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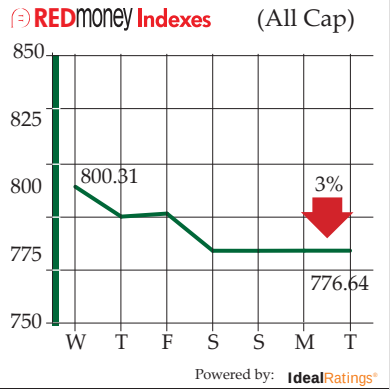

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Shall we dance?

The increasing attractions of Kazakhstan

Cover Story

After years of being the wallflower, the CIS region is finally starting to attract interest from investors. Islamic institutions in the Middle East and Asia are turning their attention to the 15 former Soviet republics that make up the Commonwealth of Independent States, which together with Russia have an estimated Muslim population of over 120 million; offering an attractive array of potential partners. Out of the many Muslim-majority CIS countries, Kazakhstan has emerged as the most nimble-footed. But is the country dancing the right steps, and if it stumbles, who else is waiting in the wings?

With GDP growth of 6.8% in 2010 and revenue from oil exports estimated at over US$38.2 billion in 2010 with around US$76 billion in foreign direct investment, Kazakhstan is a regional economic powerhouse. The country reads as a regional success story, and its banking and finance sector has developed accordingly, with total capitalization in 2010 of KZT1.77 trillion (US$12 billion) and total assets of KZT11.93 trillion (US$80.6 billion).

The country has a population of 16.6 million of which over 70% are Muslim, and the government has indicated that the emerging Islamic finance sector will play a key role in its industrial growth program, with plans to attract up to US$10 billion in Islamic finance over the next five to seven years: giving Islamic finance a 10% share of the country's banking asets. Kazakhstan has introduced a raft of legislation to encourage Islamic finance, attracting considerable foreign interest, and has plans to issue a debut sovereign Sukuk of US$500 million by the end of the year. It has the clear goal of becoming the regional leader for Islamic finance. But how successful have these steps been, and which other regional debutantes are also hoping for a dance?

Domestic development

"I see huge potential for Islamic finance development both in retail and corporate sectors, particuarly for SMEs," says Olzhas Beisembayev of BTA Bank, Kazakhstan's third largest lender. "Islamic finance

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Unlocking latent opportunities

Editor's Note

As we commence the final quarter of 2011, it is unfortunate to note that economic and financial conditions have deteriorated since the beginning of the year, with the outlook ahead increasingly weighed down by negative prospects.

While the Islamic finance industry has not been shielded from the gloom, we at Islamic Finance *news* prefer to stay cautiously optimistic and hold strong to the view that growth prospects still remain as long as we stay wary of risks and keep an open mind towards untested opportunities.

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NEWS

KLCC Property Holdings to issue US$274 million Sukuk to refinance existing debt

Malaysia needs to produce dynamic Shariah intellectuals, says deputy finance minister

Credit Agricole to move its M&A business in the Middle East back to France

More oil and petrochemical companies in the Gulf turn to Islamic financing

Bank Asya to acquire local brokerage house

PwC's Middle East practice posted 31% growth for the financial year ended the 30th June

US$63 billion-worth of Sukuk were issued during the first nine months of 2011, according to **Zawya** Sukuk Monitor

KFH-Bahrain unveils new mobile banking service

Mouwasat inks two Murabahah financing agreements with **Samba Financial Group** worth US$46.7 million

Nakheel has no plans to issue more Sukuk

Tamweel plans to issue US$300-500 million-worth of Sukuk in the fourth quarter of this year

Bahrain's US$1 billion sovereign Sukuk to have seven to 10-year maturity

Yemen government approves financing agreement with the **IDB** worth US$21 million

Project Sukuk issuances expected to increase with the launch of **SATORP**'s US$1 billion Sukuk

Former CEO and founder of **Unicorn Investment Bank** says **Deloitte** investigation a conflict of interest

Qatar International Islamic Bank plans to issue benchmark-sized Sukuk

News of four shopping malls used to guarantee US$800 million financing is "categorically incorrect", says **Emaar Properties**

Qatar First Investment Bank receives 10% stake in **Watania** IPO

Total deposits of banks in **Kuwait** increased by 9.6% to US$6.2 billion in the first half of 2011

Abu Dhabi National Energy plans to set up first ringgit-denominated Sukuk program worth US$1.1 billion

Islamic finance industry can help improve global financial stability, says **IDB** president

Abdullah Al-Khodari & Sons Company renews Islamic financing facilities worth US$240 million

Emirates NBD looks to expand to Asia Pacific

First Leasing Bank considers merger with **Ithmaar Bank**

Fawaz Abdulaziz Alhokair and Company gets US$50 million Murabahah financing facility

KFH secures approval from central bank to extend share buy-back period by six months

Political instability could push up the price of **Bahrain**'s planned US$1 billion sovereign Sukuk

SHUAA Capital and **National Bonds Corporation** ink MoU to establish strategic alliance

Aabar Investments to borrow US$1.9 billion from **Abu Dhabi Commercial Bank** to fund acquisition of Malaysia's RHB Capital

INVESTOR

Emirates NBD Asset Management collaborates with **Man Group** to manage and grow its alternative strategies fund

HSBC's second US$100 million HSBC UAE SME fund fully allocated in three months

Vanguard Life Assurance Company plans to introduce Shariah compliant pension fund

Growth of global Islamic funds likely to be hampered in 2011, says **SEI Investments**

TAKAFUL

Great Eastern Takaful seeks up to US$11 million in total weighted contribution through i-Great Amal plan by the end of 2012

AIA Malaysia launches first Takaful agency in the country through joint venture with **AIA AFG Takaful**

PruBSN Takaful introduces PruBSN link series

Takaful Emarat establishes new head office in Dubai

Etiqa Takaful launches four new Takaful products

RATINGS

RAM reaffirms **Hong Leong Industries**' 'AA3/P1' ratings for US$157 million Islamic notes

Fitch affirms **Mashreqbank**'s long-term IDR at 'A'

MARC withdraws 'AAIS' rating on **DRIR Management**'s senior class A Sukuk Ijarah medium-term notes

Moody's assigns 'Baa' rating to **BLME** US Dollar Income Fund

S&P has affirms its 'AAA' long-term and 'A-1+' short-term credit ratings for the **IDB**

Moody's affirms a provisional '(P)A3' rating on **TAQA**'s planned US$1.1 billion Sukuk program

RAM reaffirms 'AA1' rating of **Ranhill Powertron**'s US$169 million Islamic notes

MOVES

Sharifuddin Khalid, director of promotion unit at **MIFC** to leave on the 30th September

Barclays Wealth appoints **Rory Gilbert** as managing director and head of MENA for its international private banking unit

Kuwait International Bank appoints **Loay Fadhil Maqams** as executive vice-president and general manager of finance and investment

Emirates NBD Capital names **Khaled Masri** as CEO

Government appoints seven new directors for **Reserve Bank of India**

Banque Saudi Fransi appoints **Patrice Couvegnes** as managing director and foreign partner representative to its board of directors

Bank Pembangunan Malaysia names **Mohammed Hussein** as chairman

SHUAA Capital appoints **Michael Philipp** to board of directors

RBC Dexia Investor Services names **Cormac Sheedy** as senior executive officer for Middle East and Africa region

Law firm **King & Spalding** appoints five lawyers to its offices in Abu Dhabi, Dubai and Riyadh

Shall we dance?

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would be the perfect tool for investing in agricultural projects, infrastructure projects, the construction of airports and the purchase of aircraft."

The domestic market for Islamic finance has been developing in Kazakhstan since 2006, when BTA Bank attracted a Murabahah Islamic syndicated loan of US$200 million. In 2007, BTA attracted a further US$250 million syndicated Wakalah facility. Originally launched for just US$150 million, BTA increased the facility to US$250 million due to its popularity with Middle East and Malaysian investors, and according to Beisembayev it became "the largest Islamic financial institution syndicated deal outside the Middle East at that time". Subsequent to this success, BTA Bank established a separate department dealing with Islamic finance, pushing for the national regulators to develop a legal infrastructure to encourage the industry, and in 2008 Nursultan Nazarbayev, the president, approved a government group to begin developing amendments to allow Islamic banking.

> ***"Kazakhstan has a unique competitive advantage in attracting Islamic finance investments"***

Legislative growth

In 2009, the republic became the first country to introduce legislation for Islamic finance with amendments to a number of its national laws including the Civil Code, the Tax Code, the Law of Banks and Banking Activities and the Law on Financial Markets. In addition: "A lot of work has been carried out in relation to the enhancement of the legislative and taxation basis for the issuance of Sukuk," says Timur Omarov, the head of the financial literacy division for the National Bank of the Republic of Kazakhstan. "In July, new amendments to the Law on Capital Markets were adopted, which allow government bodies as well as legal entities resident in Kazakhstan to issue Islamic securities. To create favorable conditions for Sukuk issuance, a securities sector has been set up on the Kazakhstan Stock Exchange and new listing rules have been adopted." The government plans to issue its debut sovereign Sukuk for US$500 million by the end of 2011, and Omarov adds that: "The issuance will create a benchmark for corporate lenders."

In 2010, the country continued its development program with the 2010-2012 Islamic Finance Development Roadmap, which aims among other things to attract further foreign direct investment from member countries of the OIC, which Kazakhstan currently chairs. Omarov outlines the areas covered by the Roadmap, including: "Further development of legislation, assistance in issuing Sukuk, attracting of Islamic investors, adoption of international standards, establishing an educational center for Islamic finance, cooperation with international Islamic institutions and building Islamic financial architecture."

On a regulatory level, additional developments are also forthcoming. Omarov confirms that: "For further improving legislation the national bank has initiated amendments to the current law on insurance in order to create a legislative framework for Takaful companies, along with changes to develop the Islamic banking sector such as Islamic deposit insurance, the operating of commodity Murabahah and Wakalah, the registration of assets, and tax issues."

At the Kazakhstan Islamic Finance Conference, held in March 2011, the deputy prime minister Asset Issekeshev reiterated the importance of Islamic finance in diversifying the national economy: "Islamic finance is crucial for economic development and innovations. Having understood the vital role it can

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CLOSING BELL

Jaiz to start before year-end

NIGERIA: The country's first Islamic bank, Jaiz International Bank, will commence full operations before the end of 2011, according to Sanusi Lamido Sanusi, the governor of the Central Bank of Nigeria.

Jaiz received its license from the central bank in June 2011.

No Islamic finance regulator

OMAN: The Central Bank of Oman (CBO) is not planning to establish a national Shariah board to regulate the Islamic banking sector, despite earlier reports that it would, according to Hamoud Sangour al Zadjali, the executive president of CBO.

Hamoud explained that the central bank will most probably ask the individual banks to set up their own Shariah supervisory boards.

MALAYSIAN ASSURANCE ALLIANCE

MALAYSIA: Malaysian Assurance Alliance (MAA) has appointed **Chee Cheong** as its CEO, replacing Muhamad Umar Swift, with immediate effect.

The appointment follows the acquisition by Zurich Insurance Group of 100% of MAA's share capital. Chee was previously the chief distribution officer, Global Life Asia Pacific and Middle East at Zurich.

LABUAN FINANCIAL SERVICES AUTHORITY

MALAYSIA: Islamic Finance *news* has learnt that **Ahmad Hizzad Baharuddin** has been appointed the director general of the Labuan Financial Services Authority, replacing Azizan Abdul Rahman.

Ahmad Hizzad was previously the director of Islamic banking and Takaful at Bank Negara Malaysia, the central bank. He has been replaced by **Wan Mohd Nazri Wan Osman**.

Wan Mohd Nazri was previously the director of the financial intelligence unit at the central bank.

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play to attract investments from Islamic nations, the government has extended state patronage by amending the laws. We are confident that Islamic finance will lead the way to attract funds, especially from the Gulf countries and the other Muslim countries."

International interest

In this respect, Kazakhstan has been the most successful among its regional peers. In its 2011 report, Challenges & Opportunities for Islamic Finance in Kazakhstan, Ernst & Young confirmed that: "The government's commitment to make Kazakhstan an Islamic finance center, coupled with the country's current leadership in the CIS in making legislative changes to allow the operation of Islamic finance institutions, should give Kazakhstan a unique competitive advantage in attracting Islamic finance investments and help the country achieve its goal of becoming a leading financial center for the region."

"As the Islamic finance market in Kazakhstan is at very early stage of development, its growth can be boosted mainly by investments from overseas," explains Beisembayev. "For now, Kazakh authorities specifically rely on investors from Middle East and Southeast Asia regions."

Between 2006-2007 the country's private financial institutions, including BTA Bank, signed several agreements with international partners in the sector. In 2009 Kazakhstan signed an intergovernmental agreement with the UAE to set up its first Islamic bank, Al-Hilal, in Almaty. Al-Hilal currently has around US$250 million in assets, predicted to reach US$1 billion in two years, and has opened two further branches in Astana and Shymkent. Fattah Finance, a local Islamic brokerage company with shareholders including Malaysia's AmanahRaya (55%) and the state-owned Development Bank of Kazakhstan (40%), plans to establish a second Islamic financial institution in 2011. Other players include the Istisna'a Corporation, Kausar Consulting, Akyl-Kenes Consulting, Islamic Financial Instruments and Mutual Halal Insurance Takaful.

Kuwait Turk Participation Bank has also reportedly received a license from the Turkish central bank to open a branch in Kazakhstan, and has already opened a representative office in Almaty, while a local subsidiary of Russian Sberbank has expressed readiness to establish its Islamic finance business. According to Beisembayev: "Sberbank Kazakhstan, Akyl-Kense Consulting (Kazakhstan) and Unicorn Investment Bank (Bahrain) recently signed a memorandum of cooperation, and companies have already expressed readiness in utilizing Islamic finance instruments when financing projects of Sberbank's clients."

In addition, he says, the forced Industrialization Program 2020, led by President Nursultan Nazarbayev, has attracted interest from a number of foreign investors, including Mubadala Group, FORAS International, Homeland Development Group (KCA), MAY Group, ALM Group and Markmore Holding (Malaysia), Kuwait Finance House, EMP Partners, Batelco and CAPIVEST (Bahrain).

> ***"Many CIS players are struggling with government apathy, or in some cases even antipathy"***

Hiccups and hurdles

There is no doubt that Kazakhstan is the current belle of the CIS ball. However, a number of challenges still remain. Conventional banks currently are not allowed to provide Islamic financial products as Islamic windows are prohibited under the General Banking Law. Legal issues involving the transfer of ownership rights are still complex, while the system of accounting principles for Islamic products leaves a lot to be desired. Despite amendments to the tax legislation, the tax treatment of certain Islamic products also remains unfavorable compared to conventional counterparts, particularly regarding VAT treatment.

According to Beisembayev, Sukuk also still poses some problems: "For instance, originators are limited to Islamic banks and national holdings or managing holding companies. Market players would like to see state and privately-owned companies also issue Sukuk directly. The government of Kazakhstan can issue sovereign bonds, but not a legal entity such as a special purpose vehicle."

The former chairman of the Regional Financial Center of Central Asia, Arken Arystanovm, has stressed that local business strongly needs Sukuk issuance by the ministry of finance, a transaction which should then be followed by issuances from state-owned companies KazAgro and Prodkorporaciya, as "local business can not access foreign capital markets and attract Islamic finance without having a benchmark".

Joining the dance

The industry is in its infancy in the CIS region and while the initial lead may have been taken by Kazakhstan, the floor remains open for new players. However, many are struggling with government apathy or in some cases even antipathy, which in contrast to Kazakhstan's eagerness has considerably restricted development. As Omarov explains: "Within the CIS region Kazakhstan is by no means the only country where there is an interest in Islamic finance, but it is considerably further along the road."

Azerbaijan's aspirations of becoming a regional hub for Islamic finance are constrained by its legal set-up. According to the team leader for the introduction of Islamic banking at the International Bank of Azerbaijan (IBA), Behnam Gurbanzade, there is a strong demand from both corporate and private individuals for Islamic banking products and services, and IBA is planning to launch an Islamic branch

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in the autumn of 2011. Several banks already offer interest-free banking on a voluntary basis, including Kauthar Bank and Russian-owned Bank Nikoil, while Amrahbank (partially owned by Bahrain-based International Investment Bank) also has plans to tap the Islamic market.

> ***"With its pioneering moves in the region, Kazakhstan can pave the way for the development of Islamic finance in other CIS countries"***

However, the sector is hindered by laws which do not currently allow a full range of Islamic banking services, and at the end of 2010 the chairman of the central bank, Elman Rustamov, announced that it had no plans to develop Islamic banking within the next two to three years. Following this statement Kovarsbank, a small domestic bank attempting to offer a full range of Islamic banking services, saw its license withdrawn by the central bank in January 2011. Azerbaijan has a strongly secular government, and Gurbanzade warns that: "It is clear that the introduction of the Islamic banking in Azerbaijan should be gradual and should not violate the constitution and banking legislation," which is likely to limit its potential.

Similarly Russia, which should be an obvious player with an estimated Muslim population of 25 million and several Muslim-majority regions including Tatarstan, Bashkortostan, and Dagestan, also has as yet no specific legislation to facilitate Islamic finance.

A number of significant transactions have recently been enacted: including Tatarstan's first Sukuk announced in June 2011, and a US$60 million syndicated Murabahah facility launched by Akbars Bank in September, which it is hoped will open the door for other Islamic finance projects. Several institutions are already offering some form of Islamic products and services in Russia, including Ellips Bank, IFC Linova, Al Shams Capital and Yumart Finance.

The president of Tatarstan, Rustam Minnikhanov, is pushing for amendments to Russian federal legislation that will encourage Sukuk, and in January signed an accord with AmanahRaya, Kuwait Finance House, and Linova during a visit to Malaysia. However while experts at the Russian Finance Academy are reported to be working on a draft law for Islamic finance, the vice president of Russia's Regional Banks Association, Oleg Ivanov, has been quoted as saying that: "We should not expect it for another two to three years."

Belle of the ball

Beisembayev hopes that: "With its pioneering moves in the region, Kazakhstan can pave the way for the development of Islamic finance in other CIS countries," and it certainly looks like there are no current challengers to Kazakhstan's dominance. Despite some setbacks, the country's enthusiasm for the industry sets it in stark contrast to its neighbors. Perhaps its success will give its CIS siblings the confidence to stand up and dance. — *LM*

Unlocking latent opportunities

Editor's Note

As we commence the final quarter of 2011, it is unfortunate to note that economic and financial conditions have deteriorated since the beginning of the year, with the outlook ahead increasingly weighed down by negative prospects.

While the Islamic finance industry has not been shielded from the gloom, we at Islamic Finance *news* prefer to stay cautiously optimistic and hold strong to the view that growth prospects still remain as long as we stay wary of risks and keep an open mind towards untested opportunities.

This week, our cover story looks at some of the most frequently overlooked markets, highlighting the developments of the Islamic finance industry in the CIS region, especially Kazakhstan.

Managing risk is also an important factor in navigating these tough times and Shan Saeed, a financial economist and commodity expert, contributes an article on how Islamic banks can maneuver through this trying period; while Hassan Ahmed Yusuf, the operational risk manager at Masraf Al Rayan, discusses how to measure and manage Shariah risk.

Meanwhile, asset and fund management firm Atlas Partners Japan writes on the development of Shariah compliant structures and products in Japan.

Our Islamic Investor feature this week is contributed by Toby Birch of Oppenheim & Co, who looks at the permissibility of and need for Islamic hedge funds, while Al Madina Insurance Company contributes our Takaful feature on Islamic banking and Takaful in Oman.

Insider highlights recent developments at the European Islamic Investment Bank and we also have IFN reports on the prospects for corporate fundraising in current market conditions, and the resurgence of American investment banks in Indonesia.

Our IFN correspondents have written on Brunei's Center for Islamic Banking, Finance and Management; the implication of the growth of rahn financing in Indonesia's Islamic banks; and the development of the Islamic finance industry in Canada, Saudi Arabia, Sri Lanka and the UK.

AFRICA

Call for zakat foundation

TUNISIA: Shariah scholars and legal experts have urged for the formation of a zakat foundation to overcome poverty and unemployment as well as to contribute to the development of the country's economy.

Methodology replication

CAMEROON: The Islamic Saving and Credit Cooperative of Cameroon (CECIC) will replicate Pakistan-based Farz Foundation's microfinance methodology.

Farz will provide CECIC with technical assistance on Shariah compliant poverty alleviation services.

Call for Takaful

NIGERIA: A lack of Islamic insurance to protect the investments of Islamic banks could slow the growth of the country's Islamic finance industry, according Sanusi Lamido Sanusi, the governor of the Central Bank of Nigeria.

He added that the country also lacked the knowledge, skills and technical capacity as well as the legal guidelines required to regulate and supervise Islamic banks.

ASIA

Holistic approach

PAKISTAN: Non-banking financial Institutions and the Modaraba Association of Pakistan have stressed the need for a comprehensive Shariah compliance system to maintain the confidence of stakeholders in the Islamic financial system.

Islamic finance pulls real estate buyers

MALAYSIA: Economic uncertainty and the availability of Islamic finance are spurring more Middle Eastern real estate investors to look into markets such as Malaysia, according to IP Global, a property investment company, in its latest report.

The report stated that Middle Eastern investment into Malaysian real estate projects rose 11.4% year-on-year in the third quarter of 2011, with the country's extensive provision of Islamic finance contributing to the buyers' attraction to the market.

Branching out

MALAYSIA: HSBC Amanah Malaysia has opened a new branch in the state of Perak, its ninth branch in the country.

Junior savings launched

MALAYSIA: Bank Islam Malaysia expects to attract 100,000 depositors and RM50 million (US$15.7 million) in deposits within the first year of launching its Al-Awfar Junior Savings Account-i.

Al-Awfar Junior is a Murabahah-based savings account for children.

Subsidiaries up for sale

INDONESIA: Bank Negara Indonesia is putting three of its subsidiaries up for sale: namely BNI Life Insurance, BNI Multifinance and BNI Syariah, , according to Yap Tjai Soen, a director at the bank.

Yap elaborated that investors from Asia and the Middle East were interested in buying the subsidiaries, but there have been no firm discussions yet.

First tranche of US$623 million Sukuk issued

MALAYSIA: AmIslamic Bank, a subsidiary of AMMB Holdings, has issued a RM600 million (US$187 million) Sukuk comprising the first tranche of its RM2 billion (US$623 million) subordinated Sukuk Musharakah program.

Proceeds from the US$187 million tranche will be channeled towards AmIslamic Bank's general working capital, which includes refinancing its existing RM400 million (US$124 million) subordinated Sukuk Musharakah and funding the expansion of its Islamic financial services business.

OSK merger moves

MALAYSIA: RHB Capital and OSK Holdings have submitted applications to the central bank, Bank Negara Malaysia, to commence merger discussions.

OSK Holdings, in a separate statement, said that it is seeking approval in principle to commence discussions for a

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AICL in Shariah quandary

INDIA: The central bank, Reserve Bank of India (RBI), has ordered Alternative Investments and Credits (AICL) to explain the basis of its 'participative financing' deals and to publish an interest rate structure after a recent inspection of the company.

According to RBI, AICL is not complying with the central bank's requirements for conventional banks, which consists of a fair practice code requiring financiers to provide the terms and conditions of their funding.

KM Abdul Salam, the managing director of AICL, said that the company's directors have since met with RBI officials to explain the conflict of interest between the central bank's directive and the laws of Shariah, which forbid the use of interest rates and instead rely on principles of profit sharing.

According to the principles of profit sharing, Islamic banks receive funding charges consisting of the share of profits from their borrower's payments if the borrower has earned a profit.

However, if there are any unavoidable losses at the end of the year, the borrower is not required to pay any funding charges. This was one of RBI's primary concerns regarding AICL.

KM Abdul said that the company will strive towards making its funding structure adhere to RBI's banking regulations while maintaining Shariah compliance.

AICL has been given until mid-October to comply with the directives. Additionally, RBI has also asked the company to review its financial model.

AICL is a non-banking financing company based in the state of Kerala. The company has a paid-up capital of INR75 million (US$1.5 million) while its liabilities and assets comprise of shareholder funds and various non-financing funding in the form of participative finance respectively.

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possible merger between its investment banking group and RHB Capital's banking business.

This comes three months after Maybank and CIMB Group Holdings, the country's two largest banks, called off separate merger negotiations with RHB Capital following concerns over price.

Islamic banking resilient

MALAYSIA: Islamic banking's systems and principles make it resilient against financial crises such as those causing global economic turmoil now, said Mahathir Mohamad, former prime minister of Malaysia.

He elaborated that Islamic finance's ban on interest and the industry's moral codes ensure the stability of the market and can avoid any periodical collapse of the Islamic financial system.

Mahathir added that the stability in Islamic banking creates slower economic growth and wealth creation compared to its conventional counterpart, but concluded that the resilience of Islamic banking would outweigh this in the long run.

Call for Islamic asset platforms

MALAYSIA: The government should consider creating regional and international platforms in various Islamic asset classes to attract more investors to utilize the country as an Islamic finance hub, said Dr Mohd Daud Bakar, CEO of Amanie Business Solutions.

He said such platforms, including for currencies, hedging, commodities and liquidity, are easy to implement and can be used to support Islamic asset classes and services worldwide.

He also said that the government, which is due to unveil its 2012 Budget on the 7th October, should create a more cohesive legal and taxation framework to encourage the establishment of Islamic finance joint ventures between Malaysian and international parties.

Tax incentives could also be used to promote Islamic investments, he said.

Daud also added that the International Islamic Liquidity Management Corporation could increase its effectiveness by providing quality, multi-currency, short-term Islamic papers.

Islamic banks' profits surge

PAKISTAN: The local Islamic banking industry's profits almost tripled to PKR5 billion (US$57.2 million), increasing by 194% in the three-month period ended the 30th June 2011.

According to the central bank, State Bank of Pakistan, the increase is attributed to the banks' growing investments in government papers.

KLCC Property refinances Sukuk

MALAYSIA: KLCC Property Holdings, co-owner of the Petronas Twin Towers, is refinancing RM799 million (US$249 million)-worth of Sukuk after market yields dropped to the lowest level in more than two years.

It will issue RM880 million (US$274 million)-worth of 10-year securities to refinance the current debt held by its parent company, Petroliam Nasional. The developer will also have to pay a RM35.3 million (US$11 million) penalty to redeem the notes, which mature in November 2011 and 2012.

Average yields on Malaysia's highest-rated corporate notes fell to 4.82% on the 21st September, the lowest level since February 2009, according to data from the central bank, Bank Negara Malaysia.

Shariah intellectuals needed

MALAYSIA: The country needs to produce dynamic Shariah intellectuals who can assume a response to the government's call to make Malaysia the reference center for global Islamic finance practices, according to Dr Awang Adek Hussin, the deputy finance minister.

Awang added that in line with current needs, Islamic scholars should widen their knowledge base to include strong economic, financial and legal knowledge.

EUROPE

Presence in the Middle East reduced

FRANCE: Credit Agricole will move its mergers and acquisitions business in the

continued...

Financing via Islamic picking up

GLOBAL: Increasing numbers of oil and petrochemical-based companies in the Middle East region are turning to Islamic financing, especially syndicated financing and Sukuk, in order to fund their respective infrastructure projects.

Qatar Petroleum has completed a 16-year US$5.5 billion syndicated financing consisting of Islamic facilities and commercial debt aimed at funding the Barzan gas project, worth US$10 billion.

The financing has a maturity period of 16 years and is denominated in US dollars. However, the firm might lower the syndication to US$4 billion if a bond is issued in late 2011 or early 2012.

The syndication was executed with a group of banks from Italy, Japan, South Korea, the Middle East and the US. Islamic banks that participated were Barwa Bank, Masraf Al Rayan, Qatar International Islamic Bank, and Qatar Islamic Bank.

In Iran, the state-owned National Iranian Oil Company is looking to issue an Islamic bond in 30-45 days to finance oil industry projects. The issuance is currently pending regulatory approval. No further details have been revealed.

Last month, Saudi Aramco Total Refining and Petrochemical Company (SATORP), a joint venture established by Saudi Aramco and France's Total, unveiled a public offering for its 14-year domestic Sukuk upon obtaining approval from Saudi Arabia's Capital Market Authority.

The Islamic bond will be issued through the Arabian Aramco Total Services Company, a special purpose vehicle established by SATORP to issue the Sukuk, which will be used to finance the construction of a US$12 billion refinery project in Jubail.

Deutsche Securities Saudi Arabia, Samba Capital and Saudi Fransi Capital are the joint lead managers and joint bookrunners for the Sukuk.

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Middle East back to Paris as part of its efforts to focus on Europe and Asia.

The move includes the relocation of its Bahrain office to Dubai, which is expected to be completed by June next year.

Bernard Mignucci, Credit Agricole's general manager for the Gulf countries, was quoted saying that "the move will affect around five to six people," as some employees turned down relocation offers and at least two bankers opted to leave.

Acquisition in the pipeline

TURKEY: Bank Asya is in the midst of acquiring a local brokerage house in order to enter the investment banking and securities business, according to Abdullah Çelik, its CEO.

He did not disclose the name of the brokerage house, although Ata Invest, an Istanbul-based full service securities firm, has been speculated as the bank's target.

GLOBAL

Strong Gulf business

GLOBAL: PwC's Middle East practice posted 31% growth for the financial year ended the 30th June.

Warwick Hunt, the managing partner of PwC, Middle East, said that the region is the fastest-growing in the wider PwC network.

Globally, PwC reported gross revenues of US$29.2 billion for its worldwide network of firms.

Sukuk in abundance

GLOBAL: A total of US$63 billion-worth of Sukuk were issued during the first nine months of 2011, up 90% from issuances during the same period in 2010, according to Zawya Sukuk Monitor.

It reported that at least US$5.7 billion-worth of Sukuk were issued in September 2011, a 9% increase from the same period last year.

Except for small issuances by the central banks of Bahrain and Gambia, Malaysia was the sole issuer of all Sukuk in September, selling US$5.45 billion-worth of Islamic bonds.

MIDDLE EAST

Mobile banking

BAHRAIN: Kuwait Finance House - Bahrain has launched its new mobile banking service.

The service will enable the bank's customers to check their account and card statements, make phone bill payments, transfer money and view their last five transactions.

Mouwasat raises US$46.7 million

SAUDI ARABIA: Mouwasat Medical Services has signed two Murabahah financing agreements with Samba Financial Group amounting to SAR175 million (US$46.7 million).

SAR150 million (US$40 million) will be channeled towards a hospital construction project in Dahran, while the remaining SAR25 million (US$6.7 million) will be utilized to finance a housing complex in Riyadh.

Mouwasat is involved in the ownership, management, operation, and maintenance of hospitals, medical centers, medicine warehouses and pharmacies.

No further issuances

UAE: Nakheel has no plans to issue more Islamic bonds after the sale of the final tranche of its US$1.63 billion Sukuk as the company does not need further financing, according to Ali Rashid Lootah, its chairman.

Its upcoming Sukuk is expected to be issued by the end of the year. The tranche will be used to settle contractor claims.

Tamweel Sukuk by year-end

UAE: Tamweel is planning to issue between US$300-500 million-worth of Sukuk in the fourth quarter of this year, according to Varun Sood, its acting CEO.

He added that the Sukuk could be priced in US dollars or Malaysian ringgit. Three banks have been appointed to manage the sale, although their identities have not yet been disclosed.

RHB and OSK merger plans

MALAYSIA: RHB Capital, which is reportedly considering an offer of around RM1.72 billion (US$536.4 million) to RM1.99 billion (US$620.6 million) for a planned takeover of OSK Holdings, has hired Credit Suisse Group to advise on the deal.

RHB Capital and OSK Holdings announced on the 29th September 2011 that they had submitted applications to the central bank, Bank Negara Malaysia, to commence merger discussions. The central bank is expected to give its approval in the next few weeks.

With speculation rife that RHB will use the merger as a platform to take over OSK's investment banking business, the purported offer price amounts to 1.9 to 2.2 times OSK Investment Bank's book value, which was estimated to be around RM906.4 million (US$282.7 million) as at the end of 2010.

RHB Capital is not expected to make a cash offer and would likely finance the merger through the issuance of new shares to OSK Investment Bank or its shareholders.

The offer is below the value estimated by research firm Hwang DBS, which values the deal at between RM2.1 billion (US$655 million) and RM2.8 billion (US$873.2 million), based on OSK Investment Bank's latest book value of RM1.57 (US$0.49) per share as at the 30th June 2011.

It is believed that if the merger goes through, the new entity would oust CIMB Investment Bank as the country's leading stockbroker by trade value.

According to the annual reports, as at the 31st December 2010, RHB Capital's Islamic banking business contributed 6.1% of its operating revenue while OSK Holdings' net income for its Islamic banking business contributed RM6.09 million (US$1.9 million) of its total revenue of over RM1 billion (US$312 million).

RHB Capital stands to gain a regional platform for the Southeast Asian market through OSK Investment Bank, which has an extensive network of investment brokerage firms in China, Cambodia, Hong Kong, Indonesia, Singapore and Thailand, explained Kellee Kam Chee Khiong, CEO of RHB Capital.

Long-term sovereign Sukuk

BAHRAIN: The kingdom's planned US$1 billion Sukuk sale scheduled in October will have a maturity of between seven to 10 years, according to Rasheed al-Maraj, the governor of the Central Bank of Bahrain.

Proceeds from the Sukuk will be used to help finance a budget deficit of about 5% of gross domestic product. Rasheed added that the Sukuk has also received an encouraging response from its investors.

US$21 million utility financing

YEMEN: The government has approved a financing agreement worth US$21 million, signed with the IDB on the 30th June 2011.

The financing will be used to fund a US$26.25 million water resource enhancement project in Sana'a, the country's capital.

Issuance to herald more project Sukuk

SAUDI ARABIA: The issuance of Saudi Aramco Total Refining and Petrochemical Company's (SATORP) US$1 billion Sukuk is expected to open the doors for the country to launch more project Sukuk issuances, according to Jarmo Kotilaine, the chief economist of National Commercial Bank.

He said this is because there are now more advisors that can offer solutions for this type of funding, which would generate more interest.

According to the Saudi government, investors need to issue project Sukuk to diversify their funding sources to finance an estimated US$620 billion-worth of projects in the country.

Unicorn's ex-CEO in hot seat

BAHRAIN: Majid Al Refai, the former CEO and founder of Unicorn Investment Bank, has said that Deloitte did not disclose its interests in its investigation that concluded that he allegedly committed 58 criminal offences against Unicorn.

In a statement, he claimed to be "disappointed" that Deloitte did not disclose its personal interest in the investigation, which gave rise to a conflict of interest. However, he did not specify what the alleged conflict of interest is based on.

He also said that Deloitte's findings excluded evidence that he had submitted as part of his full cooperation with the probe.

His comments came after Unicorn said an investigation by Deloitte had found that Majid, who left the bank in August 2010, committed criminal offences including misappropriating bank funds.

Majid is alleged to have been involved in transactions without the approval of the bank's board of directors, destroying over 8,000 bank documents and preventing bank partners and authorities from obtaining documents.

The investigation was commissioned by the general prosecutor, who has now referred the case to Bahrain's criminal court.

Bahrain authorities have placed a travel ban on Majid, while Unicorn filed two civil cases against him and two other former employees in September last year to reclaim the funds. The bank has not disclosed the amount of the funds.

Sukuk on the cards

QATAR: Qatar International Islamic Bank is planning to issue a benchmark-sized Sukuk, likely to be US dollar-denominated, either by the end of this year or in early 2012.

According to Edward Wong, its chief financial officer, QNB Capital, Standard Chartered Bank and HSBC have been hired to arrange the Sukuk.

Emaar denies reports

UAE: News reports that Emaar Properties is using four of its shopping malls as collateral for an US$800 million two-tranche financing are "categorically incorrect", said the land and real estate developer.

It was previously reported that Emaar will utilize the Dubai Mall, Dubai Marina Mall and the Gold and Diamond Park shopping center as guarantees for the facility, consisting of a five-year tranche and an eight-year amortizing financing.

continued...

RATINGS

Sturdy support

MALAYSIA: RAM has reaffirmed the 'AA3/P1' ratings of Hong Leong Industries' RM500 million (US$157 million) Islamic commercial papers/ medium-term notes program. The long-term rating has a stable outlook.

Strong support

UAE: Fitch has affirmed the long-term issuer default rating of Mashreqbank at 'A'. The rating has a stable outlook.

Off the list

MALAYSIA: MARC has withdrawn its 'AAIS' rating on DRIR Management's senior class A Sukuk Ijarah medium-term notes following full redemption of the remaining outstanding RM40 million (US$12.5 million) principal amount of Sukuk on the 28th June 2011.

Fund recognition

UK: Moody's has assigned a 'Baa' bond fund rating to the Bank of London and The Middle East (BLME)'s Sharia'a Umbrella Fund - USD Income Fund, domiciled in Luxembourg.

Nigel Denison, the director and head of wealth management at BLME, said that the rating demonstrates that Islamic funds can compete with their conventional counterparts besides offering an international visibility.

Sturdy grades

SAUDI ARABIA: S&P has affirmed its 'AAA' long-term and 'A-1+' short-term credit ratings for the IDB with a stable outlook.

Fine ranking

UAE: Moody's has affirmed a provisional '(P)A3' rating on Abu Dhabi National Energy Company (TAQA)'s planned RM3.5 billion (US$1.1 billion) Islamic bond program with a stable outlook.

On robust ground

MALAYSIA: RAM has reaffirmed the 'AA1' rating of Ranhill Powertron's RM540 million (US$169 million) Islamic medium-term notes program with a stable outlook.

continued...

Dubai Islamic Bank, the National Bank of Abu Dhabi and Standard Chartered bank are said to be arranging the transaction.

QFIB gets 10% of Watania

QATAR: Qatar First Investment Bank (QFIB) has been allocated a 10% stake in Abu Dhabi–based National Takaful Company's (Watania) May 2011 IPO, following the bank's subscription to the offering.

The bank has also received a seat on the Takaful operator's board of directors.

Positive growth

KUWAIT: Total deposits of banks in the country increased by 9.6% to KWD1.7 billion (US$6.2 billion) at the end of June from KWD1.5 billion (US$5.44 billion) on the 1st January 2011, according to the Al-Joman Center for Economic Consultancy.

The increase in deposits is attributed to the decrease in financings in the six-month period.

Boubyan Bank reported the highest growth in provisions at KWD34 million (US$123.4 million) while Kuwait Finance House reported the highest provisions for financings at KWD55.3 million (US$200.7 million).

TAQA plans ringgit-based Sukuk

UAE: Abu Dhabi National Energy (TAQA) is planning to launch its first ringgit-denominated Sukuk program worth RM3.5 billion (US$1.1 billion) to diversify its financing options.

According to a company statement, once regulatory approval is received the program will allow the firm to issue quickly if and when market conditions are optimal.

TAQA is 75% owned by the Abu Dhabi government and invests in the global energy sector.

Islamic finance praised

SAUDI ARABIA: The Islamic finance industry can help improve the global financial system's stability and resilience, according to Dr Ahmad Mohamed Ali, the president of the IDB.

He explained that Islamic finance's risk sharing principles would encourage "greater discipline" in the global financial system.

Financing agreement renewed

SAUDI ARABIA: Abdullah Al-Khodari & Sons, a local construction-based firm, has signed an agreement with Riyad Bank to renew its existing Islamic financing facilities worth SAR901.53 million (US$240 million).

The funds will be used to create bonding commitments, finance capital requirements and working capital needs for the company's projects and businesses.

Forty five percent of the facility was comprised of Tawarruq, while the remaining 55% was made up of Murabahah, multi bonds and documentary credit. The financing can be renewed upon its maturity in 2014, although the credit limit extended by Riyad Bank will mature over the life of the company's respective projects, which range between two and four years.

Expanding east

UAE: Emirates NBD is looking to open representative offices in China and other Asia Pacific countries in addition to growing its Islamic banking operations in the region, according to Brian Shegar, the general manager for the Singapore-based branch of the bank.

Merger on the cards?

BAHRAIN: Islamic Finance *news* has learnt that First Leasing Bank is considering a merger with its parent bank, Ithmaar Bank.

According to a source, the transaction could take place next year.

continued...

MOVES

MIFC

MALAYSIA: Islamic Finance *news* has learnt that **Sharifuddin Khalid**, the director of the promotion unit at the Malaysia International Islamic Finance Center (MIFC), has vacated his post on the 30th September to become the director of the strategic communications department at the central bank, Bank Negara Malaysia.

Sharifuddin will be replaced by **Nik Mohamed Din Nik Musa**, who is currently the deputy director of the promotion unit.

BARCLAYS WEALTH

UAE: Barclays Wealth has appointed **Rory Gilbert** as the managing director and head of Middle East and North Africa for its international private banking unit.

Gilbert was previously the managing director and head of the UK high net worth at Barclays Wealth.

KUWAIT INTERNATIONAL BANK

KUWAIT: The Central Bank of Kuwait has approved Kuwait International Bank's appointment of **Loay Fadhil Maqams** as its executive vice-president and general manager of finance and investment.

EMIRATES NBD CAPITAL

SAUDI ARABIA: Emirates NBD Capital has reportedly appointed **Khaled Masri** as the new CEO.

Khaled was previously a partner and the head of brokerage at Dubai's Rasmala Investment Bank.

RESERVE BANK OF INDIA

INDIA: The government has appointed **Anil Kakodkar**, **Dipankar Gupta**, **Ela Bhatt**, **Indira Rajaraman**, **Kiran Karnik**, **M Rao**, and **Najeeb Jung** as the new directors of the Reserve Bank of India, the central bank.

The appointment follows the retirement of Sanjay Labroo, Suresh Kumar, Vaidyanathan, UR Rao, and YH Malegam as directors of the board.

continued...

Ithmaar is First Leasing Bank's single largest shareholder and owns 21.32% of the bank.

Financing for expansion

SAUDI ARABIA: Local clothing retailer Fawaz Abdulaziz Alhokair and Company has signed a US$50 million Murabahah-based financing facility with International Finance Corporation, a member of the World Bank.

The financing will be used to expand the company's operations outside Saudi Arabia.

Qatar Petroleum in syndicated financing deal

QATAR: Qatar Petroleum has completed a US$5.5 billion syndicated financing consisting of commercial debt and Islamic facilities, aimed at funding the Barzan gas project.

The financing for the US$10 billion project has a tenor of 16 years and is denominated in US dollars. The company might reduce the syndication to US$4 billion if a bond is issued later this year or early next year.

Qatar Petroleum carried out the syndication with a group of banks from Italy, Japan, South Korea, the Middle East and the United States. Islamic banks that are involved in the transaction are Barwa Bank, Masraf Al Rayan, Qatar International Islamic Bank, and Qatar Islamic Bank.

KFH to extend share buy-back

KUWAIT: Kuwait Finance House has obtained approval from the Central Bank of Kuwait to extend the period to buy back up to 10% of its issued shares by an additional six months.

The new buy-back period starts from the 19th October: the date its current period expires.

Higher yields for Bahrain sovereign

BAHRAIN: The government may have to pay higher yields for the planned sale of its US$1 billion sovereign Sukuk in November as the kingdom's debt risk surged to a two-year high on concerns of political instability.

The cost to insure Bahraini bonds rose 93 basis points to 386 basis points in September, the highest level since June 2009, while yields on the country's 6.247% Sukuk maturing in 2014 reached a four-month high of 3.241% on the 26th September.

The Central Bank of Bahrain is seeking returns of around 3.25% for the upcoming issuance.

Partnership deal

UAE: SHUAA Capital and Shariah compliant savings scheme, National Bonds Corporation (NBC), have signed an MoU to form a strategic alliance.

Under the terms of the agreement, SHUAA and its associated companies will provide financial advisory, brokerage, and investment management services to NBC in the UAE and the MENA region.

SHUAA and NBC will also launch several programs to expand their respective customer bases.

Aabar buys RHB with ADCB funds

UAE: Sovereign fund Aabar Investments will borrow US$1.9 billion from Abu Dhabi Commercial Bank (ADCB) to finance the acquisition of its 25% in RHB Capital from ADCB.

Aabar's parent firm, International Petroleum Investment Company, has provided its deposits with ADCB as collateral for the funding, which will be repaid by Aabar.

Coming up...

Volume 8 Issue 40 – 5th October 2011

Meet the Head
Qasim Aslam, senior associate, finance, Herbert Smith

Features
Islamic Finance – Corporate Governance; by Moinuddin Malim, CEO of Mashreq Al-Islami Finance Company and head of Islamic banking division at Mashreq Bank.

Growth of Islamic Finance in Malaysia and Beyond; by Alhami Mohd Abdan, head of international finance & capital markets at OCBC Al-Amin Bank.

MOVES

BANQUE SAUDI FRANSI

SAUDI ARABIA: The Saudi Arabian Monetary Agency has approved the appointment of **Patrice Couvegnes** as the managing director and foreign partner representative to the board of directors of Banque Saudi Fransi.

The appointment is effective from the 27th September 2011.

BANK PEMBANGUNAN MALAYSIA

MALAYSIA: Bank Pembangunan Malaysia has appointed **Mohammed Hussein** as its chairman, replacing Dr Abdul Samad Alias.

Mohammed is also the chairman of Bank Maybank Syariah Indonesia, Malaysia Commercial Development and Quill Capital Management.

SHUAA CAPITAL

UAE: SHUAA Capital has appointed **Michael Philipp** to its board of directors.

Philipp was previously the chairman and CEO for Europe, Middle East and Africa at Credit Suisse Group.

RBC DEXIA INVESTOR SERVICES

UAE: RBC Dexia Investor Services has appointed **Cormac Sheedy** as its senior executive officer for the Middle East and Africa region, based in Dubai.

Sheedy was previously the head of sales at SHUAA Capital.

KING & SPALDING

GLOBAL: Legal firm King & Spalding has increased its presence in the Middle East with the appointment of five lawyers to its offices in Abu Dhabi, Dubai, and Riyadh.

The attorneys are: counsel **Mazhar Khan** and associate **Hassan Al Jarrah** in Abu Dhabi; senior associate **Phillip C Sacks** in Dubai; and associates **Sanjarbek Abdukhalilov** and **Martin Forster-Jones** in Riyadh.

Their arrival adds to King & Spalding's strength in the areas of Islamic finance, finance, investment funds, mergers and acquisitions and corporate commercial work.

Fundraising opportunities remain

The current economic climate has led to upheaval in global markets, but the prevailing conditions have not yet left corporate fundraising at a standstill. According to industry players there are still opportunities for financing, although the environment has become increasingly challenging.

"In general, it is difficult, but for specific products there is still demand. It depends on the product and the assets," said a Bahrain-based Islamic banker.

Speaking to Islamic Finance *news*, he said that while transactions involving real estate and private equity may have been put on hold, opportunities remain for income-generating products which provide "aggressive" cashflow, such as leasing products.

Amjad Hussain, a partner at legal firm Eversheds in Qatar, said that in the Middle East, while the year started with a lot of optimism, over the last few months the performance of markets have caused some concern. Hence, the timing of when some transactions can come to market has not been fixed.

"Some deals can still go through, such as bilateral transactions, but across the region, capital market transactions are becoming more difficult to complete," he said. However, Eversheds is still seeing activity and according to Amjad, is currently involved in advising mergers and acquisitions and corporate restructurings. It also recently closed financings exceeding QAR1.6 billion (US$439.37 million).

Global markets showed one of the worst performances in years in the third quarter of 2011, with the New York Stock Exchange declining to its lowest level since 2008 and markets in Europe losing more than 20% on the region's debt worries, while those in Asia also saw double-digit losses in the three months to the 30th September.

To note is that the current market conditions have put off Khazanah Nasional's planned landmark yuan-denominated Sukuk issuance, estimated to amount to between CNY300 million (US$47.05 million) and CNY500 million (US$78.42 million).

Bankers for the deal, comprising BOC International, CIMB Group and The Royal Bank of Scotland, marketed the issuance to investors in Hong Kong and Singapore on the 19th and the 20th September, only to have the transaction put on hold the following week as market conditions deteriorated. The issuance was postponed before it could be priced. — *EB*

Renewed interest

During the 1997 Asian financial crash, Indonesia proved to be one of the worst hit among the affected Southeast Asian countries. With sky-rocketing inflation rates and a rapidly deflating currency, the country's banking system was faced with incredibly bleak prospects. International banks also took a massive hit during the crisis, with operations in Asia including Indonesia facing painful losses, as experienced by Citicorp and JP Morgan among others.

The Asian turmoil in 1997 reduced Citicorp's pretax earnings by approximately US$250 million, and as at the 31st December 1997, Bank of America's net income from Asia had dropped from US$224 million in 1996 to negative US$218 million. In the fourth quarter of 1997, JP Morgan designated US$587 million to non-performing loans, swaps and debt investment securities in Indonesia, Thailand and South Korea.

The bank also reported charge-offs of US$24 million in the same period, along with 60% of its total allowance for credit losses of US$1.081 billion to these three troubled economies. The Asian financial crisis affected the US economy on both a macro and microeconomic level: impacting growth rate, interest rates, trade balance and the banking sector for entities related to the region in unprecedented ways.

However, the tables have now turned; and with Indonesia's strengthening rupiah, alongside more prudent regulatory reforms as a result of the crisis, American investment banks such as JP Morgan, Citigroup and Morgan Stanley are showing a renewed interest in the country; uplifting its status from a once derelict economy over ten years ago, to today's emerging market with gleaming prospects.

Chetan Ahya, a Singapore-based economist at Morgan Stanley, was recently quoted as saying that Indonesia, with its strong growth prospects and increasingly bullish economy, should be included in the current BRIC market block alongside Brazil, Russia, India and China, based on its GDP growth prospects.

"What this means for the investor community is that they need to look at this asset class more seriously. Political stability, improved government finances and a natural advantage from demography and commodity resources are likely to unleash Indonesia's growth potential," he said. JP Morgan's May 2011 Global Data Watch also forecasts Indonesia's GDP growth for 2011 and 2012 at the promising levels of 6% and 6.7% respectively.

Testament to the international banking community's renewed interest in the Indonesian market is JP Morgan's interest in funding the country's infrastructure projects under the republic's Master Plan of Expansion and Acceleration of Indonesian Economic Development (MP3EI) program; which was recently confirmed by the bank's CEO, James Dimon, during a meeting with the republic's president, Susilo Bambang Yudhoyono. The bank has also made high-profile moves and senior hires this year to boost its presence in the ASEAN region and encourage investor activity.

According to one Indonesia-based analyst, American investment banks are also expected to further boost the domestic Islamic issuance market. "The presence of established investment banks and an increasingly positive outlook by American banks in particular; with their unrivaled experience in structuring and aligning deals, is expected to increase the influx of foreign investments in Indonesia and provide a suitable market for corporate bond issuances; including the highly marketable 144A papers, and boost the republic's desire to amend its regulatory and tax environment for the creation of an active corporate Sukuk issuance market." — *NH*

CIBFM: The Center for Islamic Banking, Finance and Management

BRUNEI

By Muhd Jamil Abas Abdul 'Ali, IFN Correspondent

The Ministry of Finance of Brunei (MOF) has established a center for learning called the Center for Islamic Banking, Finance and Management (CIBFM), specializing in further education and training of human resources involved in the finance industry. This is a significant step in the development of the financial system and financial institutions in Brunei.

The center was incorporated on the 30th January 2010 as a limited company. Although the center is the brainchild of the MOF, its stakeholders comprise the MOF and financial institutions. The objective of the MOF is to include other stakeholders to enhance regulator participation with appropriate industrial inputs. This is a laudable effort since CIBFM will be providing courses which cater to both the needs of the regulator and those of Islamic and conventional finance industry players: which will foster Brunei's aim of becoming an alternative financial hub in the region.

This greater participation of industry players will benefit the Brunei finance industry as a whole in bringing about its development in a holistic manner.

Presently, the management of CIBFM includes representation from the MOF and nine institutional banks in Brunei, although it is expected to further include government bodies, universities, statutory bodies, selected incorporated entities (both local and foreign) and alliance partners.

The CIBFM's core areas of concentration are in human talent development, product development, education and reference points (for product knowledge, databases and new product structure). As part of its program, the CIBFM will invite speakers and researchers in various fields connected with its core areas.

Interestingly, one of CIBFM's areas of interest is in product development and the structuring of more complexed, liquid and long-term products that will meet the broad needs of investors and issuers of financial instruments with particular focus on the needs of Brunei.

CIBFM is guided by a board of directors which provides strategic direction and make policy decisions, and an executive committee which determines the operational needs and course content of CIBFM. The management team is led by Makhtar Abdullah, the acting CEO/ director of training and promotion, and Suriati Mohamad Taib, the assistant director of training and promotion.

Makhtar, who is trained in both legal and accounting, is experienced in restructuring and green field operations and worked in Dubai before joining CIBFM. Suriati is an experienced regulator from the MOF and Authoriti Monitori Brunei Darussalam and has experience in marketing, promotion and human resource training. Their shared experience will be a source of benefit to the CIBFM. The list of courses offered by CIBFM covers both Islamic and conventional banking and finance subjects, including areas of soft skills management.

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SIBOS: The SWIFT International Banking Operations Seminar

CANADA

By Jeffrey Graham, IFN Correspondent

SIBOS, the SWIFT international banking operations seminar, is an annual banking and financial conference held by the Society for Worldwide Interbank Financial Telecommunication in various cities around the world. The first SIBOS conference was held in Brussels in 1978.

Most recently, SIBOS was held for the first time in Toronto, from the 19th - 23rd September 2011. SWIFT, the Society for Worldwide Interbank Financial Telecommunication, is a member-owned cooperative that provides a communications platform, products and services connecting more than 9,500 banking organizations, securities institutions and corporate customers in 210 countries.

For the first time, in 2011 SIBOS featured a panel on Islamic finance, a topic suggested by representatives of the Toronto Financial Services Alliance (TFSA). The Islamic finance panel discussion provided a good opportunity to demystify the industry to the audience and to correct misconceptions (e.g. that Islamic finance is only for Muslims).

The panel: of Rushdi Siddiqui (Thomson Reuters), Yakub Bobat (HSBC Amanah), Daud Vicary Abdullah (Global University Of Islamic Finance [INCEIF]) and Afaq Khan (Standard Chartered Saadiq), noted that Islamic finance will become the largest part of the banking system across a number of Islamic countries in the GCC and Asia by the end of the decade.

There was a discussion on Sukuk, with a number of points being made including that there is a need for more Sukuk instruments and for sovereigns to lead the way. Further, it was noted that Sukukholders tend to hold to maturity given the scarcity of Sukuk instruments, thus impacting the availability of Sukuk in the secondary market. Finally, it was noted that the public and private sectors should consider the potential of Sukuk funds for project finance infrastructure.

The panel discussed the need for standardization, noting that good progress with treasury documentation and product structures across markets is being made. As the business continues to be more globalized, particularly in capital markets, the business is already harmonized. Further, the panel noted that differences are minor and healthy to provide for innovation.

The benefits of Islamic finance as a medium of banking for all were also noted, and that value-based Islamic equity funds performed better than conventional funds through the recent global crisis given the environmental, social and governance filters, including leverage.

It was noted that Islamic funding happens to be somewhat cheaper due to the considerable liquidity looking for a home. Further, Islamic finance is seen as being a bridge to connect GCC capital to meet the financing requirements of the Asian emerging markets.

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The need for continued investment in raising awareness among all stakeholders and target markets was discussed, with the importance of investment in education for a future talent pipeline being acknowledged. The panel noted the need for regulatory reforms to facilitate the establishment of Islamic finance in western countries such as Canada.

Finally, looking ahead panelists suggested that in the next 12 to 24 months, Asian emerging markets will be the key drivers of growth, the introduction of Islamic finance by the European markets will be slow and new markets will introduce Islamic finance within their system (such as Egypt and other North African countries). It was noted that Canada has a strong likelihood of developing appropriate regulations to meet the needs of a growing minority affinity population.

Later, at a local reception of the TFSA Islamic Finance Working Group hosted at the offices of KPMG, Rushdi highlighted some of the important characteristics of Islamic finance (e.g. risk sharing rather than risk shifting, and faith-based investing), and its prospects for growth in the rapidly developing economies of Southeast Asia and elsewhere. Daud Vicary described the important role being played by INCEIF in creating a talent pool for the Islamic finance industry, its growing international allegiances and its diverse student population, including 30% non-Muslims.

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Implications of the growth of rahn on Islamic banks

INDONESIA

By Rizqullah, IFN Correspondent

In general, a bank acts as an intermediary institution between those who have funds and those who need them. The Indonesian Shariah Banking Act No. 21/2008 states that the function of an Islamic bank is not only that of an intermediary institution, but is also:

- Obligated to raise funding from the community and distribute it amongst the community;
- Allowed to perform social functions in the form of Baitulmal. Its task is to collect funds from the community (zakat, infaq, sedekah, hibah and other forms of charity);
- Allowed to collect funds through waqf, then fund these to nazhir and distribute the funds to the community based on the waqf expectation.

The main role of an Islamic bank is to be an intermediary institution of funding and financing for the community, with a social value in particular, so that it will generate economic activities for the community.

Islamic banking has a great influence in promoting small and medium-sized enterprises, which have proven to endure amid the global crisis. That is why, since its establishment in 1992, the first Islamic bank in Indonesia and other Islamic banks established later were not affected too much by the crisis due to, among other things, the absence of speculative and derivative transactions in their activities.

Under the above banking act, Islamic banks are also allowed to perform pawn services (rahn). Rahn means to hold debtors' certain properties as guarantee or collateral for a loan the debtor borrows.

The properties in custody must have an economic value, so that the creditor has a guarantee to get back all or a part of his receivables. Rahn is a loan guarantee or pawning done in accordance with Islamic teachings.

The collateral, gold in particular, is placed in a deposit box during the pawning financing contract and the bank charges some fees for the deposit box (maintenance) to the customer. The financing itself is provided using a qard contract — goodwill financing for social or commercial purposes with specific terms and conditions.

Research conducted by one of the Islamic banks in Indonesia shows that rahn financing is used to obtain short-term liquidity: for capital funds, consumption purposes, healthcare, school fees and others. However, now gold rahn is not only used to get short-term liquidity, but is also an investment instrument. This is because the price of gold is more stable than foreign currencies.

Statistically, the price of gold has risen by approximately 40% per annum as investors perceive that gold is the best investment instrument to protect wealth from inflation. The above chart shows the trend of gold prices over the last 10 years:

It should be noted that qard contracts restrict any kind of multiplier transactions, whereby the amount of the fund returned must be the same as when it was given in the first place. In Islamic

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banks, qard contracts are usually bundled with other products in order to avoid misuse of the qard fund. Qard per se will give a negative impact on the bank's balance sheet and the main function of the bank as an intermediary financial institution will be ineffective. Qard funds are effective if used to promote economic activities in the real sector, so as to boost national economic growth.

Under Fatwa No. 79/DSN-MUI/III/2011 issued by the National Shariah Board, it is clearly written that qard funds taken from customers' funds are only complementary contracts for commercial purposes. Funds for social purposes cannot be taken from the customer's fund. This fatwa provides a wide opportunity for Islamic banks to use qard as a complementary contract in rahn. In practice, Islamic banks use rahn to extend financing with a perspective towards investments.

Statistical data from the Central Bank of Indonesia shows that financing with qard until June 2011 amounted to IDR7.36 trillion (US$828 million), tripling the amount from previous years. Qard financing contributes to 8.9% of the overall financing of Islamic banks, which has reached IDR 82.61 trillion (US$9.3 billion). Rahn products bundled with qard have significantly contributed to the profit increase of Islamic banks as the fees earned from this product are higher than the margin obtained from other financing activities. It is no wonder that almost all Islamic banks in Indonesia aggressively attempt to boost the volume of rahn in their books.

The rule of thumb in every business is: higher return, higher risk. Although gold is considered to be the steadiest investment instrument, and it can recover gains quickly, in previous years there have also been times when the price of gold fell significantly.

The Islamic banks aggressively booking rahn are therefore advised to take stringent measures to mitigate such a risk in order to avoid losses and possible contagious effects in the Islamic banking industry. Proper standard operating procedures should be in place and the financing limits must also be set clearly and precisely. Furthermore, continuous monitoring on rahn financing will help the banks to better manage their business and risks.

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Saudi Arabia: CMA-regulated investment funds

SAUDI ARABIA

By Nabil Issa, IFN Correspondent

There is no perfect solution when structuring investments in Saudi Arabia due to foreign ownership restrictions, tax and the legal system. However, an investment fund established under the Investment Fund Regulations (Regulations) issued by the Capital Market Authority (CMA) overcomes most of these obstacles and is one of the best ways for foreigners, including GCC nationals, to invest in the kingdom. This article discusses CMA-regulated investment funds (CMA funds) and some of the salient advantages and disadvantages thereof.

Fund managers should note that it is a challenge to raise money if the CMA fund is not Shariah compliant.

There are a number of sectors in Saudi Arabia which are restricted to Saudi and GCC investors, including the healthcare and education sectors, among others. Foreign investors cannot operate in these sectors and cannot own interests in a company operating in such sectors.

A CMA fund is not a legal entity and cannot own investments by itself. In short, a CMA fund is a contractual arrangement between the fund manager and the unit holders, and which contract must be in the form of the terms and conditions prescribed by the Regulations. CMA funds invest through a 'custodian', which is generally a subsidiary of the fund manager.

There are generally no restrictions on the nationality of investors in CMA funds. However real estate funds are, strictly speaking, restricted to Saudi nationals, GCC nationals and foreign residents of Saudi Arabia. Furthermore, no single investor (other than the fund manager) should own more than 10% of the interests in a CMA fund. However, the authors are aware of numerous examples where the Saudi authorities have relaxed such restrictions.

The biggest disadvantage of a CMA fund is that it must be established and managed by a CMA authorized person. If a fund manager is not a CMA authorized person then it will need to liaise with a CMA authorized person to form a CMA fund. If the fund manager is established in a well-regulated jurisdication, it may be possible to be the sub-fund manager.

Apart from this, CMA funds are relatively straightforward to establish. Once the CMA fund has prepared and filed its documents with the CMA, it may launch within 15 business days (unless the CMA raises any objections).

A CMA fund also has some significant tax advantages. The CMA fund and the Saudi limited liability company enter into and file certain agreements pursuant to which they agree that the true owner of the underlying investments is the CMA fund. Therefore, the Saudi limited liability company is currently exempt from all Saudi Arabia taxes (including withholding tax and zakat).

In addition, the CMA fund itself is not currently subject to tax in the kingdom because it is not a legal entity and the tax authorities do not currently have the ability to tax a CMA fund. While the Saudi tax authorities may develop a means of taxing CMA funds in the future, at present, it is the most tax efficient structure possible.

Furthermore, a CMA fund allows foreigners to invest in restricted sectors and real estate in most of Saudi Arabia. The main hurdles are partnering with a CMA authorized person and structuring the ownership of the Saudi limited liability company.

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Islamic finance is a priority from a development perspective

SRI LANKA/MALDIVES

By Roshan Madawela

Islamic finance should really take off in Sri Lanka as it is currently the need of the hour to have an alternative financing system, according to KMM Jabir, the deputy general manager of Peoples Leasing Company. Furthermore, he added that: "What we have recently witnessed is that the conventional financial system is not best suited to address the needs of the different communities — the system has proven to be vulnerable."

In the Sri Lankan context, there is a massive pent-up demand within the rural Muslim communities. We find that something in the range of 70-75% of people do not partake in the conventional banking system due to their religious beliefs.

As a result, a colossal amount of funds are lying idle whereby they are used neither for investments nor for the country's economic growth, according to KMM Jabir, who made these comments in a recent report from KPMG and the Research Intelligence Unit. He argues that alternative banking arrangements are currently a priority from a development perspective.

Peoples Leasing Company recently launched new branches in the east of Sri Lanka, where there is a high level of demand and interest. Moreover, there have also been a high number of transactions taking place in the initial stages, thereby proving the underlying demand for these services.

We have also found that other Islamic finance service providers have been stepping up their activities. However, the problem of geographic investment imbalance remains to be addressed. Currently, 70% of the savings are raised in rural areas, but they only receive a small 30% share of the investments.

Meanwhile, Amana Takaful issued 800,000 shares in an IPO on the Maldives Stock Exchange in September. The company, in its IPO prospectus, said that the Shariah compliant nature of its business is expected to be a key attraction in the Maldives because of its growing religious awareness. Amana Takaful will offer 20% of the shares to expatriates and 15% to overseas applicants, with the remaining 65% going to the Maldivians.

The IPO opened on the 20th September 2011 and will close on the 19th October 2011. The company hopes to generate LKR16 million (US$1.4 million) in proceeds through the IPO, by selling shares at a low issue price of LKR20 (US$0.18) (bundled in packages of 25).

Hareez Sulaiman, the CEO of Amana Takaful Maldives, said that the IPO would "change the way the Maldivian Stock Exchange operates, as this will be the first time that Maldivians, expatriates and foreigners will be able to purchase securities in a Maldivian listed company."

The decision to price the shares low "at a price affordable to any average Maldivian" also promises to "be a kick starter for an active stock market which may benefit the entire economy at large," said the company.

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Shifting of financial burden in higher education system

UK

Dr Natalie Schoon, IFN Correspondent

The Lord Browne report on higher education, published in October 2010, outlined a number of reforms for the higher education system in the UK including a raise in tuition fees and the shifting of the financial burden for education from the tax payers to the graduates themselves.

This has resulted in the proposal that graduates earning in excess of GBP21,000 (US$22,694) per year should be required to pay interest on their student loans of up to 3% above inflation instead of paying the rate of inflation, as is currently the case.

The Federation of Student Islamic Societies (FOSIS) has opposed this reform as being unacceptable for Muslim students due to the prohibition on riba. FOSIS will be working with the National Union of Students (NUS) to formulate a reform that could be acceptable for all students.

On a related topic, Gatehouse Bank completed the acquisition of a purpose-built student accommodation property in Glasgow which brings the total value of the bank's real estate portfolio up to GBP280 million (US$435.91 million).

In early September, Bank of London and The Middle East published its interim report for the first six months of 2011 reporting a 12% increase in operating income and a net operating profit before tax of GBP2 million (US$3.11 million).

Excluding the effect of any recoveries, this compares to GBP2.2 million (US$3.43 million) during the first half of last year, which is a reduction of 8%.

The Islamic Finance Forum (a professional interest group of the Chartered Institute for Securities and Investments) has announced that its next meeting will take place on the 18th of October 2011 and will address how Islamic asset management compares to the wider asset management industry. The UK Islamic Finance Secretariat is now fully integrated in TheCityUK, and is currently further formalizing its offering.

Dr Natalie Schoon is the principal consultant at Formabb and she can be contacted at mail@formabb.co.uk.

EIIB's new shareholder casting doubts on business?

Barely a year since the European Islamic Investment Bank (EIIB) embarked on a new business strategy in response to flagging profits from the global financial crisis, there is speculation that the bank's outlook is in doubt once again following the entry of HBG Holdings as its largest shareholder.

Islamic Finance *news* understands that HBG has not prioritized discussions with management on the bank's strategy. It is also speculated that the departure of Subhi Benkhadra, who was EIIB's CEO, was a result of misunderstandings between HBG and the bank's management.

HBG, a UK-based private equity and fund management firm with offices in Dubai and Saudi Arabia, has increased its stake to around 15% in EIIB since it first bought around 13% of the bank at an undisclosed price in the middle of this year.

Trouble at the top?

According to a source, HBG has yet to outline clear business plans and a direction for the bank. Two directors, George Morton and Salman Abbasi, have resigned from the bank's board, and another director, Yusef Abu Khadra, reportedly chose not to stand for re-election due to a conflict with the new shareholder.

The bank has also seen the appointment of Zulfi-Caar Hydari, CEO of HBG, and Michael Toxvaerd, the chief investment officer of the private equity firm, to its board of directors.

Islamic Finance *news* has also learnt that EIIB's merger and acquisition plans, through which it has been eyeing expansion in Bahrain, have been put on hold as a result of the uncertain atmosphere at the bank.

EIIB declined to comment when queried on Benkhadra's departure and on the impact HBG's entry has had on the bank's operations. However, it highlighted the bank's record result for the first half of 2011, "which reflects the bank's ability to source and develop successful private equity investments and the hard work of EIIB's dedicated staff".

It also said that: "The market environment remains extremely challenging for all banks, however with our strong liquidity and capital position, EIIB is well-positioned to capitalize on any opportunities which may arise." HBG did not respond to requests for comment.

Trying for a turnaround

Benkhadra was appointed as CEO at EIIB in March last year to help reverse the bank's fortunes after it was almost brought to its knees by the financial crisis. The announcement of his exit, on the 16th June 2011, came a little over a week prior to the bank's announcement of record profits in the first half of this year, following four straight years of losses from 2007 through to 2010.

The bank has now realigned its strategy to focus on three core businesses within Islamic markets: namely investment management, banking and financial services.

> *"HBG has yet to outline clear business plans and a direction for EIIB"*

In June this year, the bank chose to relocate some personnel from its UK headquarters to Bahrain, in an effort to move closer to its target Islamic markets. The relocated staff comprised those from the bank's private equity and capital markets businesses, while it also made some real estate hires.

When announcing Benkhadra's departure, EIIB said that the day-to-day operations of the bank would be overseen by Keith McLeod, its finance director and deputy CEO, and the remaining management team, who will also be assisted and supported by the bank's board.

Finding value

It is speculated that HBG does not have a long-term view with regard to its interest in EIIB, as its objective as a private equity firm is primarily to increase the value of assets to achieve a profitable exit.

According to its profile, HBG serves high net worth private and institutional clients in the GCC. Its four business lines comprise quoted equity, unquoted equity, real estate and strategic advisory.

At the time of HBG's acquisition of EIIB, which is listed on the London Stock Exchange's Alternative Investments Market (AIM), Toxvaerd said that: "This strategic stake in EIIB is in keeping with our objective of investing in undervalued AIM-listed companies. We believe there is significant upside potential in this business and we hope to play an active role in unlocking value."

HBG may have yet to see significant capital gains from its entry into EIIB. As at the 30th September, the bank's share price stood at GBP2.80 (US$4.34) compared to GBP3.07 (US$4.76) at the time of acquisition.

However, the bank has fared better in improving its financial position. For the six months to the 30th June, it reported a record net income of GBP11.8 million (US$18.3 million) compared to a loss of GBP2.2 million (US$3.41 million) a year earlier and GBP5.92 million (US$9.18 million) at the end of 2010, mainly due to a gain from its disposal of oil and gas properties. It also recorded a GBP3.2 million (US$4.96 million) profit from the reversal of previous impairments.

EIIB's financials have clearly perked up since suffering the impact of the last financial crisis. It remains to be seen whether its new shareholders can maintain the bank's upward momentum or if their entry has resulted in further uncertainty for the bank. — *EB*

Challenges: First Islamic financing for real estate investments in Japan

MIKIHISA HIRAI highlights the challenges faced by private practitioners in developing Shariah compliant structuring and product offerings that are also compatible with the Japanese tax and legal regime.

Japan is a non-Muslim country. With only 50 mosques in Japan in 2009, the country's Muslim community (estimated to represent far less than 1% of the population) is very small. It is therefore unsurprising that the Japanese legal and tax system has only a faint notion of how to accommodate transactions that comply with Shariah principles.

Importance of accommodating Islamic finance

Despite the relatively minuscule Islamic footprint within Japan's borders, Japan's economic relationship with Islamic countries is surprisingly substantial. For example, Japan imports almost all of its oil needs, which make up approximately 15% of all Japanese imports, and roughly 90% of which is supplied by the Gulf nations.

Further, Japan's socio-economic ties with Indonesia, a predominantly Muslim country, are growing, as evidenced by increases in both Indonesian students and in skilled nurses in Japan.

Moreover, in today's financial world, capital travels across country borders at volumes and speeds unimagined even a decade ago. The characteristics of investment capital exporters have also diversified. It is little wonder then that Islamic financing has attracted attention from a variety of parties and that its techniques have evolved, becoming more sophisticated.

Therefore, it is essential for any non-Muslim country wanting to capitalize on these developments to improve its financial infrastructure to accommodate Shariah compliant products and financial techniques.

First Islamic financing for real estate

I run a Japan-based real estate fund and asset management firm, which is unique in that it has been managing investment capital from institutional investors from the Middle East into Japanese real estate for over seven years. Naturally, we have developed our own significant interest in Islamic financing and devoted much attention towards executing Shariah compliant real estate transactions.

Our extensive discussions with a number of Islamic financial institutions and our relentless efforts to find a way to develop and implement Shariah compliant financing in Japan for real estate culminated in 2007 when we successfully delivered (and continue to manage) a Japanese commercial real estate investment involving three office properties in Tokyo for a Gulf-based Islamic global real estate fund.

> *"As is customary in today's structured financing, both the lessor and the lessee vehicles were placed under bankruptcy-remote structures"*

Strategies as a pioneer

In the past, I was instrumental in pioneering a number of 'first time' financial transactions. Beginning with (1) a debt assumption transaction I executed for a Japanese corporation in the 1980s, I have also initiated and delivered (2) US real estate investment funds for Japanese life insurers and corporate investors in the 1980s and (3) in 1990, bulk sales of Japanese non-performing loans.

When faced with a new type of transaction, my philosophy is to get it done with the least number of parties involved in the most simplistic way, although this novel transaction may eventually be deemed too primitive and small in size in subsequent years.

For any 'first' kind of deal, you do not want to have parties whose petty concerns, grievances, and other considerations could potentially stall the process and possibly risk the closing of the deal. Often, the significance of the completion of the deal itself can work to nullify and negate any minor concerns some parties might have expressed.

Based on this principle, I eliminated the option of using a trust beneficial interest, which is used extensively for Japanese real estate investments in conventional space.

The biggest challenges and solutions implemented

Paying or receiving interest is prohibited as riba under Islamic principles. Therein lies a central challenge: in a country where Islamic principles are not recognized, it is a formidable task to create an 'interest-free debt financing' transaction. However, because of their sheer size and various other reasons, real estate transactions require substantial amounts of debt funding.

In addressing these challenges, we first studied the use of installment sales techniques.

However, we quickly realized that unless certain components of such installment sales payment amounts are explicitly stated as representing interest in the relevant agreement, such payment amounts would be subject to Japan's consumption tax at a rate of 5%.

In a real estate transaction for which a substantial portion of the acquisition is financed by debt, such a tax burden would erode the value of the transaction substantially. Setting aside how the transaction is documented, it has raised a fundamental question of how to differentiate between the summation

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of installment sales payments and the acquisition price of the real estate assets. If it were recognized as an 'interest', it would have created a problem from the Shariah perspective.

On the other hand, if it were recognized as commission, then we would have faced the additional cost of consumption taxes. We have abandoned this approach because this conundrum is essentially irreconcilable.

Second, we studied a finance lease transaction as an acceptable analogue to Ijarah financing. Simply stated, the lessor leases the relevant real estate asset (provides a debt financing, under conventional concepts) to the lessee, which here would be an equity investor.

Under the relevant lease agreement, the lessee makes a series of lease payments, beginning with a lump sum payment of, say, 30% of the acquisition value of assets. This would be followed by a series of equal payments at a rate commensurate with what a debt provider under conventional terms would request as interest, until the remainder, say 70% of the acquisition value, is finally paid.

Naturally, in our case, the lessee is willing to accept a balance sheet treatment that recognizes that the economic substance of the relevant real estate assets resides with the lessee. Structuring the lease agreement to this effect was relatively easy. It is important to understand that in this case the legal ownership of the assets resides with the lessor.

As is customary in today's structured financing, both the lessor and the lessee vehicles were placed under bankruptcy-remote structures.

Despite its inherent advantages, this bankruptcy-remote structuring also created a tax problem from the viewpoint of Japanese corporation tax. Under the tax rule, the above-mentioned finance lease transaction is treated in almost the same way as a sales transaction, for which payments are made on an installment basis.

(The difference between 'installment sales' and 'finance leasing' is that the ownership of the asset is transferred to the buyer for the former, whereas it remains with the lessor (seller) for the latter. In terms of tax treatment, real estate holding tax, certain transaction-related tax items and consumption taxes are treated differently for 'installment sales' and 'finance leasing'.)

This means that the lessor ends up recording revenue recognition of close to 30% initially. Assuming that it incurs its financing cost on a level basis, the lessor would end up recording a disproportionate taxable income at the outset. This further means that it would have substantial tax payment obligations, for which it would then have to find appropriate funding. This creates both funding and deal-economics problems.

"Despite its inherent advantages, this bankruptcy-remote structuring also created a tax problem from the viewpoint of Japanese corporation tax"

For a while, we were at a loss for a solution to these problems, but we eventually found an answer in a section of the Japanese tax code connected with a sale and leaseback transaction.

By implementing a combination of a sale of assets and a leaseback on a finance lease basis, which is deemed as a loan from the lessor to the lessee under Japanese tax perspectives, the subject asset is not deemed to have changed hands.

Therefore, the lessor vehicle is relieved from the potential of substantial income recognition, with its attendant difficulties, at the outset.

Conclusion

The experience outlined above was very instructive, in that we found that the Japanese tax regime presented the biggest challenge. We were somehow able to find valid solutions to circumvent the tax regime's restrictions.

However, I am not sure whether the Japanese tax regime can be amended to provide easier solutions. As private practitioners, we need to continue to develop better Shariah compliant structuring and product offerings that are also compatible with the Japanese tax and legal regime.

We are encouraged because the Japanese government is making conscious efforts to promote capital inflows from the Islamic world by introducing a favorable withholding tax treatment on fixed-dividend payments made by a specific purpose trust, which is akin to Sukuk.

In accordance with the Asset Liquidation Law, the Special Tax Measurement Law and related regulations amended in May 2011, profit distribution and profit from redemption in connection with certain bond-type-trust beneficiary interest becomes exempted from taxation.

Detailed treatments will be published by the related enforcement orders in accordance with the enforcement of the amendments of the laws.

Under the principle that a favorable treatment may be made available to bond-akin investments, this new tax break route may be strategically well-utilized for real estate equity investments.

I do hope that these preliminary efforts, by both private sector practitioners and government officials, will pave the way towards a Japanese investment environment more accommodating for Islamic capital providers and their users.

It is also important to note that Islamic financing is not solely for Muslims. It can be made available to whoever recognizes and wishes to leverage its advantages.

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Structured finance in India's microfinance sector

What is the outlook for the microfinance sector in India, and what challenges are hindering its development? H JAYESH explores the current microfinance landscape for the world's third largest Muslim population: including the regulatory framework, the structures and opportunities available, and the potential pitfalls.

In our previous articles we have discussed how Islamic finance can flourish in India, if the market is willing to look beyond the hurdles and focus on how to tap the vast resources. We have also written on how Islamic finance can be structured for investments in real estate and trade finance.

There are a few other sectors, however, where Islamic finance can make an immediate impact through appropriate structuring. This article attempts to discuss one of these sectors: where foreign investment can be structured on a cross-border basis using appropriate entities.

Microfinance

Microfinance has witnessed exceptional growth in India and has garnered the attention of the international investor community. Notwithstanding the recent political developments, the sector still has the ability to grow exponentially, given the copious need for funds from people who are currently outside the formal financial system.

This, coupled with the fact that India continues to offer a steady growth rate of at least 6% compared to western economies, and notwithstanding the global turmoil, makes a compelling case for investments in microfinance.

Another reason why we feel that Islamic finance should succeed in the microfinance context is because the industry eschews riba, which intuitively holds singular appeal, as it provides an efficacious remedy to the vexing issue of usurious rates which is causing consternation to policymakers in India.

It also holds the potential to make financial inclusion more inclusive, since even the Muslim population would definitely want to be part of such a system.

Regulatory framework

India currently does not have any formal legislation to regulate microfinance, although a bill on microfinance has been pending with the Indian Parliament for some time. Microfinance institutions (MFIs) can be set up as non-deposit accepting non-banking financial companies (NBFCs), and they fall within the purview of the regulatory scrutiny of the Reserve Bank of India (RBI), the regulator for banks and non-banking financial institutions.

They can also be set up as not-for-profit companies. Besides these formal set-ups, non-government organizations and self-help groups also populate the sector.

Due to some recent incidents in Andhra Pradesh, where MFIs were reportedly charging usurious rates, a committee set up by the RBI has recommended that a separate category of NBFCs be licensed whose primary business would be to finance the microfinance sector.

If the proposals are implemented, it would bring about greater transparency to the sector. Another benefit is that currently 100% foreign investments in NBFCs are permissible.

Structures

It is possible to structure funding to the microfinance sector in various ways. The simplest structure would be to set up a 100% foreign-owned NBFC under the automatic route which in turn lends to the microfinance sector. Alternatively, investors can set up an offshore fund under a Musharakah structure, which invests in existing NBFCs.

Lending at the local level can also be carried out using the various permissible structures under Shariah. For example, using Murabahah for below poverty line borrowers, the MFI can buy the goods and sell at a mark-up on an installment basis. This may increase the cost of the transaction from a stamp duty perspective.

This structure can be easily replicated and is prevalent in Sudan, Syria, Bangladesh, Bangladesh, Afghanistan, to name a few. However some scholars have expressed doubt, since they believe Murabahah financing is disguised riba and therefore violates the spirit of Shariah.

This issue can be resolved by funding selected assets which can appreciate in value. So instead of on-selling at a mark-up to the borrower, the asset can be bought by the MFI who will retain ownership while conferring possession (of the assets) to the borrower.

> ***"One of the key challenges for foreign entities in the microfinance space in India is the ability to repatriate the money outside India"***

If the borrower is able to repay as per stipulation, then the ownership will be transferred by the MFI to the borrower at the end of the tenor of the facility.

Alternatively, MFIs can look to replicate the partnership model. This structure would be viable at a slightly more sophisticated level, where funding is needed for small projects such as providing clean drinking water facilities, or an education facility or even micro power projects.

The MFI can take equity and managerial stakes in such projects to ensure that the proceeds of the funds are used as mandated.

MFIs models that are set up as NBFCs

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allow scalability, in the sense that such NBFCs can tap local funds besides foreign funding. Also, the NBFCs can down-sell their loans to other corporate entities.

Since the loans are backed in most cases by real assets, we do not think that such a transaction would be impermissible under Shariah.

MFIs can also replicate the Ijarah model, although this would result in higher costs.

One of the key challenges for foreign entities in the microfinance space in India is the ability to repatriate the money outside India. Alternative funding structures would have to be used. This would involve creating synthetic cross-border bridges.

Global experience

The global experience of microfinance using Shariah is positive. Some of the notable microfinance initiatives are:

- Arab Fund for Economic and Social Development (AFESD): An autonomous regional pan-Arab development finance organization made up of the members of the League of Arab States. AFESD promotes the economic and social development of Arab countries.

- Abdul Latif Jameel Company Community Service Programs (ALJC): Launched on the basis of a business plan developed by the Grameen Foundation and benefiting from the continued support of Grameen Bank advisors, ALJC aims to empower low-income women in Saudi Arabia to improve their lives and has piloted a 'micro-retail' strategy that uses female loan officers to offer interest-free loans.

- Grameen-Jameel Pan-Arab Microfinance: Launched in 2003 as "the first social business in the Arab world" and operational across, inter alia, Egypt, Jordan, Lebanon, Morocco, Palestine, Saudi Arabia, Sudan, Syria, Tunisia and Yemen, Grameen-Jameel is a partnership between the Bangladeshi Grameen Foundation and the Saudi Arabian Abdul Latif Jameel Group.

  It forms strategic partnerships with select MENA MFIs and works at increasing their capacity by providing financial support, technical assistance, training and access to translated resources on best practice microfinance.

- Islami Bank Bangladesh/Social and Investment Bank Bangladesh, Al-Fallah and Rescue: Promotes microfinance in Bangladesh, using structures such as Murabahah and deferred sale contracts (bai mu'ajjal) based on group lending principles.

- Saudi Credit Bank (SCB): Helps Saudi citizens with limited financial resources overcome their financial difficulties. SCB extends interest-free loans for marriage, home repair, vocational pursuits, and other social endeavors, including family loans, to Saudi citizens.

- Community financing: In Pakistan Islamic microfinance is dispensed by small interest-free charitable loans (Qard Hasan) in a spirit of Islamic brotherhood. There is no funding from international donors or financial institutions.

  All activities revolve around the mosques and involve close interaction with the community. There are no independent officers and loans are disbursed and recovered in the mosque. It uses collateral-free group and individual financing based on mutual guarantees.

Challenges in India

Foreign exchange norms: We have dealt with some of these restrictions in our previous articles. To reiterate, the Indian rupee is not fully convertible on the capital account and the RBI imposes significant restrictions on foreign exchange movements.

Although in recent years a gradual relaxation of restrictions in the foreign exchange market has been witnessed, some of the structures commonly used elsewhere may need modification.

Enforceability: Recovery proceedings in India can lead to inordinate delays, especially when lenders do not have access to special recovery laws that are designed for banks. Loan recovery proceedings would have to be initiated in civil courts, which is time consuming. However, typically recovery modus involves peer/social pressure.

Shariah scholars: This is a serious challenge facing not just India, but other jurisdictions as well. There is a dearth of quality scholars in this field, as the industry struggles with growing demand and an inadequate talent pool. Also because there is no standardization of what constitutes a permissible Shariah structure, different scholars have different interpretations.

Such interpretations are usually a function of the stage of development of jurisprudence in the particular region. India in particular faces significant challenges in this regard, since different regions of the country have their own specific customs and mores that result in different practices. Thus it is possible for Shariah scholars from the north to have different views compared to Shariah scholars from the south.

A related point is the complex issue of the involvement of local scholars in cross-border structures. If the foreign entity sets up an offshore vehicle to fund an onshore entity, then will it involve foreign scholars of that jurisdiction to vet the viability of such a structure or would Indian scholars also have a say?

Again, how will conflicts between different scholars be resolved? The current practice (as we understand), is to empanel select scholars or form a committee. The board of the offshore entity then takes the final approval of such a committee. The committee is responsible for vetting all structures and investments undertaken by the foreign entity, including as regards cross-border.

Jurisdiction issues: Perhaps the biggest challenge facing the entire Islamic finance market today is the issue of enforcement of foreign judgment in local courts. This may not be directly relevant for a MFI structure wherein all the partners are located offshore and investments are made purely on a cross-border basis.

However, if a local entity is involved with which the foreign investor enters into a joint venture agreement, then jurisdiction can be a tricky issue to deal with.

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Generally, courts in India allow enforcement of foreign judgments, subject to certain exceptions (for example if the decision of the foreign court is considered as against public policy in India).

Also if India has reciprocal arrangements with other jurisdictions (such as with England), then decisions of courts in such jurisdictions become enforceable in India as well.

A related issue therefore is whether Islamic finance would constitute 'law' in the eyes of Indian courts and would be enforceable as such, or whether Shariah structures would be treated as 'customary practices'.

It is critical to ensure that the intentions of the parties are clearly incorporated into the contractual documents. The agreements should spell out the modalities of the structure to avoid ambiguity down the line.

> ***"Lack of regulatory pro-activeness is the biggest reason why Islamic finance is not flourishing in India"***

Regulatory apathy: Lack of regulatory pro-activeness is the biggest reason why Islamic finance is not flourishing in India. Despite the Kerala High Court judgment which upheld the constitutional validity of a state-sponsored entity investing in an entity looking to sponsor Shariah finance in India, the regulators have maintained a studied silence so far.

What causes worry are media reports that the RBI has issued notices to Shariah compliant NBFCs undertaking participative financing, asking them to justify how their practices are compliant with guidelines issued to NBFCs.

While we believe that NBFCs can undertake Shariah finance/participative financing, regulatory scrutiny of this nature could discourage market participants and further stifle Islamic finance from growing in India, potentially killing the "goose that laid the golden eggs."

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Can Islamic banking benefit from the present economic turbulence?

SHAN SAEED analyzes how Islamic banks can maneuver in these challenging times, and explores strategies to capture the mind share in order to conquer the market share.

I see a bloodbath in the financial markets of Europe. Riots and social unrest threaten the stability of the Eurozone and very fabric of society in America. The world is entering into an economic mess likely to last for a very long period of time. Financial history is repeating itself, with the markets getting distressed again.

Global outlook for the financial market

The global outlook for the financial market is scary. Is the market on the verge of a massive financial collapse in Europe? Rumors of an imminent default by Greece are flying around and Greek government officials are openly admitting that they are running out of money.

Without more bailout funds, it is absolutely certain that Greece will default on its debts. But German officials are threatening to hold up more bailout payments until the Greeks do what they agreed to do. The attitude in Germany is that the Greeks must now pay the price for going into so much debt.

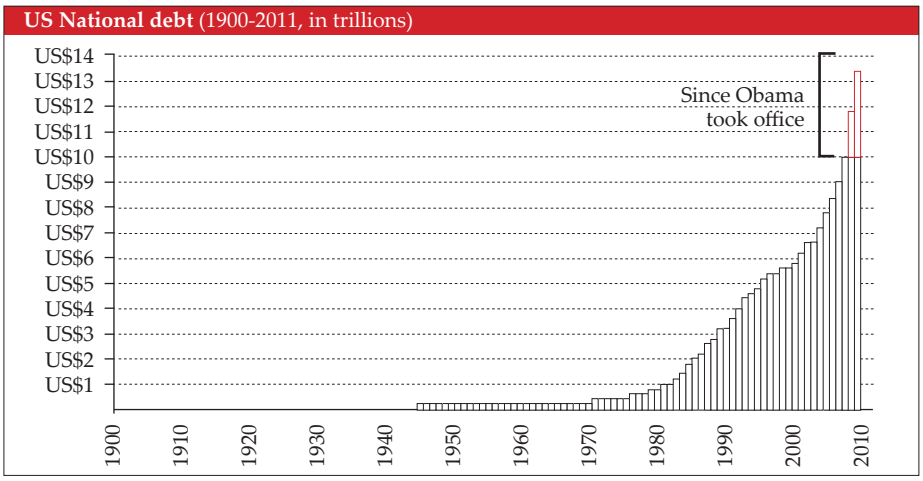
Officials in the Greek government are becoming frustrated because the more austerity measures they implement, the more their economy shrinks. As the economy shrinks, so do tax payments and the budget deficit gets even larger. Meanwhile, hordes of very angry Greek citizens are violently protesting in the streets.

If Germany allows Greece to default, that is going to start financial dominoes tumbling around the globe and it is going to be a signal to the financial markets that there is a very real possibility that Portugal, Italy and Spain will be allowed to default as well. Needless to say, all hell will break loose at that point. So why is Greece so important?

> *"Saudi Arabia is quitting the oil business in the next 10 years. The world's richest oil state is doing the incredible"*

Well, there are two reasons. Firstly, major banks all over Europe are heavily invested in Greek debt. Since many of those banks are also very highly leveraged, if they are forced to take huge losses on the Greek debt it could wipe many of them out.

Secondly, if Greece defaults, it would send a signal to the markets that Portugal, Italy and Spain may not be rescued either. It would suddenly become much, much more expensive for those countries to borrow money, which would make their already huge debt problems far worse. If Italy or Spain were to go down, it would wipe out major banks all over the globe.



Inside news of the oil industry

Saudi Arabia is quitting the oil business in the next 10 years. The world's richest oil state is doing the incredible. According to Khalid Al Falih, the CEO of Saudi ARAMCO: "It's going to change [our] portfolio in significant ways."

Saudi Arabia, the crown kings of oil, have reportedly set in motion a truly incredible plan — to drastically cut their use of crude oil, starting immediately. Khalid added that: "Our goal is to reduce to the maximum extent possible the utilization [of oil]."

And it is not just talk. Backing it up is a US$130 billion investment from the Saudi royal family to make the switch. This sum is more than Exxon's net income for the last three years combined. But the switch to what, exactly? What could possibly make the world's richest oil state cut down on crude? Well, Saudi Arabia will apparently be focusing on shale gas, which is the next revolution in the energy market.

Banks going bust and the fragile US economy

Bank of America plans to slash 30,000 jobs. More banks will soon follow in its footsteps. The reason is that the banks took position on risky assets with no fundamentals. Toxic assets will kill many jobs in banks and financial institutions in the US and in Europe.

We need to get ready for financial turmoil over the next two years. Unless the government takes swift and intelligent

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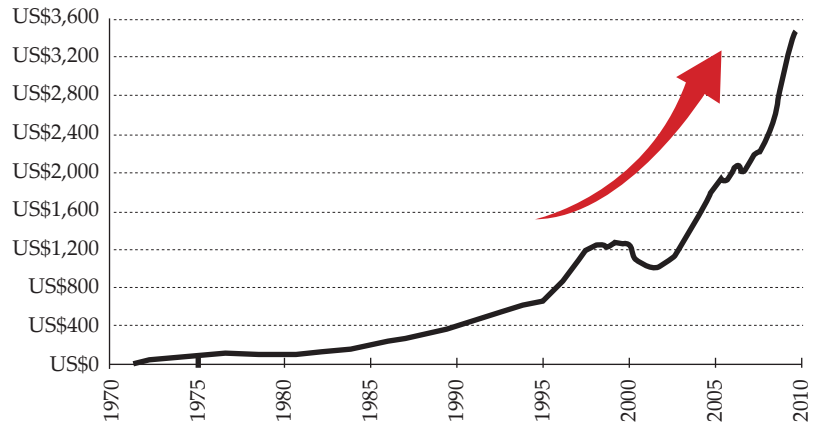
Federal debt held by foreign & international investors (1900-2011, in billions)



Source: US Department of the treasury, financial management services 2009 research.StLouisFed.org

action, the number of unemployed could soar from 25 million to 40 million.

How can Islamic banks maneuver in these tough times?

Devising and maintaining a clearly defined strategy can buttress the efforts of Islamic banks to achieve the desired results. To achieve excellence in strategy, banks need to be clear about what the strategy is and to constantly communicate to external clients, internal clients and key stakeholders involved with the strategy. In a tough world, banks can survive by using these key strategies.

It is a simple approach: focus on value proposition and define the benefits in the long-run for wealth protection. Islamic banks are in an advantageous position whereby they can convince clients purely on strong fundamentals on the asset-class portfolio.

In order to get into a favorable position, banks need to study and to maneuver in the battlefield. The battlefield is the minds of the clients and the potential prospects. High net worth individuals are looking for wealth protection to save themselves from wealth destruction in these distressed economic times. Some proven strategies are mentioned below.

1. Capture the mind share: A new paradigm shift in the growth frontier
Islamic banks should aggressively market their products and services to clients who are looking for wealth protection and peace of mind.

They need to devise a strong positioning strategy to capture the mind share of clients in order to increase their market share, customer loyalty and enhanced sustainable customer experience to maintain an edge in these bad times.

A clearly stated simple message is required to make things easy for clients to make the final decision of parking their funds with Islamic banks. Full throttle advertising can do the trick for banks in their efforts to enhance their clients and deposit base. Capturing the mind share means conquering the market share in the Islamic financial market.

> ***"I cannot predict the timing of the next crisis, but I strongly believe that the global stock markets are going down because it is discounting a very bad event"***

2. **Personality endorsement: Enhancing brand value**
Islamic banks should get endorsements from famous people such as legendary boxing champion Mohammad Ali in the US, or basketball player Karem Abdul Jabbar - or Pope Benedict, who has advocated the merits and advantages of the Islamic financial system.

This system has weathered the storm and has avoided the losses which the present financial markets face, which amount to US$12.87 trillion, according to independent research by the World Bank/ IMF. This is huge for the system.

According to my research and through talking to major players in North America and Europe, in August 2011 alone US$3.67 trillion of wealth was wiped off from the portfolio of high net worth clients in these regions.

A new framework and a new strategy needs to be analyzed which provides solid protection to wealthy and ultra high net worth clients who want sustainable returns with peace of mind in these challenging times. High net worth individuals are seeking wealth protection for their generation by taking positions in real assets to avoid wealth destruction.

3. Real assets: Investment in assets that provide value-factoring in the long-run
The biggest benefit or advantage in associating with this form of financial market is the investment in real assets without taking undue risk in toxic assets. Investments in these assets provide wealth protection in this turbulent era.

The golden principle in the Islamic banking market is to invest in real assets whereby the value of the asset is determined and fixed so as to provide a satisfaction and guarantee to all the stakeholders involved in the financial transaction. Some of the real assets in Islamic banking are Islamic REITS, investments in sovereign Sukuk, investments in stocks and Islamic mutual funds.

Financial transactions are carefully executed in order to process the assets at fair value with all parties taken in the loop. This is hugely beneficial to all since the transactions are kept transparent and open for the execution of due diligence later, if required for any misinterpretation.

4. Workshops/Seminars: Making strategic partners and spokespersons
This is an ideal time for Islamic banking to organize and to deliver workshops,

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and inviting present and potential clients. This would provide them with an opportunity to share benefits with clients who are not aware of the system, and to remove ambiguous fear or apprehension for clients ranging from North America to Europe and Africa.

The decision for clients to sever the link to the old system and move to an alternative financial landscape can take a while.

Many Islamic banks' products are sold through top tier one financial institutions like HSBC, Deutsche Bank, JP Morgan, Goldman Sachs, Citibank, UBS, Barclays, Credit Suisse and Standard Chartered Bank.

These banks have signed agreements with top Islamic institutions with a basic premise to offer Islamic products to a vast number of clients through their global networks.

This helps because it integrates the variety of products available for banks to share with their clients. This integration of products not only narrows down the clients' perspective but also brings about a global context for their enhanced experience.

5. Equitable and fair value system are the hallmarks of Islamic banking

Wealthy investors should realize that speculation and exploitation of funds can fizzle out very soon. Within just a week (1st - 6th August), US$3.2 trillion–worth of wealth was wiped from the equity market.

However, Islamic financial markets prohibit speculation and exploitation of assets with zero fundamentals and fudged facts. The real question of fair value takes a new perspective in the Islamic financial market.

Conclusion

I cannot predict the timing of the next crisis, but I strongly believe that the global stock markets are going down because they are discounting a very bad event. As a staunch believer in free markets, I think government intervention has gone so far that reducing intervention and lowering the deficit will cause temporary pain but it is not working. It would create massive inefficiencies in the system. That is what is happening right now.

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Shariah risk: Measurement and treatment

Sound and proper Shariah risk management starts with understanding the basic concepts of managing risk in the industry. HASSAN YUSUF provides insights on how to deal with risk and its impact.

Islamic banking and finance has experienced tremendous multi-dimensional growth in the last 30 years and this is clear from the product engineering that has flooded the market. Since the inception of Islamic banking and finance, the focus has been on removing interest from the system, as some outlook changes and many operational changes were left intact based on the conventional system.

As we have seen from recent court cases and defaults, there is a clear shift taking place in the Islamic finance industry, to focus on the robust development of operational matters to align with Islamic finance requirements. Part of this includes understanding the risks in Islamic finance from a Shariah point of view as Shariah has its own mechanism to address and mitigate risks.

Sound and proper Shariah risk management starts with understanding the basic concepts of managing risks; Shariah guidelines that relate to 'muamalat'; and how to deal with risks and its impact.

Clear and accurate understanding of these concepts and the correction of any misconception surrounding the fundamentals and assumptions of Shariah risk provides clear procedural guidelines in eliminating, mitigating or transferring Shariah risk and offers robust, effective and efficient oversight management of Shariah risk.

Risk is an event that relates to an uncertainty with a measurable impact and risk constitutes the level of uncertainty of the event which has an unfavorable outcome or adverse consequences. In other words, the measurement of risk is essential and quantifiable; it is impractical to mitigate risk if risk cannot be measured.

Shariah risk treatment

Shariah risk is the risk that arises from a lack of Shariah compliance rules and regulations in relation to Islamic financial institutions or any entity that undertakes Islamic financial services. Shariah is the basis of Islamic financial institutions to undertake and process their operations through binding contracts and specific formats dictated by Shariah guidelines and it is one of the fundamental distinctions between Islamic financial institutions and their conventional counterparts.

Shariah risk can appear in different places and stages throughout the process of product implementation and the intensity of the impact of Shariah risk depends on the degree of Shariah divergence in a particular stage or place in the life cycle of the product.

> *"To understand this mechanism, we need to have a good comprehension of the role of Shariah in a financial transaction"*

For example, a receivable commission was discovered to be part of a particular project approved by a Shariah board, but the commission itself was not part of the approved fees allowed by the Shariah board (there are certain fees that are not allowed by Shariah boards: including management fees, early settlement fees, commitment fees, extension fees, administration fees and non-utilization fees).

The treatment of such a violation involves cancelling the commission only, and it does not affect the rest of the transaction or project involved, as this type of risk has a minimum impact at this stage.

However, there are certain cases that can bring a whole institution to its knees and have a high reputational impact, although this rarely happens. One example of this type of risk is mentioned in the following table (in the exclusion zone column).

Even if this type of risk is realized (depending on the stage of risk occurrence), there are techniques and methods in Shariah for its treatment, as Shariah has an embedded mechanism to protect from adverse and negative consequences that can affect the general interests of society.

To understand this mechanism, we need to have a good comprehension of the role of Shariah in a financial transaction. The Shariah section that deals with commerce, trading and financial activities, or what is generally termed as 'muamalat', is based on the permissibility of origins.

This means that financial dealings are considered permissible regardless of the shape or financial product used in the process as long as there are no breaches in Shariah principles that govern 'muamalat'.

On the other hand, there are two broad categories in Shariah: Al Mutaqayarat (the dynamic) and Al thawabit (the static).

The static part of Shariah refers to those principles and rules that are fixed and cannot be changed or altered by any circumstances. For instance, trading in pornography, liquor or in the wine industry (including transporting, consulting, or developing projects for the wine industry) is prohibited.

The dynamic part of Shariah deals with things that are related to our daily lives which help us improve our lives. In this area we use fiqh to deal with the challenges, and this is where the format of financial products is shaped.

There are certain principles in Shariah that provide a direction for certain situations, based on the well-known legal maxim that necessity permits prohibitions. It is part of the fiqh to understand and deduce accordingly from the circumstances that surround the whole case.

Another Shariah mechanism which is frequently used is the fiqh principle

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Pre-structure stage					
Pre-structure stage	**Exclusion zone**	**Risk**	**Probability**	**Impact**	**Severity**
Pre-structure stage: This stage mainly consists of formulating, designing the product and presenting the workflow of the product to the Shariah board. In this stage certain elements are avoided which are prohibited by the Shariah (exclusion zone).	This includes interest, alcohol (including production, marketing, selling), tobacco and its relative products, pork-related products and non-compliant food production (food that is prepared based on a non-halal procedure), entertainment like hotels, gambling (including casinos, lottery and internet gambling), cinema and movie theatres, music, pornography, weapons and defense*, conventional financial services like insurance and banking, and companies involving human and animal genetics. **Some scholars exclude defense weapons*	The risk pre-structure stage constitutes inclusion of excluded items in project financing, products or investment funds. Exclusions of these elements carry the risk that nullifies the product.	The chance that this type of risk can be realized is minimal and is rare. As this is the fundamental principle which defines Islamic financing from conventional finance. For example, a mutual fund company which invested the proceedings of the fund to a haram (prohibited) business by giving false information to investors. The probability of realizing a risk such as this is very low.	The impact of exclusion zone elements is quite high risk if it is realized, but to realize such an incident is difficult as the Shariah board approves initial products based on the exclusion zone. But in a case realized, based on the example given in the probability column, this can happen only by a) the cooperation of many individuals in the organization or by b) a lone actor.	If risk elements in the exclusion zone are realized based on the cooperation of individuals in the organization. This can have severe consequences and can bring down the whole organization, fund or project. And may also have a contagion effect to other areas of the organization such as the loss of trust and confidence from the public. If the risk realized is based on a lone actor, the impact is lesser and cancelling the fund or transaction is sufficient.

Post structure stage					
Process	**Review zone**	**Risk**	**Probability**	**Impact**	**Severity**
Post-structure stage: This stage is the period where the product is implemented. This stage mainly deals with the process workflow of the product is implemented as per Shariah board advised and approved. The elements that need to be checked in this stage are mentioned (Review zone).	The elements that are reviewed by the Shariah auditor are the product implementation as per the layout of Shariah principles specific to that particular product. These are: event dates, signatures, ownership documentation, purpose of funds, agreed specific action from the counterparty like the debt ceiling should be a particular ratio, and un-approved elements which are included by error such as the collection of unapproved fees, mismatch dates, human error etc.	The risk in the review zone category has different impact levels: from cancelling the contract of a specific project to a minor impact where an immediate correction can be applied which requires one step only. For example, if the date is not mentioned in the contract. This step needs to be corrected before going further with the project.	The probability of this type of risk is realized more compared to the pre-structure stage. Since the implementation is from a practical point, and involves human error, client competition, etc. For example, if not all documents are provided because of the length of time available. The remedy for this would be to provide the documentation within a specified period.	Risk realized post implementation has less impact compared to the pre-structure stage. Usually if any such risk is realized, correction and elimination is applied. There is no defined treatment as such but it depends on the stage of occurrence and severity. For example, certain deposit products may not be processed by the customer service of the bank where the client has already signed the documentation. If this is realized after one week, either the client has to forgo the profit in that period or the bank has to pay to the customer.	Risks in the post-implementation process do not carry high severity as multiple checks and reviews are done by the Shariah board, Shariah auditor and the legal unit. Frequency of realizing risk in post-implementation is high but severity is low. This can be minimized or eliminated with the passage of time through risk awareness sessions, proper Shariah training for staff etc.

based on the famous narration "no harm and no reciprocating harm." Maslaha public interest is involved to permit or prohibit something based on public benefit. For example, this can be applicable where the wealth of shareholders is wiped out or reduced to a low level due to lack of conformation to a Shariah principle.

In a practical sense, this can be used for certain risks that have adverse consequences for a larger segment of society.
Another fiqh ruling that can be used is where the risk is inevitable but the effect varies depending on the outcome, and in this case Shariah encourages the acceptance of a type of risk, based on choosing the risk that has the least impact. In Islamic finance, this could be applied to a transaction where the acceptance of certain risks are unavoidable: such as penalty fees where the fees must be paid or the project risks cancellation.

There is another fiqh understanding where if there is a part of the transaction that is deemed impure, fiqh will judge based on the quantity that is considered impure or deemed illegal. This is based on a well-known fiqh ruling that purity, 'tahara', is not affected by a small level of impurity if it is restricted to a certain level (a known quantity).

Thus in Islamic finance, regarding investing in mutual or equity funds, if riba interest involvement is 1-5%, it doesn't affect the other 95% which is considered permissible: based on the above explanation that a small impurity

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does not influence or affect the larger part of purity and since the percentage of impurity is well-known in financial terms, it is taken out of the transaction and it can be segregated from the rest of the transaction.

Another Shariah remedy or fiqh ruling is that sometimes the outcome of a certain event or its impact is considered, if such consequences may have a negative impact with multiple effects on society. This is based on a well-known case where allowance of divorce in Islam is accepted beyond the known threshold (three times) for certain individuals whose influence to their people is unlimited: such as kings, sultans or the heads of a tribe.

Similarly in Islamic finance, the failure of one of the largest Islamic finance services providers in a country, such as Maybank in Malaysia or Al Rajhi bank in Saudi Arabia, may be prevented through intervention based on the undesirable consequences of their failure, based on the above fiqh ruling.

The above scenarios are given to highlight that Shariah has mechanisms to deal with risks depending on the level or stage, quantity and consequences of the event. Having a comprehensive understanding of this background may help in mitigating the Shariah risk, based on the stage of occurrence. It should not be thought that everything related to Shariah risk can have a ready-made answer. However, it must be stressed that Shariah risk remedies are widely available and there are a variety of options.

> ***"Shariah risk elements occur in different places, such as pre- and post-structuring a product and its life cycle"***

Shariah risk measurements

Financial products offered by Islamic financial institutions are different from those offered by their conventional counterparts. Shariah risk elements occur in different places, such as pre- and post-structuring a product and its life cycle. In a simple format, we divide the process of structuring Islamic financial products into two stages: as featured in the table.

The elements that constitute Shariah risk have different levels of impact subject to the article or the clause that is breached, and depend on the stages and places of risk occurrence.

As stated in the table, the most frequent risks are in post-implementation, and some of these risk occurrences, such as missing dates in contracts can happen frequently due to of human error. Shariah dates are an essential component in Islamic finance contracts as the ownership transfer is checked through dates: and in Islamic finance no sale can take place without the ownership right. There are tremendously rich resources available in dealing with all types of risk in Islamic banking finance, but the area urgently needs more research on how Shariah embedded mechanisms can be used by the Islamic finance industry to avoid and mitigate risk.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

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Japan: Steadfast despite adversities

Cover Story

Last week saw the completion of a merger between two Asian asset management houses to form what is touted to be the largest entity in the region. Nikko Asset Management (Nikko AM) has now combined with DBS Asset Management (DBSAM) in a union that will boost Nikko AM's assets under management (AUM) by US$7.9 billion to an combined total of over US$165 billion (estimated from pre-merger assets as at the 30th June 2011).

The merger involves the acquisition of DBSAM by Nikko AM for S$137 million (US$104 million), while DBSAM's parent group, DBS Bank (the largest banking group in Southeast Asia) has acquired a 7.25% interest in the new entity. DBSAM Singapore has been renamed Nikko Asset Management Asia.

The terms of the merger agreement stipulate that Nikko AM acquires 100% of DBSAM, the asset management subsidiary of DBS, and a 30% stake in Hwang-DBS Investment Management (HDBS IM), a fund management firm in Malaysia.

Nikko AM has also acquired 100% of DBSAM's Hong Kong subsidiary and a 51% stake in Asian Islamic Investment Management (AIIMAN), a joint venture between Singapore's DBS Asset Management and Hwang-DBS (Malaysia) focused on Shariah compliant investment solutions.

Despite procuring a new majority shareholder, it is learnt that there will be no change to AIIMAN in terms of management personnel or in the direction of the company. "Everything in the company remains the same," assured a source. The merger has raised eyebrows, particularly in the asset management sector, as this is Nikko's maiden foray into in the Islamic finance industry. Japan's attraction to Islamic finance is anything but new however, particularly in the corporate sector. Its roots can be traced back as early as 1998, when Noruma Investments formed a strategic alliance with Al-Tawfeek Company, one of the major subsidiaries of Dallah AlBaraka Group, to launch the Al-Nukhba Asia Equity Fund: targeting Southeast Asia companies in which both parties had invested an equal 10% of the subscribed capital.

> *"Despite the multiple launches, the establishment of these institutions and funds has been sporadic"*

This was followed by the real estate investment in 2006 known as the Boubyan Global Real Estate Fund, which acquired three properties in Tokyo worth JPY4.38 billion (then about US$40 million). However, Japanese institutions really began making their presence felt in the industry in 2008; when Bank of Tokyo-Mitsubishi UFJ (Malaysia) set up its international currency business unit with the approval of Bank Negara Malaysia, the country's central bank.

The same year also saw Sumitomo Mitsui Banking Corporation opening up an office in the Qatar Finance Center, making it the first Japanese institution to do so in the country. Subsequently, Daiwa Asset Management launched its FTSE Shariah exchange traded fund (ETF), the Daiwa FTSE Shariah Japan 100 ETF, which became the first Islamic ETF to be listed on the Singapore Exchange.

In 2009, Nomura Islamic Asset Management was licensed in Malaysia, marking its entry into the Islamic fund management arena as well its foray into managing Shariah compliant financial products.

Despite the multiple launches, the establishment of these institutions and funds has been sporadic; a situation largely blamed on the global financial crisis. Nonetheless, Japanese institutions continue to forge ahead and are increasingly making their presence felt in the Islamic finance industry. Nikko AM's interest in AIIMAN proves once again the keen interest that corporate Japan has in the Islamic finance industry.

In this issue...

Collaboration to cultivate growth

UAE: Emirates NBD Asset Management has collaborated with Man Group to allow the London-based hedge fund manager to manage and grow the bank's Emirates Islamic Alternative Strategies Fund.

The fund's assets will be allocated to the Man GLG Multi-Strategy Fund, which seeks to produce annual returns of 3-5% over Libor.

Successful take-up

UAE: HSBC's second US$100 million HSBC UAE SME fund has been fully allocated in only three months, almost twice as fast as its first fund, which was launched last year.

This shows that small and medium-sized enterprises in the UAE are "keen to expand, but are constrained in their access to funds," according to Rana Al Emam, the head of business banking at HSBC's UAE branch.

The fund is aimed towards local and international companies looking to finance cross-border business activities, as well as Emirati-owned companies seeking expansion.

The HSBC UAE SME fund can also be accessed through HSBC Amanah, enabling investors to use Shariah compliant financings to grow their business.

New Islamic pension fund

MALAWI: Ghana-based life insurer Vanguard Life Assurance Company is reportedly planning to launch a Shariah compliant pension fund, the Mudaraba Equishare Fund, in Malawi in December 2011.

The fund will invest in conventional investment vehicles that do not contradict Shariah rules.

Bleak future

UAE: The growth of the global Islamic asset management industry is predicted to face a possible slowdown or worse yet, come to a grinding halt this year.

Jahangir Aka, a senior executive officer at asset management firm SEI Investments, attributed this retreat to poor sentiment in financial markets and the lackluster interest among Islamic institutional investors.

He said that despite Ernst & Young's report that Islamic funds' assets grew 7.6% in 2010 to US$58 billion, this was much slower than the 35% growth experienced by conventional funds, which benefit from investments from pensions funds.

Aka said that the growth of Islamic mutual funds will remain modest unless there is more investment from institutions.

"We have to develop a deeper institutional investor base. We have a couple of big families, a supranational bank and a few Islamic banks. But none of them are major investors in the mutual fund market," he said.

Islamic wisdom will save the west

There are differing opinions on the permissibility of Islamic hedge funds. TOBY BIRCH looks at the broader aspects of this particular fund class and questions the need for it.

Very few westerners are aware that much of the written knowledge of the ancient world was saved from destruction then copied and enhanced by Islamic scholars. An academic powerhouse of the day known as the House of Wisdom was established during Europe's Dark Ages. Much of the groundwork for modern medical, mathematical, and scientific advancement can be credited to this institution. There is now a real possibility that the ancient wisdom embedded in Islam will ascend once more, ironically, to save the west from self-destruction.

Since the break-up of the Gold Exchange Standard forty years ago, the perceived wisdom has been that never-ending growth could be funded by an ever-expanding money supply. Once free from the restraint of precious metals, governments in tandem with banks could fund military expansion and a merry-go-round of populist policies for the baby boom generation. It was convenient to treat the resulting appreciation of asset prices as a 'boom' and to nurse the myth that one's house was a pension pot.

There was however a catch to the process: the dual devils of interest and inflation. The mathematical genii (or even djinni) that work in financial markets overlooked the juggernaut of compound interest that snowballs debt into an avalanche of liabilities. Creating yet more interest-bearing bonds is the surest form of financial suicide, yet this is the same solution served out for every crisis, to buy more time. We cling to a failed financial system through want of familiarity combined with a fear of the unknown.

While it is popular to demonise bankers, they are simply symptoms and servants of a philosophy that is widespread in the west. Its tenets dictate that mankind is master of the universe, unconstrained by the greater forces that operate around us. The concept of economies lying fallow for a period of respite is intolerable. We should instead accept and appreciate the cyclicality and seasonality that are an indelible tapestry of our being. Whether it is our own lifecycle or the recurrence of Fibonacci numbers, there is clearly ebb and flow all around us. Anyone who studies chart patterns will be familiar with the expansion and contraction of volatility, as seen in the Bollinger Band analysis. Reversion to mean is a powerful force that regulates and restrains many excesses that would otherwise engulf us. The beauty of the credit crisis is that it has shown us that mankind is not in control; and the growth-at-any-cost model has been exposed as a sham. Recent years have been needlessly wasted in an attempt to resurrect a flawed financial system, with unintended consequences of spiralling food prices as the US dollar devalues.

Such ponderings may seem alien or even irrelevant to an article about Islamic hedge funds. Rather than indulging in the tired debate of whether such funds are an oxymoron or innovation one can instead ask more fundamental questions about the role of money.

Hedge funds have been subject to a witch-trial by the media and by European politicians accusing them of causing the credit crisis. One can sense a whiff of jealousy in targeting a group of wealthy people who apparently made fortunes as others suffered. Headline examples of hedge fund folk raking it in were very much the exception in fact, as many suffered crippling losses and major outflows of capital. After all, unlike investment banks, hedge funds were not the beneficiaries of the public purse.

Nevertheless, speculation is not a guilt-free pastime, nor is leverage a zero sum game. The lame euphemisms about 'price discovery' and 'liquidity' seem a heavy price to pay for their destabilizing effect on financial markets.

As highlighted in Dr Sami Suwailem's book, 'Hedging in Islamic Finance', the use of derivatives increases systemic risk as investors take ever-bigger bets because they think they are protected. In practice, the risks accumulate in the hands of those who cannot afford to take them and the liabilities end up with the government by way of bail-outs.

Instead, Dr Suwailem proposes risk sharing, which goes back to the fundamentals of the Islamic approach to trade, money and community. This cannot be brushed aside as Muslim propaganda against speculation, which is of course forbidden.

In 'A Demon of Our Own Design', Wall Street risk manager Richard Bookstaber makes a similar case. In the study of both industrial disasters and financial crises, common themes emerge. Speed, complexity and over-regulation lead to tight coupling that in turn increases the vulnerability and volatility of the system. In the case of financial markets we have high frequency trading, excess leverage and ever-more complicated algorithms which increase correlation: the 'flash crash' will become a regular event.

It then begs the question as to why Muslims would want to buy hedge funds, even if they brandish a scholar's stamp of approval. Is it just a case of seeking the best return and reducing risk or is something more fundamental at play? For one thing it is hard to find out the facts on how large or popular these funds are. The opaque world of Islamic fund statistics is a stumbling block as they are only available to paid subscribers.

For now we shall overlook the irony of a financial industry based on principles of transparency that fails to share data which is freely available for conventional funds. One suspects that Islamic hedge funds are being promoted and purchased because they appear to be glamorous, sophisticated and western.

If there is indeed a desire for such funds then it may well be a symptom of human behavior that has been prevalent for centuries. When dominant nations form empires, the conquered countries often adopt the fashions, architecture and lifestyles of the leading power.

In the case of America, the empire is a financial one with the US dollar as a form of tribute which everyone must

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buy for commodity transactions. The IMF in turn has used debt as a conduit of colonial power to extract cheap raw materials from developing countries. Sovereign wealth funds of many Muslim nations accumulate interest-bearing debt seemingly without question, as though Islamic principles need not apply to institutions.

However there is also a practical aspect in that there is little outside of conventional bond markets than can cater for the size of such investments. As ever, the wisdom of the Prophet echoes down the ages: when he informed his companions of a time "when not a single person remains except that he consumes riba," or at the very least "its dust will reach him" (reported by al-Hakim and others from Abu Huraira).

It is easy to become despondent when looking at history but there is also scope for optimism. Maturing empires have a tendency to import ideas as well as impose them. In the Roman era what was once deemed barbaric became fashionable as beards festooned previously clean-shaven faces and togas were discarded for trousers. Christianity likewise became the state religion having been suppressed on pain of death in earlier centuries.

While the likelihood of the west converting wholesale to Islam is rather unlikely, the power of its financial principles may well take root. After all, the spread of Islam was not necessarily about conquest but about the respect gained when dealing with Muslim traders, renowned for their honesty and dependability, if not for their hard bargaining. We may now be on the verge of a new era where the mutual risk/reward of equity topples the iniquity and imbalance of interest-bearing debt. The first rumblings of such an approach have been proposed by the world-renowned economist Professor Kotlikoff, who has recommended that European banks convert to mutual funds.

The famous Victorian playwright and one-time Guernsey resident Victor Hugo said that: "There is nothing more powerful than an idea whose time has come." The fundamental message of Islamic economics is that of recycling capital into real assets for productive, communal improvement.

The hoarding of wealth (in the form gold and silver in the time of the Prophet) was viewed as selfish and destructive. Scholars liken money to water; only useful when flowing, otherwise stagnating if uncirculated. Zakat is of course the charity tax on liquid assets that are not invested in productive ventures, acting as a form of negative interest rate; a case of "use it or lose it". Many investors are sensibly buying bullion as a means of protecting themselves against the devaluation of mainstream currencies.

However, gold is simply a measure of the malaise of modern money, like mercury in a thermometer. Other than boosting the profitability of mining companies and bullion dealers, there is little benefit to humankind, let alone the environment, as prices surge. Commodity appreciation is feeding a frenzy of resource depletion and associated pollution that we will later come to regret. Swathes of capital are being allocated to passive lumps of metal locked underground. It does not fund industries starved of finance in the wake of counter-productive bank bail-outs.

In the meantime, we are failing to see the wood for the trees concerning the ongoing credit crisis. Investors face greater threats from a range of natural and man-made disasters. We believe that population growth, environmental degradation and the mutation of financial markets are closely correlated. We are witnessing an unprecedented confluence of factors caused by climate change and resource scarcity, exacerbated by currency devaluation. The public face severe inflationary pressures from diminishing supplies of raw materials combined with an exponential escalation in demand.

As investment managers we see our role in a more holistic light than many of our counterparts. We have gone beyond the tedium of money-making for its own sake and now seek to benefit our clients as well as the companies we invest in by following the recycling approach to capital. We are therefore launching a multi-asset fund called Gaia Opportunities, investing in five themes from our proprietary 'Gaia Filter':

- Natural Resources: Commodities, rare earth metals, forestry, water
- Food Chain Disruption: Fertiliser, agriculture, soft commodities, infrastructure
- Population Growth: Healthcare, biotech, waste management, emerging markets
- Currency Devaluation: Precious metals & mining stocks to offset currency dilution
- Green Revolution: Clean technology, renewable energy and strategic assets

Inevitably we could be accused of hypocrisy by purchasing futures contracts to gain exposure to food and other commodities. Likewise the holding of precious metals may well be exacerbating the upward price trend. Where we seek to be different is that we will be donating a portion of our performance fee to promoting sustainable communities in developing countries. This is not the same as charity but an attempt to promote a strong work ethic through interest-free loans. We would also welcome the opportunity to create a Shariah compliant version, which would be difficult but not impossible with the correct guidance.

The challenge is to find a willing Islamic bank to form a partnership and a scholar who will share the risk and reward without charging a large, flat fee. Great change happens through small episodes of leadership by example. At the risk of sounding naïve, we hope that an investment fund which helps investors escape the effects of inflation while promoting sustainability can be a catalyst for financial reformation.

Toby Birch is the managing director of Oppenheim & Co in Guernsey. He is author of 'The Final Crash: Addictive Debt and the Deformation of the World Economy', published in 2007. He has been a fund manager for 20 years, is a Chartered Fellow of the Chartered Institute for Securities and Investment, and also holds the Islamic Finance Qualification. He can be contacted by e-mail on t.birch@oppenheim.gg or by telephone on +44 1481 721 981.

OSK-UOB Global Food Islamic Equity Fund

The fund aims to achieve medium to long-term capital appreciation, through investments in Shariah compliant securities of companies that are involved in the food-based and/or food-related business globally.

Could you provide an overview on the asset / asset class which this fund is investing in?
The fund will invest in halal food companies as well as globally listed food-based companies which are Shariah compliant. The companies can be involved in either upstream or downstream activities.

What are the factors that were considered prior to launching this fund?
We aim to launch products that are innovative and different from products that are currently in existence. Based on our research, I believe this is the only halal food fund in the world.

In addition to being an Islamic financial hub, Malaysia also aspires to be a halal hub as well. I believe this fund will help to promote such an aspiration. In years to come, we hope Malaysia will not only become a physical halal hub but will also been known as the financial halal hub. When I say financial halal hub I mean that I hope that halal food companies from other parts of the world will one day list their companies in Malaysia under the halal food sector of Bursa Malaysia.

Food companies are very defensive in nature. Food consumption is always on an increasing trend in line with the rise in population.

Furthermore people need to be fed even when times are bad. Thus, this fund is ideal for investors who prefer equity investment and yet want to limit their risk exposure.

What is the short-term and long-term outlook of the sector in this fund?
In addition to food being a necessity and with demand ever increasing with the rising population, there is also a mismatch between the Muslim population and halal food production.

Halal food production currently makes up 16% of the global food production but the Muslim population makes up about 23-25% of the world's population. We believe this mismatch will narrow as the economies of countries with Muslim majorities (such as Indonesia and Pakistan) improves.

From the news in the mainstream media, we are already seeing growing interest from multinational companies in the halal sector.

How does the theme of the asset class of this fund fit with investors today?
By nature of it being defensive, it fits investors that prefer equity investment but at the same time are not willing to take extra risk especially during the current period of volatility. The fund would fit individuals who are medium to long-term investors.

How often will you review this fund?
This fund is very dynamic and investment in equity/cash can range between zero to 100%. Thus the review will be done on a monthly basis where we will review the fund's performance to see where we did well and where we can improve.

How will the fund's portfolio be structured?
Generally, the fund will have a Shariah compliant equity exposure of 70-98% of the fund's net asset value to generate returns to the fund.

However, the fund manager may lower the Shariah compliant equity exposure of the fund in favour of Sukuk, Islamic money market instruments and Islamic deposits in order to help achieve the benchmark return and / or to help preserve capital and return.

Accordingly, the fund's exposure to Sukuk, Islamic money markets instruments and Islamic deposits may increase up to 100% of the fund's net asset value until such time when the Manager considers the investment in equity appropriate.

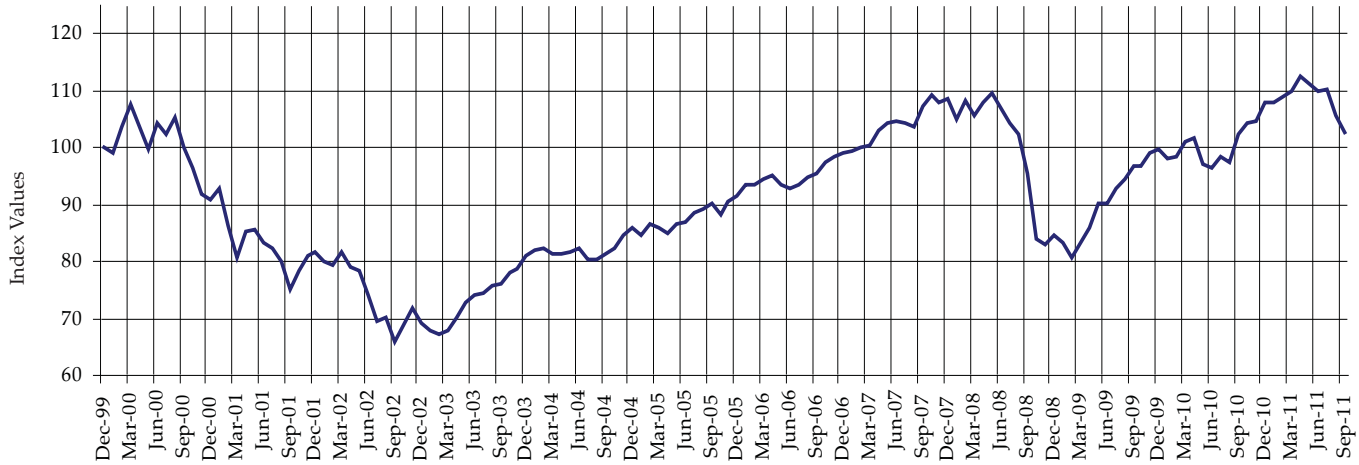
What is the projected rate of return of this fund?
Our targeted return is 7% per annum.

What is the market outlook for this fund?
We are very excited about the potential of this fund. Not only will it benefit from the rising global food demand, but it will also benefit from the potential growth of the halal food segment.

FACT SHEET	
Fund manager	OSK-UOB Islamic Fund Management
Trustee	HSBC (Malaysia) Trustee
Shariah advisors	OSK Investment Bank
Benchmark (Index)	7% growth per annum in Net Asset Value
Domicile	Malaysia
Inception date	11th August 2011
Fund characteristics	**Fund Type – Open / Closed** Open End **Fund Size** 400 million units **NAV per share** RM0.50 (US$0.15) at initial offering **Minimum / Subsequent Investment Minimum:** RM1,000 (US$313.4) **Min Subsequent Investment:** RM100 (US$31.3) **Management Fee** 1.8% per annum of net asset value before deducting the manager's and trusteee's fees for that particular day. **Dividend policy** Consistent with the fund's objective which aims to achieve medium to long-term capital appreciation, distributions will therefore be of secondary importance. Net distributions, if any, will be reinvested.

As mentioned earlier, the mismatch between Muslim population and halal food consumption will narrow, which will push demand for food consumption. The fund will also benefit from the rising purchasing power due to the economic growth of Muslim countries.

Eurekahedge Global Islamic Fund Index



Top 10 Monthly returns for All funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Gold	ETFS Metal Securities	12.35	Jersey
2	ETFS Physical PM Basket	ETFS Metal Securities	6.09	Jersey
3	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	5.29	Ireland
4	ETFS Physical Platinum	ETFS Metal Securities	3.03	Jersey
5	ETFS Physical Silver	ETFS Metal Securities	2.84	Jersey
6	ING i-Enhanced Cash	ING Funds	2.56	Malaysia
7	Avenue AsnitaBond	Avenue Invest	1.28	Malaysia
8	Pak Oman Advantage Islamic Income	Pak Oman Asset Management	1.24	Pakistan
9	United Islamic Income	UBL Fund Managers	1.08	Pakistan
10	Meezan Islamic Income	Al Meezan Investment Management	1.07	Pakistan
	***Eurekahedge Asia Pacific Islamic Fund Index**		**-4.65**	

** Based on 99.98% of funds which have reported August 2011 returns as at 4th October 2011*

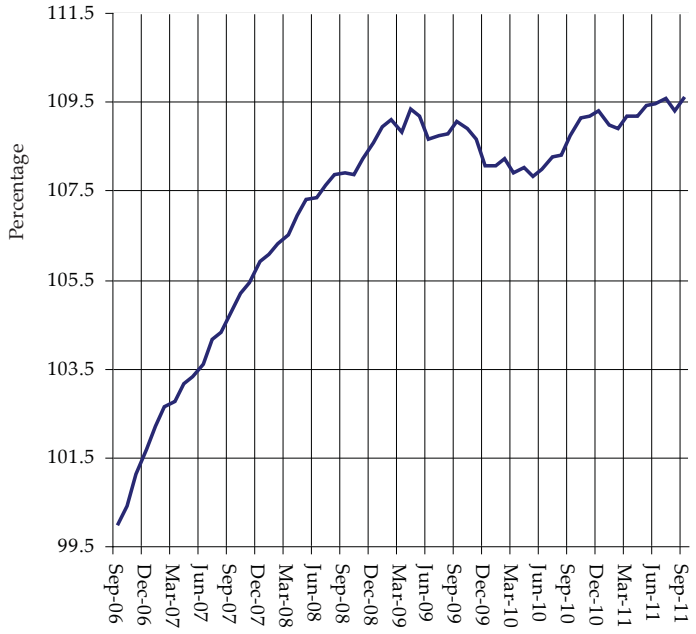
Top 10 Monthly Returns for Global funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Gold	ETFS Metal Securities	12.35	Jersey
2	ETFS Physical PM Basket	ETFS Metal Securities	6.09	Jersey
3	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	5.29	Ireland
4	ETFS Physical Platinum	ETFS Metal Securities	3.03	Jersey
5	ETFS Physical Silver	ETFS Metal Securities	2.84	Jersey
6	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	0.72	Malaysia
7	Solidarity International Real Estate	Solidarity Funds Company	0.52	Bahrain
8	USD International Trade Finance - (Al Sunbula)	Samba Financial Group	0.09	Saudi Arabia
9	Euro International Trade Finance - (Al Sunbula)	Samba Financial Group	0.09	Saudi Arabia
10	SR International Trade Finance - (Al Sunbula)	Samba Financial Group	0.09	Saudi Arabia
	*** Eurekahedge Middle East/Africa Islamic Fund Index**		**-4.28**	

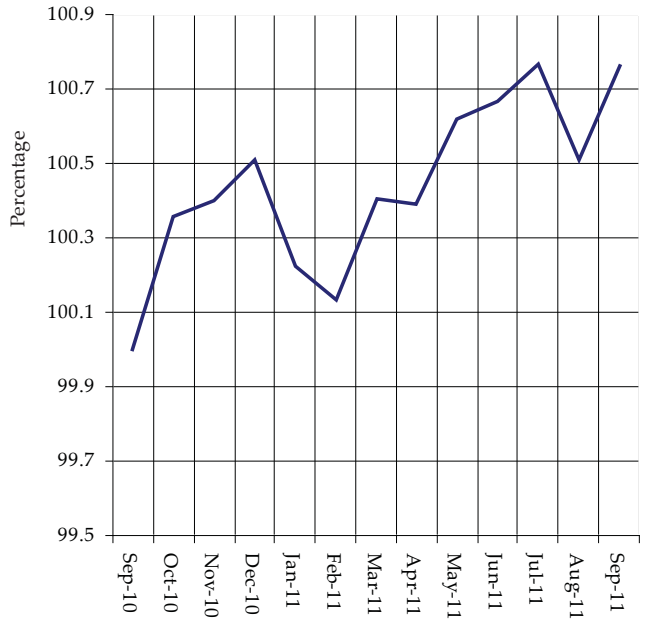
** Based on 99.74% of funds which have reported August 2011 returns as at 4th October 2011*

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 Money Market Index over the last 5 years



Eurekahedge Islamic Fund Money Market Index over the last 1 year



Top 10 Islamic Money Market Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	ING i-Enhanced Cash	ING Funds	3.08	Malaysia
2	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	2.78	Pakistan
3	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	2.73	Pakistan
4	PNM Amanah Syariah	PNM Investment Management	1.52	Indonesia
5	Solidarity Leasing	Solidarity Funds Company	0.97	Bahrain
6	Al-Hilal Islamic	Kuwait Investment Company	0.74	Jersey
7	MAAKL Al-Ma'mun	MAAKL Mutual	0.69	Malaysia
8	OSK-UOB Institutional Islamic Money Market	OSK-UOB Unit Trust Management	0.66	Malaysia
9	PB Islamic Cash Plus	Public Mutual	0.66	Malaysia
10	PB Islamic Cash Management	Public Mutual	0.64	Malaysia
	***Eurekahedge Islamic Money Market Fund Index**		**-0.11**	

** Based on 98.94% of the NAV for August 2011 as at 4th October 2011*

Top 10 Islamic Commodity Fund by 3 Month Returns

	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 - Class A	DWS Noor Islamic Funds	5.49	Ireland
5	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	1.43	Malaysia
	***Eurekahedge Islamic Commodity Fund Index**		**5.50**	

** Based on 100% of funds which have reported August 2011 returns as at 4th October 2011*

Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com Tel: +65 6212 0900

Takaful news

Brought to you by Takaful IKHLAS®

5th October 2011

All-encompassing

Cover story

The recent launch of the PruBSN Takaful's link series highlights that product innovation in the Malaysian Takaful sector remains alive and kicking. In the past, Takaful products have been specifically targeted to a specific want or need from the market. As a gap in the market emerges it is filled with a product that can meet that demand, creating a raft of similar inflexible products in a heavily saturated market sector.

However, as the Takaful industry continues to grow apace, product sophistication has to take place in order for the Takaful products to remain relevant in a rapidly evolving landscape and against a highly competitive conventional insurance industry.

As part of its five-year celebrations PruBSN saw an opportune time to launch something different into the market. As a result it has looked at, strengthened and reinvigorated its core product offering. Its original Takaful link product was launched at PruBSN's inception and this latest offering serves as an evolution to those building blocks.

As a result it is hoping that this latest product evolution will widen the target audience of its Takaful product, as from its inception it has sought to offer a product suite that caters to the whole cross-section of the Malaysian population.

The product is extensive in its offering and demonstrates a willingness by Takaful and insurance operators to put significant resources and investment behind their Takaful operations and product suites that will only help to enhance the industry moving forward.

This unique approach in a crowded market place should allow PruBSN Takaful to realize its aspiration of becoming the number one Takaful operator in Malaysia. With a first quarter 2011 Takaful market share of around 26%, PruBSN Takaful has come a long way for a relatively new company. Azim Mithani, the CEO, hopes that this latest offering shows that the company is a leader in product development and that it is comfortable in bringing new products to customers.

This is a demonstration that the Takaful market has become increasingly perceptive to the needs of its customers. It also highlights that consumers have become increasingly aware of Takaful products as a whole and of their own individual requirements from such products.

It also highlights the role of the agency distribution model in Malaysia. It is this model that has allowed Takaful operators to gain a greater level of feedback on their product offerings as to the needs and wants of the customer, something critical to any formative industry. The constant evolution and enhancement of the features offered through Takaful products continue to demonstrate the robustness of such offerings and their success.

Life achievement bonus

All three plans under the PruBSN Link series provide a unique life achievement based loyalty bonus to participants. This unique loyalty bonus is a key feature of the revamped product suite, rewarding participants through milestones such as academic excellence and other life achievement-based bonuses whereby the policy will pay a percentage of the annual contribution as a reward for milestones reached or achieved: such as marriage, property ownership or undertaking umrah or haj.

This creates attractive benefits, appealing to those looking to build for their futures. It is hoped that this will provide a motivational aspect to the policy. It also serves as a means of attracting policy uptake for those who do not immediately recognize the benefits of such product offerings, such as young adults with other priorities and limited budgets.

As always, a low contribution entry point will be critical in getting first time buyers into the policies. However, the greater sophistication of products now available in the market should encourage people to think about protection benefits at an earlier age, lessening the cost of accessing such products and rewarding policy holders in due course. – *SB*

In this issue...

Ambitious target

MALAYSIA: Great Eastern Takaful is targeting a total weighted contribution of between RM25 million (US$7.9 million) and RM35 million (US$11 million) by the end of 2012 through its first Takaful term plan, i-Great Amal.

Mohamad Salihuddin Ahmad, its CEO, said that the company aims to secure between 30,000 and 50,000 policyholders for the scheme. He added that the company is also planning to launch an education Takaful scheme by the end of the year.

AIA's Takaful expansion

MALAYSIA: American International Assurance (AIA) Malaysia has launched its first Takaful agency in the country through a joint venture with AIA AFG Takaful.

The launch follows the approval of AIA Malaysia's family Takaful license from the central bank, Bank Negara Malaysia. The new agency, based in the state of Penang, will be headed by Helen Seet.

Wan Azman Wan Mamat, the CEO of AIA AFG Takaful, also announced that the company will open five new branches in various states in the country by the end of the year.

PruBSN product launch

MALAYSIA: PruBSN Takaful has launched its latest product suite, called the PruBSN link series.

Azim Mithani, CEO of PruBSN Takaful, said that this is a strengthening of the firm's core product offering that will increase its appeal to a wider cross section of the population.

The product suite consists of three unique products: PruBSN FirstLink, PruBSN SmartLink and PruBSN TakafulLink. All three plans under the PruBSN Link series provide a unique life achievement-based loyalty bonus to participants.

Strengthening UAE presence

UAE: Takaful Emarat has set up its new head office in Dubai following a consolidation of operational resources from its Sharjah and Dubai offices, as part of its expansion in the UAE.

Ghassan Marrouche, its general manager, said that the new headquarters signals its intent to grow its market share in the UAE, with further plans for the establishment of more branches around the emirates.

He said that more than 80 employees would be brought over to the new head office from its Sharjah branch.

Four new products for Etiqa

MALAYSIA: Etiqa Takaful has launched four new Takaful products, consisting of a fund for children's education and protection, as well as three investment funds.

The products aim to provide comprehensive protection and savings benefits for all stages of life.

Islamic banking and Takaful in Oman: What could this mean for the country?

Following the government's approval of Islamic banks, GAUTAM DATTA explores what the changes could mean for the country and the corporate sector, especially Takaful, as well as the challenges to be overcome.

In Oman, this year will not be just remembered for the Arab Spring that swept the region, but will also be remembered as the year when Sultan Qaboos approved the licensing of Islamic banking, marking the introduction of Islamic financial services in the country. Oman had so far been the only member country in the GCC that did not provide for Islamic financial institutions in the country. This deprived a section of its citizens from having a choice that was available to their counterparts in other GCC countries.

It is not very clear as to how this has impacted the decision of these citizens. Did it drive their business abroad? Did they fall back on the options that were available to them in their own country? Or did they just abstain from participating in the market and leave their needs unfulfilled?

There have been various reports on the value of global Islamic financial services reaching US$1 trillion in 2011, and that of the global Takaful business reaching US$15 billion by 2015 (E&Y Takaful Report). It is not clear as to how much of this could be generated by the new Islamic financial market in Oman.

In Oman it is estimated that there are over 2.3 million Muslims. Many of them are quite conservative in their faith. It is said that many of these religious Muslims have been increasingly demanding Islamic financial services to satisfy their life style needs like financing for starting a business or buying a home or even a car.

At present they are constrained by the compulsion to pay interest, which is forbidden in Islam. The decision to allow Islamic banking services may have been a concession to this segment but there is also an economic imperative, recognizing the money that was being lost to Islamic banks in neighboring countries.

It is possible that initial estimates of the potential in Oman may have been conservative as the interest of the public in Islamic banking in the country becomes increasingly palpable with the opening of the first Islamic bank and first Takaful firm in Oman. Oman extends well beyond its main cities of Muscat, Sohar and Salalah as over 27% of the population lives in non-urban or rural areas.

> ***"The success of the banking industry shows that its participants understand issues relating to distribution better than their insurance counterparts"***

There is also a sizeable middle class where government grants and subsidies have not substituted the need for sustained employment. The current rate of unemployment is about 15% which stretches the fabric of community support. People residing in small villages have a strong feeling of community and their traditions are deeply rooted in their religion. There has been some inevitable dilution of this tradition on account of economic development and to some extent due to globalization and the impact of the internet.

The Omani public has accepted conventional banking and insurance when forced to by law, as in the case of compulsory motor insurance or insurance by banks whenever they have had to take loans. It is however clear that they will be motivated to access the Islamic financial market and explore new business opportunities once the option is made available. This will allow them to access financing for building homes or buying a car. It will allow them to buy family protection (life insurance) to protect their families financially in the event of untimely death which in the past was 'haram.' It will allow them to save for important milestones in their lives such as the education of their children or the marriage of their sons and daughters, and to provide for their own retirement.

While the feeling of community continues to be a strong bond among the people of Oman, economic conditions no longer allow them to be as generous with their time and money to help out their neighbors, because times are tough for everyone.

Jobs are at a premium, relocation from their villages for the sake of employment and moving away from their support system due to necessity has become the norm. Under such circumstances the need for insurance to protect their financial assets or financial security for the future is urgent and due to their religious beliefs, what was not possible in the past has now become a viable option.

If this need gets converted into an identifiable demand, then projections made by various bodies in terms of business opportunities for new Islamic banks, Shariah compliant windows and Takaful companies could very well come true.

The companies will have to work hard to convert this potential demand into reality, however. The key challenges are:

Awareness

While people are aware of the non-compliance of conventional financial instruments, they are not familiar with the structure of Islamic products. They are also not aware of their rights and obligations under a typical Takaful contract, for instance, which can be quite different from those under a conventional one. The new entrants have to undertake

Continued

Continued

an extensive exercise to get their message across. Unlike a conventional product where marketing is mainly based on a particular need, the selling of an Islamic product during the early days will be based on faith.

This is quite a complex situation and to make sure that there is no exploitation, the credibility of the product and its compliance with Shariah will be of critical importance. In Takaful, for example, the policyholder has to understand the concept of how his contribution builds the policyholder fund.

The role of the shareholder is really that of an agent (wakeel) who operates the fund on behalf of the policyholder. Hence the policyholder has actually a stake in the way the product is priced and the fund is managed and the fee that is charged to ensure long-term profitability of the fund. Unfortunately the tendency has been to delegate this concept of ownership to the shareholder, which progressively dilutes the spirit of solidarity among the policyholders that is central to the theme of Takaful.

Distribution

The success of the banking industry shows that its participants understand issues relating to distribution better than their insurance counterparts. This has been compounded by a lack of critical mass in many of the GCC states, and over the years, a fragmentation of the industry. The problems of distribution, critical mass and fragmentation have afflicted the Takaful industry as well when one takes into account the number of Takaful companies in the GCC (over 65 according to PwC).

While the regulator in Oman has unequivocally stated that there will be no Takaful windows, having seen the direction provided by some of the neighboring countries like Qatar, Bahrain and the UAE, there will be more than one Takaful company in the market putting pressure on what is already a very fragmented industry.

In addition to the geographical challenge of reaching out to the rural population with suitable products, the new entrants have to ensure that the segmentation of their market does not become too narrow and be wary of restricting it to faith-based consumers only.

A detailed study carried out by McKinsey on Islamic financial services has shown that for the business model to work well, Islamic financial products must have a broad-based appeal. Takaful business in Oman will not be feasible if its marketing focuses on Muslims only. It has to appeal to the community at large through its core principles of transparency, ethical investment and equity.

Business hurdles

Entry barriers for almost all new businesses in an established market can seem to be insurmountable and it will be no different for new Islamic banks and Takaful companies.

For Takaful companies, these include: lack of trained resources with necessary language (Arabic) skills; the lack of a level playing field for Takaful companies compared to conventional companies; limited Shariah compliant investment instruments; lack of AAIOFI-compatible IT systems; high start-up costs that put immense pressure on policyholders' funds; the challenges of qard hassan and its impact on return on capital; the need to educate the masses; the need for endorsements from Shariah scholars that are acceptable to the local population; and the need to create a platform for education and distribution through 'mosque assurance'. These are just some of the business hurdles to be overcome.

What does this mean for Omani companies? Faith is not as much of a governing factor when it comes to deciding on financial solutions — banking or insurance — for a corporate body. As mentioned earlier, there will be a small number of companies that will be exceptions to this rule. These will be typically family-run units that are conservative and follow faith-based practices more consciously, with their business decisions driven by this principle.

I have met a diversified trading group in the country that believes in conducting most of its business in cash, and that does not believe in funding from banks to facilitate their business activities.

They do not have any life insurance - notwithstanding the fact that their wealth does not really require insurance to provide for future financial security for family members. They also do not insure their cars against comprehensive insurance, and buy legally required liability insurance only.

In my estimate, the number of such enterprises will not make any significant impact on business volume but will influence the way public opinion is shaped regarding the long-term viability for Islamic business.

As for Islamic banks and Takaful companies lining up for a license, they may take solace in some hard numbers. Total banking assets in Oman currently amount to US$17 billion and experts believe that in few years time Islamic banking could add another US$6 billion. This amounts to over 30% growth and a 25% share of the total market, which will be impressive if it comes to fruition.

There are currently no such projections for the Takaful market, but if one were to work on a market share basis and take a more conservative estimate, of 10% of the market turning to Takaful, then the potential Takaful premium could work out to around US$60 million.

This does not take into account life insurance premiums, which is where I believe lies the real potential for the Takaful market in Oman. In the absence of a structured study, it is however difficult to estimate the business that potentially exists if all the tools to convert this business were effectively deployed.

This still means that local businesses can expect a demand surge, driven by financial transactions generated through Islamic banks and Takaful companies. It is however difficult to assess how much of it will be cannibalized from existing business and how much will be new demand.

Conclusion

In the end, what will matter is the change in the country's psyche. A lesson learnt from the recent crisis in US and Europe is that hope and optimism are important factors for an economic revival, and the introduction of Islamic financial services in Oman has definitely generated high levels of these two critical ingredients.

Gautam Datta is the CEO of Al Madina Insurance Company SAOC and he can be contacted at gautam.datta@amicoman.com.

Wan Azman Wan Mamat, CEO, AIA AFG Takaful

Wan Azman Wan Mamat has extensive experience in the marketing field, starting with a career in the banking, oil and gas industries as well as the unit trust industry. Under his leadership, AIA AFG Takaful aims to become one of Malaysia's top three Family Takaful providers within three years.

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

In 2003, I was attached with an international insurance company, and I was given the task of setting up their Takaful unit in 2006. I was the regional chief distribution officer with a local Takaful company from 2009, prior to setting up AIA AFG Takaful in January 2011.

What does your role involve?

As CEO, my role is to provide leadership and inspiration for the team to achieve the company's vision and mission.

I also look forward to playing a bigger role in the development of new Shariah compliant products and related distribution channels. This will ultimately build a stronger Takaful industry.

What is your greatest achievement to date?

I am pleased to have gathered a team of bright talents in AIA AFG Takaful and together we aim to set new trends in the Takaful industry in the way we do our business.

Which of your products/ services deliver the best results?

In less than a year from our formation, we have received an overwhelming response for two of our core products, A-Mas and A-Medik. A-Mas is an investment-linked Family Takaful plan which can also be attached with an A-Medik rider. A-Medik is an innovative

medical card which offers options for family plan packaging with no lifetime limit.

What are the strengths of your business?

Our strength lies in our multi-distribution channels approach, because we believe it is the best way to capture all market segments. Now we are distributing our Takaful products through agency, bancaTakaful and direct marketing channels.

We plan to expand our multi-distribution channels through strategic alliances with agencies, worksite marketing and independent financial advisors.

Furthermore our partnership with Alliance Bank to introduce innovative products and a strategic product mix has been fruitful.

The synergistic activities are well in place and we are looking forward to the roll-out of a series of compelling products to cater to the arising needs of the customers.

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

I attribute our emerging success to our shareholders, AIA and Alliance Bank. They are well-recognized for their brands, strong agency force and network of branches, making our presence felt in the Takaful industry. Staff members of our distribution channels have been working very hard in promoting our range of Takaful products. Also, our dynamic team of management and staff, whose talent and dedication has propelled AIA AFG Takaful to its position today.

What are the obstacles faced in running your business today?

It is quite a challenge to find the right talent to serve within the Takaful industry because it is fairly new and demands are competitive. As my passion lies in people development, I want to be involved with initiatives that can help to create more talents and develop their career in the Takaful industry.

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

I would like to see the Islamic finance industry to be on the same level with the conventional industry, if not better: especially in countries such as Indonesia, China and India.

The Islamic finance industry continues to improve by offering more sophisticated and innovative financial solution products and services. I can assure you that it will become a global financial phenomenon very soon.

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

We must change the perception that Islamic finance is an alternative solution to conventional. We can change that by taking on more creative approaches in providing financial solutions and services that can cater to our customers on a global scale.

It is time to be bold and move away from the traditional methods of doing business. Another way to achieve this is by encouraging Islamic financial solution providers to work together to bring more comprehensive and holistic products to the market.

I think it is time for us to elevate the Islamic finance industry as the solution to all financial needs.

ISSUER	SIZE	DATE ANNOUNCED
National Iranian Oil Company	TBA	1st October 2011
Qatar International Islamic Bank	TBA	28th September 2011
Tamweel	US$300-US$500 million	27th September 2011
Albaraka Turk Katilim Bankasi	US$200 million	25th September 2011
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Tenaga Nasional	RM5 billion	15th September 2011
Khazanah Nasional	RMB500 million	14th September 2011
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
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
Mazaya Qatar	TBA	14th April 2011

IFN Correspondents

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chief of Islamic banking, Kabul Bank

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partner, Mallesons Stephen Jaques

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

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

CANADA: Jeffrey S. Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

HONG KONG & CHINA: Anthony Chan
partner, Brandt Chan & Partners in association with SNR Denton

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

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Islamic finance expert, SEO

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Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

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partner, Lee & Ko

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partner, Al Tamimi & Company

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associate, Conyers Dill & Pearman

NEW ZEALAND: Dr Mustafa Farouk
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senior associate, Al Busaidy Mansoor Jamal & Co

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director (enforcement), SEC of Pakistan

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

RUSSIA: Dr Adalet Djabiev
CEO, Al Shams Capital

SAUDI ARABIA: Nabil Issa
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associate professor, Singapore Management University

SRI LANKA: Roshan Madewala
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

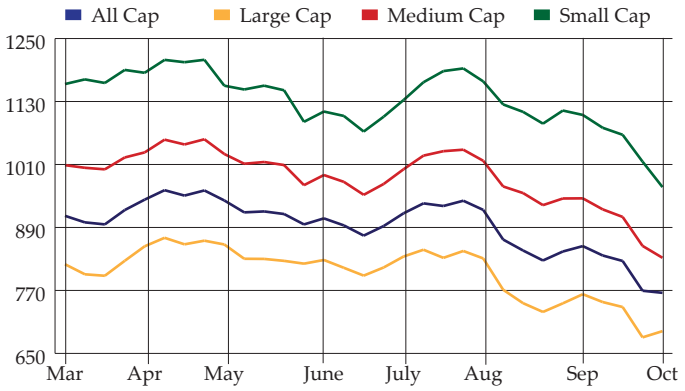
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

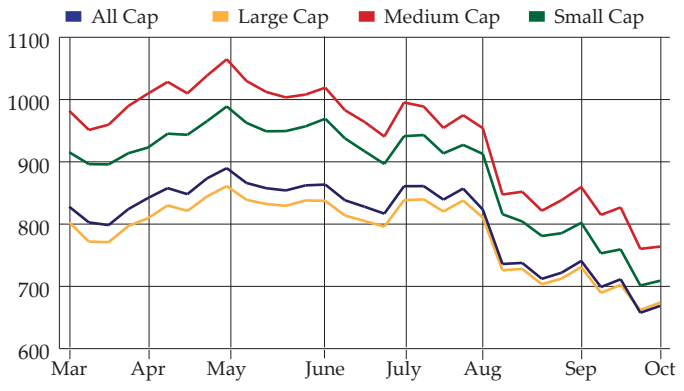
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

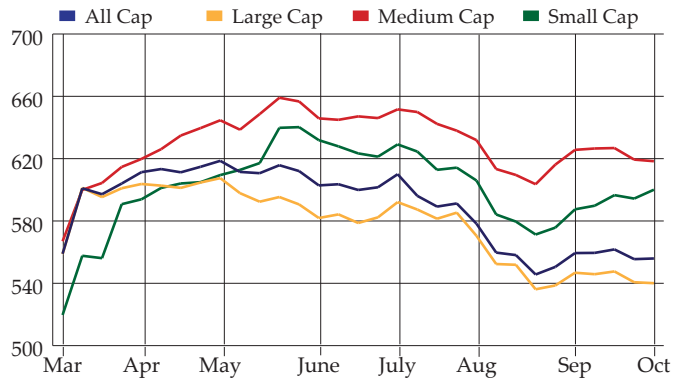
REDmoney Asia ex. Japan *6 Months*



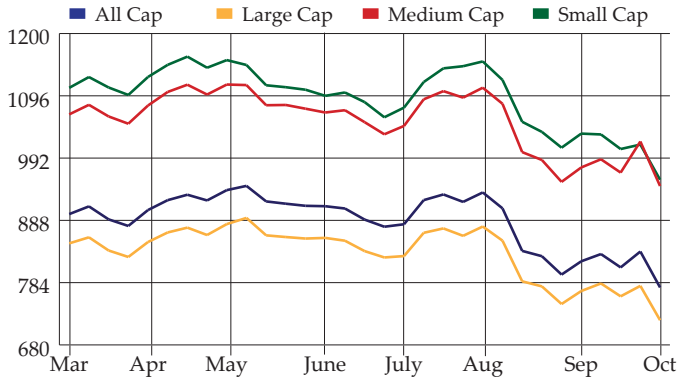
REDmoney Europe *6 Months*



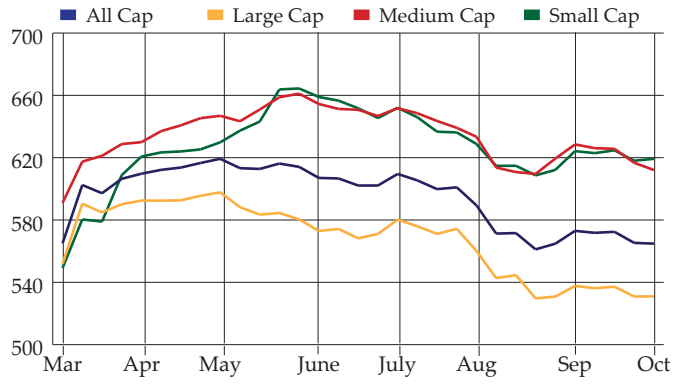
REDmoney GCC *6 Months*



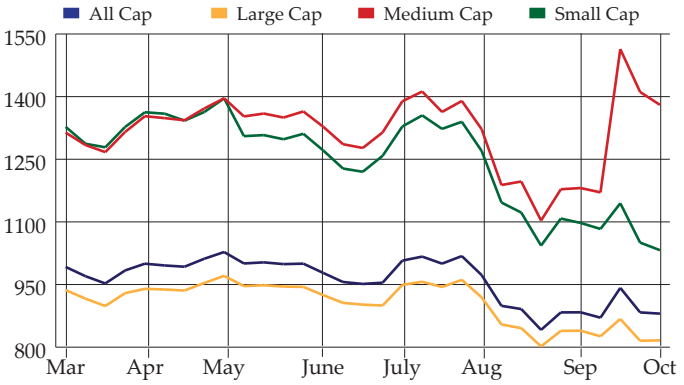
REDmoney Global *6 Months*



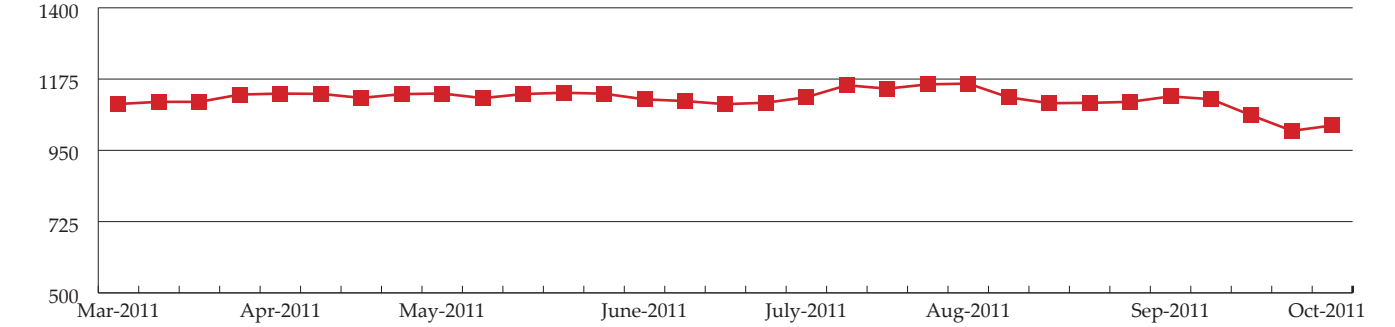
REDmoney MENA *6 Months*



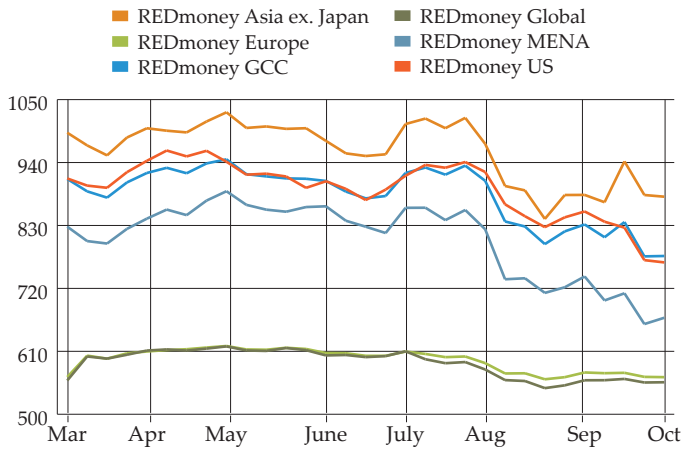
REDmoney US *6 Months*



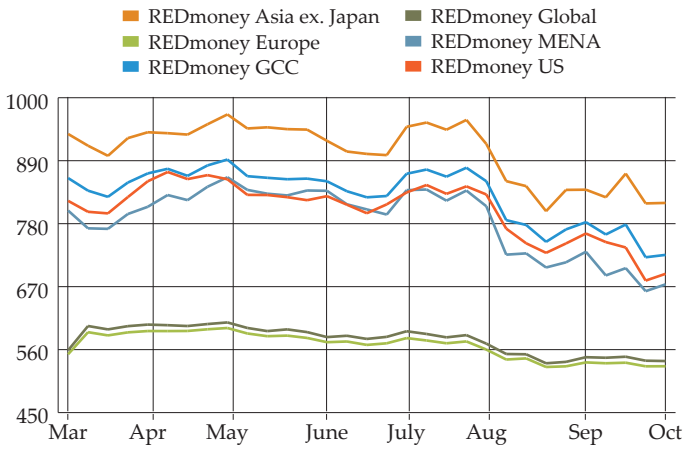
SAMI Halal Food Participation (All Cap) *6 months*



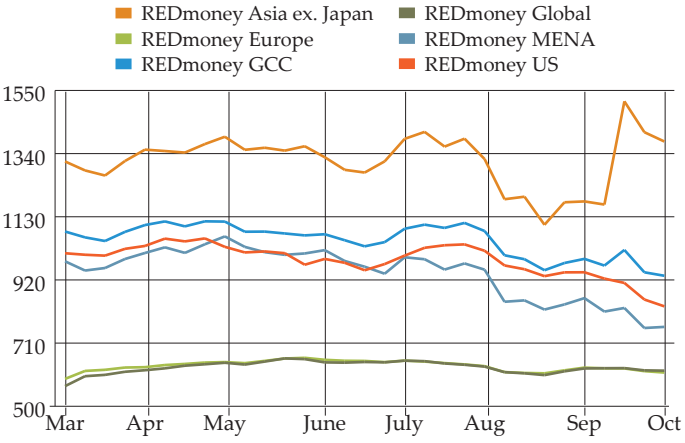
REDmoney Global Shariah Index Series (All Cap) *6 Months*



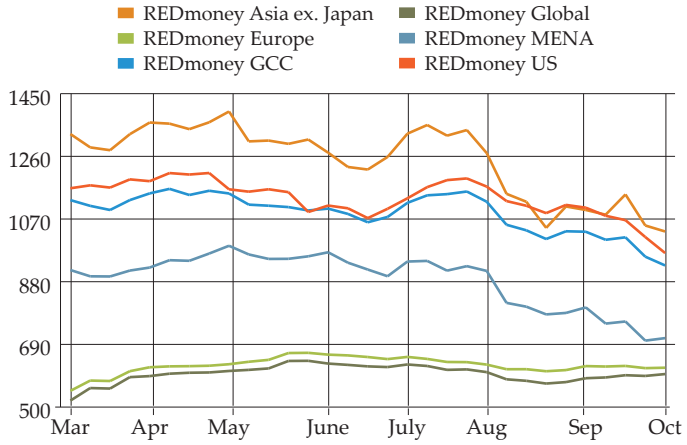
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



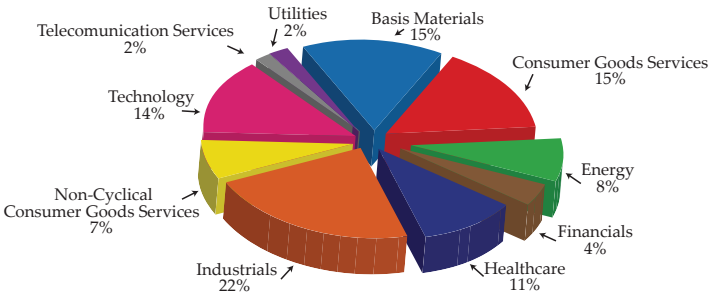
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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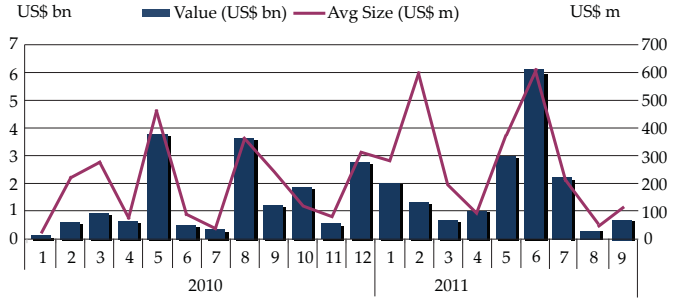
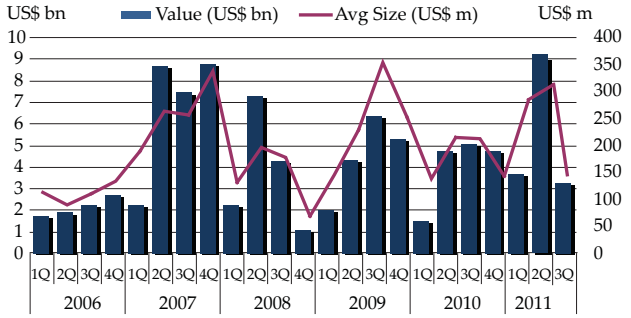
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	190	Public Bank, AmInvestment Bank
14th Sep 2011	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	263	HSBC, CIMB Group, AmInvestment Bank
13th Sep 2011	Telekom Malaysia	Malaysia	Sukuk	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	Sukuk	Domestic market public issue	250	AmInvestment Bank
21st Jul 2011	Besraya (M)	Malaysia	Sukuk Mudarabah	Domestic market public issue	233	AmInvestment Bank
6th Jul 2011	Cagamas	Malaysia	Sukuk	Domestic market public issue	206	CIMB Group, Maybank Investment Bank
28th Jun 2011	Wakala Global Sukuk	Malaysia	Sukuk Wakalah	Euro market public issue	2,000	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
17th Jun 2011	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	1,910	CIMB Group, Maybank Investment Bank
16th Jun 2011	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	Maybank Investment Bank
14th Jun 2011	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	RHB Capital, AmInvestment Bank
13th Jun 2011	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	Deutsche Bank, Riyad Bank
8th Jun 2011	Bank Muamalat Malaysia	Malaysia	Sukuk	Domestic market private placement	133	DRB-HICOM, Maybank Investment Bank
2nd Jun 2011	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	Maybank Investment Bank
26th May 2011	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	229	CIMB Group, AmInvestment Bank, Maybank Investment Bank
26th May 2011	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	HSBC
18th May 2011	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
18th May 2011	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	Standard Chartered, HSBC

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	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	825	14	AmInvestment Bank, RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank
8	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750	1	Standard Chartered, HSBC, Barclays Capital
9	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
10	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
11	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
11	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
13	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
14	Malaysia Airports Capital	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1	CIMB Group, Citigroup
15	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered Bank, HSBC
16	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
17	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	361	1	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
18	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
19	Konsortium Lebuhraya Utara-Timur	Malaysia	Sukuk Musharakah	Domestic market public issue	280	13	CIMB Group
20	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
21	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
22	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	263	1	HSBC, CIMB Group, AmInvestment Bank
23	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	1	AmInvestment Bank
24	Besraya (M)	Malaysia	Sukuk Mudarabah	Domestic market public issue	233	1	AmInvestment Bank
25	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	229	1	CIMB Group, AmInvestment Bank, Maybank Investment Bank
26	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	1	Maybank Investment Bank
27	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	200	2	CIMB Group, AmInvestment Bank, Maybank Investment 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	190	1	Public Bank, AmInvestment Bank
	Total				**20,727**	**100**	

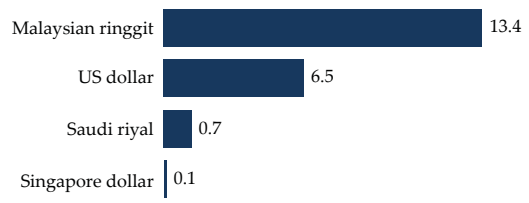
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	4,928	27	23.8
2	CIMB Group	4,351	44	21.0
3	HSBC	3,565	16	17.2
4	AmInvestment Bank	2,016	27	9.7
5	Citigroup	1,306	6	6.3
6	Standard Chartered	1,203	7	5.8
7	RHB Capital	953	5	4.6
8	Deutsche Bank	427	2	2.1
9	RBS	416	3	2.0
10	Barclays Capital	250	1	1.2
11	Riyad Bank	240	1	1.2
12	BNP Paribas	188	1	0.9
13	Public Bank	163	5	0.8
14	OCBC	157	5	0.8
15	Affin Investment Bank	155	4	0.8
16	JPMorgan	133	1	0.6
17	DRB-HICOM	123	2	0.6
18	Lembaga Tabung Haji	78	2	0.4
19	Hong Leong Bank	40	2	0.2
20	Al-Rajhi Banking & Investment	16	1	0.1
21	OSK	13	2	0.1
22	Mitsubishi UFJ Financial Group	6	2	0.0
	Total	**20,727**	**100**	**100.0**

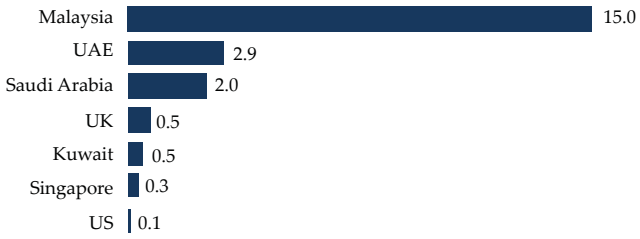
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	701	3	19.4
2	Riyad Bank	224	2	6.2
3	HSBC Holdings	207	2	5.7
4	Samba Financial Group	177	2	4.9
5	Al-Rajhi Banking & Investment	169	1	4.7
5	Saudi Hollandi Bank	169	1	4.7
7	Bank Al-Jazira	166	2	4.6
7	Public Investment Fund	166	2	4.6
9	Emirates NBD	127	2	3.5
10	Standard Chartered	119	1	3.3

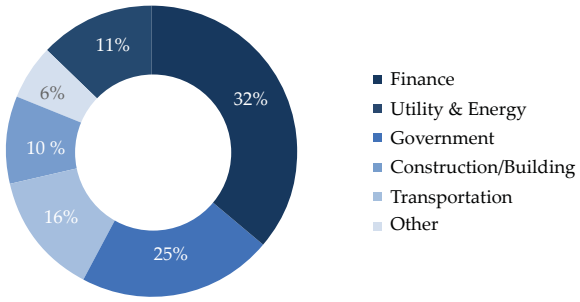
Sukuk Volume by Currency US$ (billion) *12 Months*



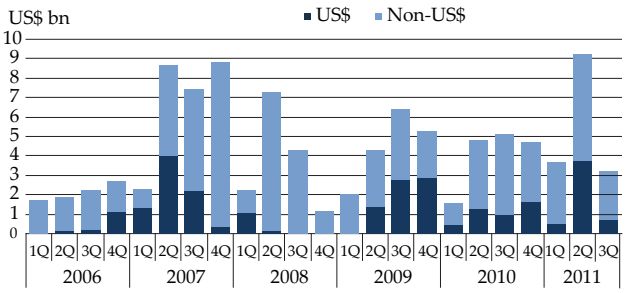
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	29.5
1	Baker & McKenzie	2,509	2	29.5
1	Clifford Chance	2,509	2	29.5
4	Herbert Smith Gleiss Lutz Stibbe	400	1	4.7
4	Latham & Watkins	400	1	4.7

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	1,005	6	11.4
2	Maybank Investment Bank	824	5	9.4
3	Samba Capital	660	4	7.5
4	AmInvestment Bank	471	3	5.4
5	Saudi National Commercial Bank	462	2	5.3
5	Banque Saudi Fransi	462	2	5.3
7	Citigroup	425	6	4.8
8	Standard Chartered Bank	409	6	4.7
9	Abu Dhabi Islamic Bank	398	3	4.5
10	RBS	233	1	2.7
11	CIMB Group	232	3	2.6
12	Emirates NBD	180	3	2.0
13	RHB Capital	164	1	1.9
13	Lembaga Tabung Haji	164	1	1.9
15	Arab Banking Corporation	162	3	1.9
16	Deutsche Bank	150	1	1.7
17	Noor Islamic Bank	147	2	1.7
18	BNP Paribas	134	3	1.5
19	OCBC	131	2	1.5
19	DBS	131	2	1.5
21	Riyad Bank	129	1	1.5
21	Bank Al-Jazira	129	1	1.5
23	UOB	116	1	1.3
24	WestLB	115	3	1.3
25	Bank of China	93	1	1.1
26	Saudi Hollandi Bank	74	1	0.8
26	Export Development Canada	74	1	0.8
26	Arab Petroleum Investments	74	1	0.8
26	Arab National Bank	74	1	0.8
26	Alinma Bank	74	1	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	17.8
2	Citigroup	524	6	6.0
3	Abu Dhabi Islamic Bank	428	3	4.9
4	Maybank Investment Bank	237	1	2.7
5	RBS	233	1	2.7
5	HSBC	233	1	2.7
7	Standard Chartered Bank	105	1	1.2
8	Bank of China	93	1	1.1
9	National Bank of Kuwait	87	1	1.0
10	Credit Suisse	50	1	0.6

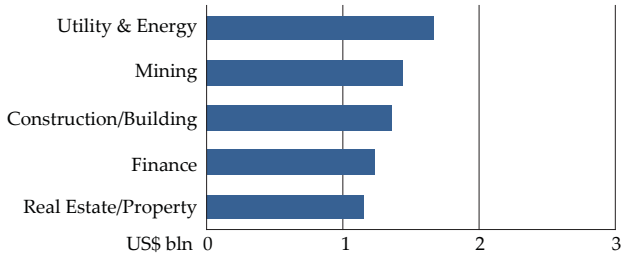
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
30th Nov 2010	Saudi Arabian Mining	Saudi Arabia	1,913
13th Dec 2010	Saudi Electricity	Saudi Arabia	1,333
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
31st Mar 2011	National Central Cooling	UAE	757
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
22nd Sep 2011	Albaraka Turk	Turkey	344

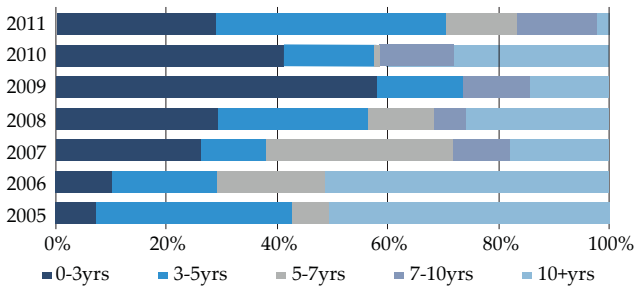
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,924	3	33.3
2	Malaysia	1,777	5	20.2
3	UAE	1,704	8	19.4
4	Turkey	988	5	11.3
5	Singapore	655	2	7.5
6	Indonesia	450	1	5.1
7	China	93	1	1.1
8	Kuwait	87	1	1.0
9	Russian Federation	60	1	0.7

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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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 2011
Indonesia Trade & Commodity Finance Conference
Jakarta (*Exporta*)

23rd – 24th October 2011
Annual Conference on Islamic Banking and Finance
Bahrain (*AAOIFI*)

24th – 27th October 2011
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*)

23rd – 25th November 2011
Asian Finance Forum
Bali, Indonesia (*Asian Institute of Finance*)

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

6th December 2011
IFN Country Briefings: Indonesia
Jakarta *(REDmoney events)*

6th – 7th December 2011
3rd Annual SE Asian Institutional Investment Forum
Kuala Lumpur (*Asian Investor*)

11th – 12th December 2011
1st Annual Project Finance and Trade Finance Summit Dubai, UAE (*Global Islamic Finance Magazine*)

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