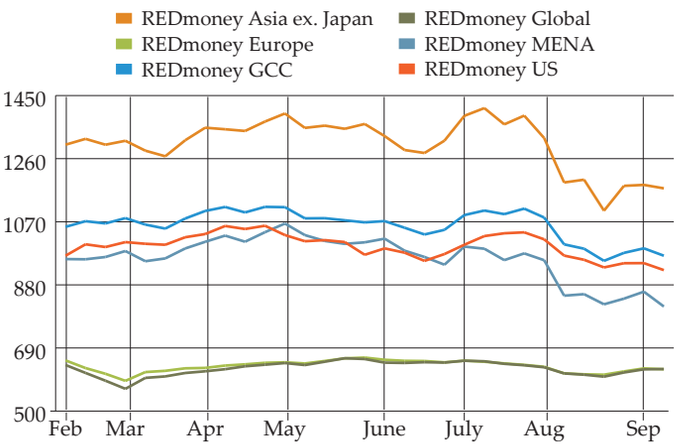
REDmoney Global Shariah Index Series (All Cap) *6 Months*



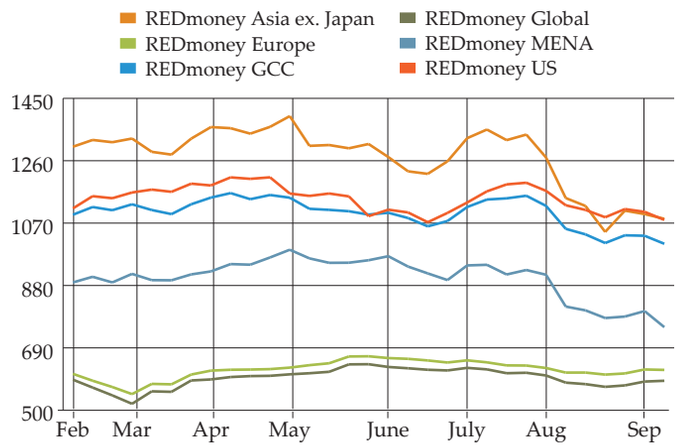
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



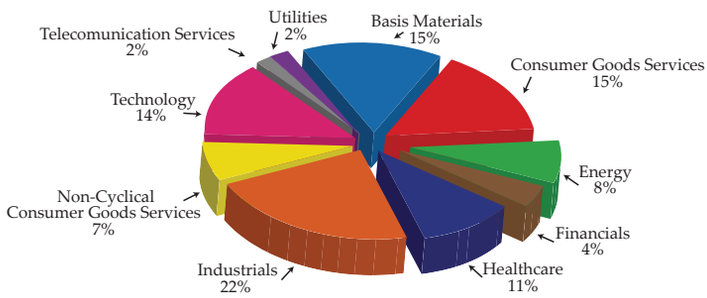
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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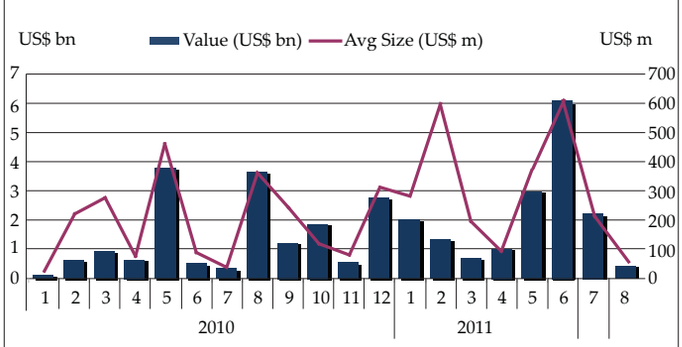
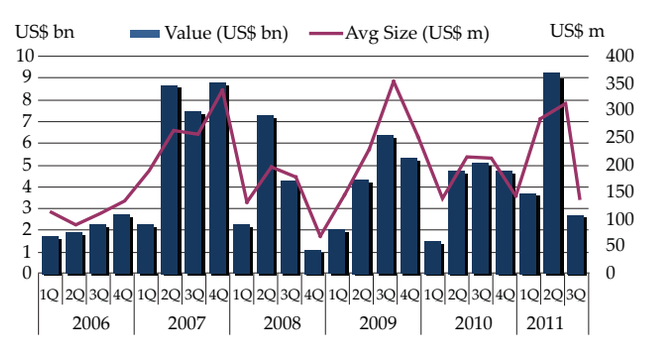
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
5th Sep 2011	Telekom Malaysia	Malaysia	Domestic rating: RAM: AAA	Domestic market public issue	101	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Aug 2011	Kencana Petroleum	Malaysia	Sukuk Mudarabah	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	Domestic rating: RAM: AAA	Domestic market public issue	250	AmInvestment Bank
21st Jul 2011	Besraya (M)	Malaysia	Sukuk	Domestic market public issue	233	AmInvestment Bank
6th Jul 2011	Cagamas	Malaysia	Domestic rating: RAM:AAA	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	Domestic rating: MARC: AAA	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	Issue price undisclosed	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	Domestic rating: MARC: AA+	Domestic market private placement	150	AmInvestment Bank, Maybank Investment Bank

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	825	14	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	United Arab Emirates	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	United Arab Emirates	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
12	HSBC Bank Middle East	United King-dom	Sukuk	Euro market public issue	500	1	HSBC
12	Emaar Sukuk	United Arab Emirates	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
14	Saudi International Petrochemical	Saudi Arabia	Debut issue	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	United Arab Emirates	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
17	Government of Ras Al Khaimah	United Arab Emirates	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 Bhd
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) Sdn	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	Telekom Malaysia	Malaysia	Domestic rating: RAM: AAA	Domestic market public issue	200	2	CIMB Group, AmInvestment Bank
28	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195	1	HSBC, CIMB Group
29	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	193	3	OCBC, Public Bank, Affin Investment Bank
30	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177	1	AmInvestment Bank
	Total				**21,321**	**100**	

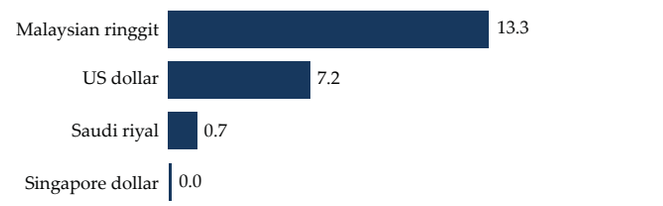
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	4,747	29	22.3
2	CIMB Group	4,508	45	21.1
3	HSBC	3,754	17	17.6
4	AmInvestment Bank	2,092	28	9.8
5	Citigroup	1,306	6	6.1
6	Standard Chartered Bank	1,203	7	5.6
7	RHB Capital Bhd	910	4	4.3
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	**21,321**	**101**	**100.0**

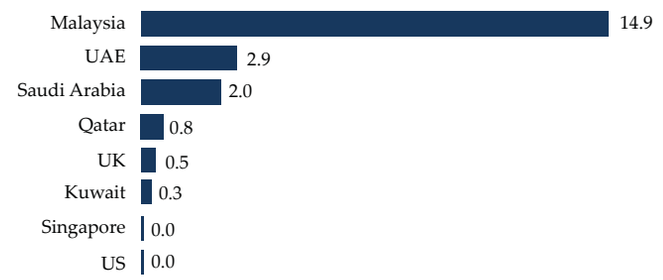
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	701	3	24.9
2	Riyad Bank	224	2	8.0
3	HSBC Holdings	207	2	7.4
4	Al-Rajhi Banking & Investment	169	1	6.0
4	Saudi Hollandi Bank	169	1	6.0
6	Bank Al-Jazira	166	2	5.9
6	Public Investment Fund	166	2	5.9
8	Standard Chartered	119	1	4.2
9	Alinma Bank	110	1	3.9
9	Arab National Bank	110	1	3.9
9	Samba Financial Group	110	1	3.9

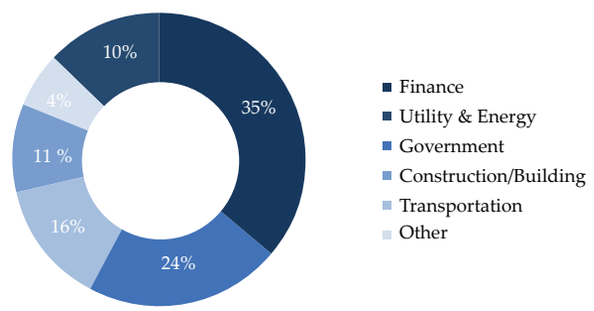
Sukuk Volume by Currency US$ (billion) *12 Months*



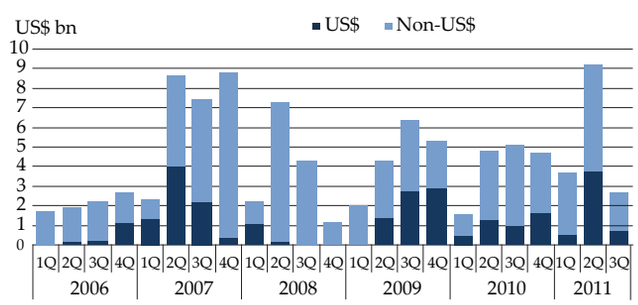
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	32.6
1	Baker & McKenzie	2,509	2	32.6
1	Clifford Chance	2,509	2	32.6
4	Al Tamimi & Co	57	1	0.7
4	DLA Piper	57	1	0.7
4	Norton Rose	57	1	0.7

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	1,060	6	12.4
2	Maybank Investment Bank	824	5	9.7
3	Samba Capital	640	3	7.5
4	AmInvestment Bank	471	3	5.5
5	Saudi National Commercial Bank	462	2	5.4
5	Banque Saudi Fransi	462	2	5.4
7	Citigroup	385	4	4.5
8	Abu Dhabi Islamic Bank	378	2	4.4
9	Standard Chartered Bank	326	5	3.8
10	RBS	233	1	2.7
11	CIMB Group	232	3	2.7
12	BNP Paribas	209	4	2.4
13	WestLB	170	3	2.0
14	RHB Capital	164	1	1.9
14	Lembaga Tabung Haji	164	1	1.9
16	Deutsche Bank	150	1	1.8
17	OCBC	131	2	1.5
17	DBS	131	2	1.5
19	Riyad Bank	129	1	1.5
19	Bank Al-Jazira	129	1	1.5
21	UOB	116	1	1.4
22	Arab Banking Corporation	100	3	1.2
23	Bank of China	93	1	1.1
24	Noor Islamic Bank	85	2	1.0
25	Saudi Hollandi Bank	74	1	0.9
25	Export Development Canada	74	1	0.9
25	Emirates NBD	74	1	0.9
25	Arab Petroleum Investments	74	1	0.9
25	Arab National Bank	74	1	0.9
25	Alinma Bank	74	1	0.9

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

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	18.3
2	Citigroup	444	4	5.2
3	Abu Dhabi Islamic Bank	378	2	4.4
4	HSBC	308	2	3.6
5	Maybank Investment Bank	237	1	2.8
6	RBS	233	1	2.7
7	WestLB	125	2	1.5
8	Standard Chartered Bank	105	1	1.2
9	BNP Paribas	98	2	1.1
10	Bank of China	93	1	1.1

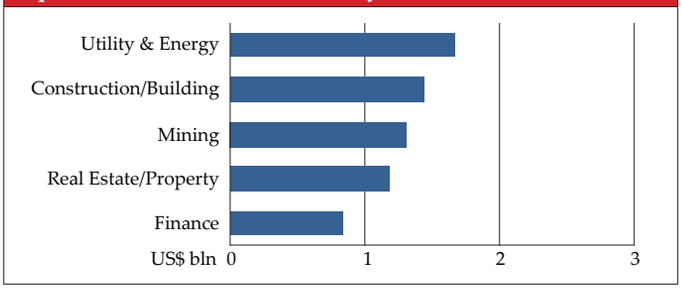
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
30th Nov 2010	Saudi Arabian Mining - Ma'aden Rolling	Saudi Arabia	1,913
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
4th Apr 2011	Bank Asya	Turkey	306
16th Mar 2011	Turkiye Finans Katilim Bankasi	Turkey	296

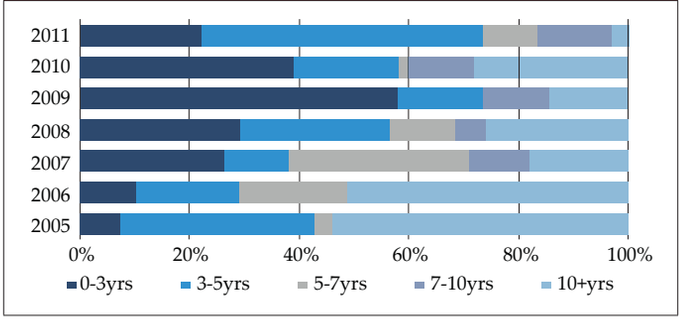
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,924	3	34.2
2	Malaysia	1,777	5	20.8
3	UAE	1,627	7	19.1
4	Turkey	881	5	10.3
5	Singapore	655	2	7.7
6	Indonesia	450	1	5.3
7	China	93	1	1.1
8	Kuwait	87	1	1.0

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Jennifer Cheung (Media Relations)
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EVENTS DIARY

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 and Financial Markets 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*)

30th October 2011
IFN Country Briefings: Egypt
Cairo *(REDmoney events)*

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

8th November 2011
IFN Country Briefings: Canada
Toronto *(REDmoney events)*

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

10th November 2011
IFN Country Briefings: USA
New York *(REDmoney events)*

15th November 2011
IFN Country Briefings: Hong Kong
Hong Kong *(REDmoney events)*

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

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

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