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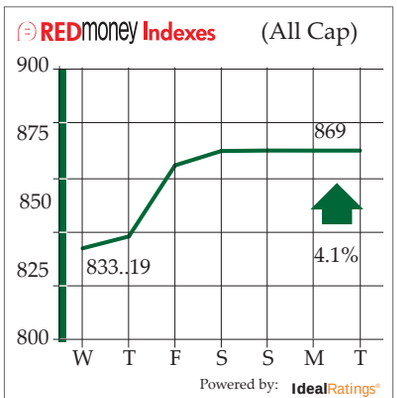

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The Eurozone crisis: Good or bad for Islamic finance?

Despite the recent news that the EU will bail out Greece to the tune of EUR130 billion (US$180 billion) along with a 50% write-down from the private sector on its massive debt; a recapitalization of European banks of EUR106 billion (US$146.7 billion); and an increase of the rescue fund, the ground in Europe remains shaky. The shock Greek referendum raises the possibility that the country will reject the package and send the whole pack of cards tumbling down. The EUR440 billion (US$609.4 billion) European Financial Stability Fund (EFSF) has only around EUR290 billion (US$401.6 billion) left after helping Ireland and Portugal as well as Greece, and plans to leverage by up to 5 times in order to provide the EUR1 trillion (US$1.38 trillion) the EU estimates it will need to stave off the worsening debt crisis, threatening to spread now to Italy and Spain.

EU banks are still likely to require an additional EUR200-300 billion (US$275.9-413.9 billion) to meet Basel III requirements, while the UK this week approved another GBP75 billion (US$119.8 billion) in quantitative easing in a desperate attempt to stimulate the economy. The governor of the Bank of England, Mervyn King, has warned that Britain is in the grip of the world's worst-ever financial crisis, and has voiced scepticism on the effectiveness of the EU summit: "The underlying problems haven't changed at all, and they won't change."

For the Islamic finance industry, this question lies at the heart of the issue. The underlying problems driving the sovereign debt crisis are based on the instability inherent in the conventional debt-based financial system. Shariah finance, on the other hand, believes that it can provide a better, stronger, and more stable alternative. But can the industry keep its head above water and capitalize on this opportunity, or will the tremors from the Eurozone shake it out of its complacency?

Have they learned nothing?

The conventional banking system has flagrantly failed to learn from the ongoing crises in its markets. Only this week MF Global, a broker-dealer run by an ex-chief executive of Goldman Sachs, became the largest US financial institution to fail since Lehman Brothers in 2008, filing for bankruptcy after making a US$6.3 billion bet on European sovereign debt. The firm was the biggest clearer of trades on the CME, the world's largest derivatives marketplace, and its demise has sent the US markets scrambling. The failure demonstrates the undeniable potential for the consequences of the European sovereign debt crisis to spread beyond Euro borders.

In September, the IMF warned that the exposure of European banks to debt in the weakest parts of the Eurozone had climbed to EUR300 billion (US$414.8 billion) since

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Calm before the storm?

Editor's Note

Even as the world breathed a sigh of relief at Europe's latest plans to overcome the region's debt crisis, pundits caution that a solution may not be sufficient or swift enough to prevent a global contagion. While the developments in Europe have provided a break in the clouds, it is important to note that the storms brewing across the global landscape have left us on the brink of change.

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NEWS

Libyan central bank preparing regulation to enable Sukuk issuance

Up to US$1 billion in Eurobonds could be sold next year to allow issuance of sovereign benchmark Sukuk, says Kazakhstan deputy minister of finance

National Bank of Kazakhstan renews banking license of **Al Hilal Islamic Bank**

Hong Leong Islamic Bank completes country's first vesting of an Islamic bank

Bank Muamalat Malaysia to expand Islamic pawn broking service to all branches

Meezan Bank reports 130% surge in net profits to US$26.5 million for the first nine months of 2011

Hong Kong government to hold second round of consultations on tax law amendments for Sukuk issuances

Malaysia Building Society's third quarter net profit climbs 134.8% to US$30.7 million

IDB provides financings to **Türkiye Finans Katilim Bankasi** and Mozambique

Standard Chartered Bank Pakistan enhances its Shariah compliant products under **Standard Chartered Saadiq**

Al Baraka Banking Group expands in Saudi Arabia and eyes entry in Libya

Etihad Etisalat Company close to concluding US$2.7 billion Islamic refinancing agreement with local banks

Barwa Bank's shareholders approve rights issue to increase capital

Ahli United Bank reports 19.5% increase in net profit to US$240.3 million for the first nine months of 2011

Jordan Islamic Bank reports net profit of US$29.7 million for the nine months ended the 30th September 2011

Tenaga Nasional's US$1.55 billion Sukuk oversubscribed by over four times

Crédit Agricole CIB considering issuing multiple Sukuk to diversify funding

Boubyan Bank opens new branch in Ahmadi

Barwa Bank establishes three new branches in Al Sadd, Al Rayyan and West Bay

UAE banks post strong third quarter financial performances

Oman International Bank starts feasibility study to launch Islamic banking window

Sukuk issuances in Saudi Arabia to pick up in 2012 with benchmark offering from sovereign or corporates

Dubai Court of Appeal upholds 10-year jail sentence for six defendants involved in the **Dubai Islamic Bank** fraud case

Majid Al Futtaim appoints **HSBC** and **Standard Chartered Bank** to structure planned Sukuk program

Sultanate could consider Sukuk issuance in the future, says **Central Bank of Oman**

Sukuk issuances in the GCC rose to US$3.19 billion in the third quarter, says **National Commercial Bank**

ICIEC still considering establishing third party Sukuk guarantee fund

INVESTOR

QInvest launches Qatar Equity Protected Note

Kuwait Finance House in Malaysia receives US$6.6 million in profit from exiting Asia 2 real estate fund

Capital Management House distributes third quarter dividends for aircraft leasing investment fund

Labuan Financial Services Authority grants trustee license to Ohad Trust (Labuan)

Public Mutual declares returns for Islamic funds

TAKAFUL

Great Eastern Takaful appoints **Korperasi Angkatan Tentera Malaysia** as its first corporate agency

Hong Leong MSIG Takaful signs MoU with **Malaysia Building Society** for Takaful distribution

National Insurance Commission and **GIZ** to carry out study on Takaful and micro-insurance products in Nigeria

Takaful businesses in Bahrain record 40% compound annual growth rate to US$102.2 million between 2001-2010

Al-Takaful Palestinian Insurance reports 75.4% drop in net profit before tax to US$174,024 for the first nine months of 2011

RATINGS

Fitch places **Emirates NBD**'s individual and viability rating on rating watch negative and affirms its long-term IDR at 'A+'

Fitch assigns **Kuveyt Turk Katilim Bankasi**'s five-year US$350 million Sukuk issuance a final rating of 'BBB-'

MARC withdraws ratings on **Goodway Integrated Industries**' US$18.3 million MUNIF/IMTN notes following successful redemption

RAM assigns long- and short-term ratings of 'AA1' and 'P1' to **Sabah Credit Corporation**'s proposed US$326.4 million IMTN/ICP programs

JCR-VIS assigns first fiduciary ratings of 'A/A-2' to **Burj Bank**

JCR-VIS places **ABL Islamic Income Fund**'s outstanding fund stability 'AA(f)' rating under 'Rating Watch-Developing' status

S&P affirms and withdraws 'BBB+/A-2' long- and short-term counterparty credit ratings on **Al Ahli Bank of Kuwait**

MOVES

Raja Teh Maimunah Raja Abdul Aziz is new CEO of **Hong Leong Islamic Bank**

Freshfields Bruckhaus Deringer appoints **Tarek El-Assra** as global head of Islamic finance

Law firm **Conyers Dill & Pearman** names **Charles Collis** as head of London office

Mashreqbank names **Hameed Noor Mohamed** as head of SME banking

Nomura Group appoints **Michael Kurtz** as chief Asia equity strategist and managing director of Hong Kong branch

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2010, and warned that there has been a substantial increase in risks to stability over the past few months. "For the first time since the October 2008 GFSR, risks to global financial stability have increased, signalling a partial reversal in progress made over the past three years. Recent market turmoil suggests that investors are losing patience with the lack of momentum on financial repair and reform."

Decreasing influence

The struggles of the Eurozone are likely to lead to its reduced influence in the global sphere, and not just in indirect terms. Leading emerging economies could benefit from its troubles, allowing them to aid the EU in an ironic reversal of fortune. China has reportedly agreed to help the EU increase its bailout fund through the IMF, for example. As within the IMF an increased contribution means increased voting rights, this may prove an attractive prospect for other cash rich emerging economies, including Islamic powerhouses such as Saudi Arabia, who have been vocal on the system's inequality and have long called for a bigger say in the organization.

Rescue options

Emerging economies are set to grow by around 16% in 2011 according to Citigroup estimates, and account for up to 40% of global GDP growth. Both China and Saudi Arabia also have enough fiscal and monetary freedom to counter the slowdown from Europe. In addition, emerging economies are currently less reliant on Europe than Europe is on them, thus posing limited downside risk to their trade balance in the event of an EU recession. However, China is showing some reluctance to assist. In a recent visit to Bejing Klaus Regling, the head of the EFSF, reportedly asked for a pledge of EUR100 billion (US$138.2 billion). However, China's deputy finance minister Zhu Guangyao has said that China doesn't want to be a "savior" and needs more clarity before investing.

With China reluctant to step up, Islamic nations could step into the breach.

Saudi Arabia has the fourth highest currency reserves in the world; while Southeast Asia is one of the fastest-growing areas of the global economy and several analysts have suggested Europe should be courting Asian investment and trade. In a recent keynote address at the IFN Issuers & Investors Asia Forum, Luxembourg's minister of finance Luc Frieden noted that: "We can learn a lot from Islamic finance and from Asia," and that Islamic financial institutions had emerged to be the best managed through the financial crisis. "The key elements in Islamic finance that we need in the world today, particularly in Europe, are stability, financial partnership, prohibition of excessive risk and speculation as well as ethical principles," he added, suggesting that Asian investors look to Europe for trade and investment purposes.

> ***"As a response to a potentially catastrophic debt crisis, leveraging the European rescue fund to actually increase debt may perhaps not be the most appropriate long-term solution"***

Positive implications for Islamic finance

With the current sovereign debt crisis demonstrating the failure of the conventional model, there has perhaps been no better time for Islamic finance to present itself as a viable alternative. Conventional EU and US markets could

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CLOSING BELL

Surge in profits

INDONESIA: CIMB Niaga Syariah has reported a profit before tax of IDR48.74 billion (US$5.5 million) as at the 30th September 2011, a year-on-year increase of 87% from the corresponding period last year.

The surge in profit was attributed to a 95% growth in Shariah compliant financing to IDR2.82 trillion (US$317.5 million) and a 95% rise in third party fund placement to IDR3.44 trillion (US$387.3 million).

The bank's assets rose 71% to IDR4.21 trillion (US$473.9 million) in September this year from September 2010.

Five-fold growth in profit

PAKISTAN: BankIslami Pakistan's net profit for the third quarter ended the 30th September 2011 surged almost five-fold to PKR102.41 million (US$1.2 million) from PKR17.7 million (US$205,599) a year earlier.

The bank's assets grew 6.13% to PKR5.06 billion (US$58.78 million) during the period.

Profit surges 93.15%

INDONESIA: Bank Muamalat Indonesia has reported a 93.15% growth in its third quarter profit before tax to IDR270 billion (US$30 million) from the same period in 2010.

Adrian Asharyanto Gunadi, its director of retail banking, attributed the increase to growth in income from financing. As at the 30th September 2011, the bank's financing portfolio amounted to IDR20 trillion (US$2.3 billion).

AL RAJHI BANK MALAYSIA

MALAYSIA: **Ahmed Rehman** will retire as CEO of Al Rajhi Bank at the end of this year.

The bank has yet to appoint a replacement for his post.

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take years to recover: and with low growth rates, endemeic bank weakness, high political risk and the possibility of a returning liquidity crisis, there is an obvious funding gap which Islamic finance could fill. Dr Abbas Mirakhor, the first holder of the INCEIF chair in Islamic finance, has noted that: "Risk sharing could be an effective alternative to the debt-based ways and means of helping European countries face sovereign debt crises." There is no doubt that as a response to a potentially catastrophic debt crisis, leveraging the European rescue fund to actually increase debt may perhaps not be the most appropriate long-term solution.

In contrast, the risk sharing elements in Islamic finance offer a realistic long-term option. There must be a close correspondence between real sector activities and the financial sector; which through necessity imposes limitations on credit expansion and leverage. Dr Mirakhor suggests that the Eurozone could issue long-term securities with pay-offs based on the GDP performance of the EU. Alternatively, cash rich countries such as China could buy GDP-based securities from troubled nations such as Italy, rather than purchasing Italian debt.

There have also been suggestions that sovereign Sukuk could be a way out of the debt-induced crisis. Asset-backed Sukuk structures restrict borrowing beyond the specific requirements of a project, compared to the political and economic insecurity of conventional bonds, which allow additional unspecified borrowing. Omar Shaikh, a board member of the UK Islamic Finance Council, is quoted as saying that: "The Sukuk market could present a useful complementary bond class for governments to allay current investor fears and capture new investors." Despite EU troubles, many Islamic investors would still be keen to invest in European sovereign debt, especially from countries such as the UK, France, and Germany, and this could present a realistic method of raising finance.

Negative impact

According to the IMF, the fallout from the sovereign debt crisis in Greece has had a limited financial impact on the Gulf region so far. However, this does not mean that Europe's problems will not have an effect beyond EU borders. The debt crisis represents a threat because it stems from the largest monetary union and the largest economic bloc in the world. This is something that the Islamic finance industry, and the regions in which it is concentrated, is unlikely to escape.

The euro is the second most utilized currency in international transactions after the US dollar, and any EU crisis is therefore likely to resonate throughout all the nations with which the region trades. Eldred Buck, the managing director of UK-based Eiger Partners, comments that: "The global financial system is by definition completely interconnected, so problems in one part of the system will be transmitted and felt throughout the global economy. Consequently, the Eurozone sovereign crisis is something that concerns all, including everyone in Islamic finance."

As the Islamic finance industry does not (and should not, and cannot) operate independently from international markets, it can thus not stand immune from international financial fluctuations. Nor in fact has it, despite optimistic reports to the contrary. In May of this year it was reported that Dubai's Islamic bonds tumbled the furthest in six months as investor concern over Europe's debt crisis prompted a sell-off of riskier assets, with yields climbing to their highest since November 2010.

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Spreads between Dubai and Malaysian Sukuk have also widened as investors reposition their portfolios towards higher-graded Sukuk in a clear flight to quality. While Malaysia is benefiting from this move, it demonstrates that the region is not immune to the impact of the EU crisis.

Ernst & Young have also challenged the positive annual growth forecasts for the industry, pointing out that the investment sector has remained flat and that Islamic assets are suffering from their close links to the real economy and the price of real estate, both of which are in poor health. The industry is also vulnerable due to its lack of cross-border activity, lack of innovation, and lack of institutional investors. In addition, the problems in the Eurozone are a threat to trade, investment and expansion – particularly in the Gulf region, where European investment is vital to continued growth.

Nasser Saidi, the chief economist at the Dubai International Financial Center, commented that: "The problems in the Eurozone will have an effect on the GCC because we are heavily connected to Europe as a trade and investment partner. If Europe does not address these issues we could be on the verge of a crisis that would put Lehman Brothers in the shadows."

The concern is not just for sovereign wealth funds in the region but also for private investors, as the GCC countries are net exporters of capital and they risk sustaining substantial losses to their portfolios. Islamic investors rely heavily on investments in the stock market and real estate, both of which are likely to suffer.

> ***"If we enter a full-blown debt crisis, it is unclear who is going to be doing the rescuing"***

In addition, the lack of Islamic hedging instruments makes investors particularly vulnerable to currency fluctuations. A crisis in Europe also threatens that most vital of elements, oil prices. The sovereign debt crisis could lead to a considerable fall in demand, which could in turn have serious consequences for the oil industry.

"The debt scenario has moved from a personal liability to an aggregated national liability," said Saidi. "It is a matter of trust and risk aversion is rising rapidly across debt and equity markets. If we enter a full-blown debt crisis, it is unclear who is going to be doing the rescuing."

United we stand

If there is any lesson to be learned from the current dangers, it is that Islamic finance cannot separate itself from the rest of the world. To try is to fail in the fundamental ideals of Shariah finance. While the Islamic banking industry may currently be in a more stable situation than its conventional counterpart it must not fall into the trap of complacency or, worse, of schadenfreude. Risks abound even in our own markets, and the only way that the global financial system will survive is if we stand firm, and stand together. — *LM*

Calm before the storm?

Editor's Note

Even as the world breathed a sigh of relief at Europe's latest plans to overcome the region's debt crisis, pundits caution that a solution may not be sufficient or swift enough to prevent a global contagion.

While the developments in Europe have provided a break in the clouds, it is important to note that the storms brewing across the global landscape have left us on the brink of change.

From finding a solution to Europe's debt woes to revolution in the Middle East, the question remains whether a brighter future awaits or if we face further troubles.

Regardless of the end game, we can at least take a breather for now and this week, we take a look at some aspects of the Middle East which may have been overlooked amid the current onslaught.

In Saudi Arabia, Dr Abderrazak Belabes from the Islamic Economics Research Center of King Abdulaziz University puts the country's Islamic financial system under the microscope; while Jamal Hijres, CEO of Cappinova Investment Bank, highlights the potential for Islamic wealth management in the Middle East.

Investment banker Mohammad Aamir contributes a feature on the criteria that can be used to identify riba in economic and financial transactions.

Tariq Al-Rifai of Dow Jones Indexes contributes our Islamic Investor feature, while Insider looks at the latest developments at Abu Dhabi Islamic Bank.

This week, IFN reports cover the potential for a flight to quality Sukuk next year; the issuance of sovereign Sukuk; the role Islamic finance can play in the rise of Asean; the growth of Islamic investing; and Islamic indexes.

Our IFN correspondents have written on Islami Bank Bangladesh's establishment of Islami Bank in Nigeria; Islamic criminal law in Brunei and the future for Islamic banking and finance; and the growth of Islamic micro-financing for small and medium-sized enterprises in Iraq.

AFRICA

Sukuk law on the cards

LIBYA: The Central Bank of Libya is preparing a law to allow banks and issuers to sell Sukuk as part of the country's efforts to develop its banking services following its change in government.

Ezzedin Ashur, its deputy director of research and statistics, said that the central bank has established a committee with local banks to prepare the law.

ASIA

Making way for sovereign Sukuk

KAZAKHSTAN: The government may sell up to US$1 billion in Eurobonds next year to pave the way for the issuance of a sovereign benchmark Sukuk as well as to aid in covering its budget deficit, according to Ruslan Dalenov, the deputy minister of finance.

He said that as the Sukuk market is smaller than the conventional bond market, it is more reasonable for the government to sell Eurobonds in order to set a benchmark.

License renewed

KAZAKHSTAN: The central bank, National Bank of Kazakhstan, has renewed the banking license of Al Hilal Islamic Bank, allowing the institution to continue making banking transactions with private individuals.

Vesting process completed

MALAYSIA: Hong Leong Islamic Bank (HLISB) has completed the country's first vesting of an Islamic bank with EONCap Islamic Bank, following the recent integration exercise between its parent bank, Hong Leong Bank, and the former EON Bank.

In a statement, HLISB said that all EONCap Islamic Bank branches have been re-designated as Hong Leong Islamic Bank's branches, effective from the 31st October 2011, in order to allow customers from both banks to conduct banking transactions at all of its branches.

HLISB added that payment and transaction instruments issued by EONCap Islamic Bank, will remain valid until further notification.

In the meantime, customers of EONCap Islamic Bank will receive a new Hong Leong Islamic Bank passbook when they conduct their next transaction at any branch, while ATM and debit cards can only be replaced at domicile branches.

Ar-Rahnu for all branches

MALAYSIA: Bank Muamalat Malaysia plans to expand its Ar-Rahnu Islamic pawn broking service to all its branches. The bank has already introduced the service in 10 of its 56 branches in the country.

The bank also said that it has plans to open three new branches across Malaysia.

Profits more-than-double

PAKISTAN: Meezan Bank reported a 130% surge in its net profit for the first nine months of this year to PKR2.29 billion (US$26.5 million) against the corresponding period last year.

Total assets amounted to PKR179 billion (US$2.07 billion) while deposits grew to PKR151 billion (US$1.75 billion) in the nine-month period compared to PKR131 billion (US$1.52 billion) as at the 31st December 2010.

Second attempt at tax laws

HONG KONG: The Hong Kong government will hold a second round of consultations on changing tax laws in order to encourage more companies to issue Sukuk, according to John Tsang, the financial secretary of Hong Kong.

Under current local tax laws, the issuance of Sukuk is subject to stamp duty, income tax and profit tax.

Profitable quarter

MALAYSIA: Malaysia Building Society has reported a 134.8% year-on-year increase in net profit for the third quarter ended the 30th September 2011 to RM95.1 million (US$30.7 million), helped by higher income from Islamic banking operations.

Revenue for the quarter increased to RM372.7 million (US$120 million) from

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IDB pushes financing projects

GLOBAL: The IDB has provided a US$75 million line of financing to Türkiye Finans Katilim Bankasi with the aim of providing long-term financing opportunities to small and medium-sized enterprises (SMEs) through installment sales, Ijarah and Istisnah.

It will also focus on the development of the agriculture, food security, transport, energy and manufacturing sectors and will contribute towards boosting the country's employment growth.

The facility is part of the IDB Group's member country partnership strategy (MCPS) program for Turkey for the 2010-2013 period. Launched in 2010 the MCPS, supported by a financing envelope worth US$2 billion, is a collaborative effort between the IDB and Turkey's government with an emphasis on education, energy, transportation, disaster management and private sector development.

The IDB Group has long been involved in supporting the development of the Turkish private sector through project and trade financing, especially in the area of SMEs. IDB's involvement has chiefly been through its subsidiary, the International Islamic Trade Finance Corporation (ITFC), which has actively promoted the sector through trade financing disbursement including letters of credit and lines of trade financing.

Another recipient of IDB's financing is the African region. In Mozambique, IDB has announced that it will grant US$68.3 million to the government in financing over 2011-2013 to fund aquaculture and artisanal fisheries and rural water supply, as well as sanitation and electricity infrastructure projects, according to Aiuba Cuereneia, the country's minister of planning and development.

This is in addition to the US$80 million IDB is currently financing for education, energy, roads, agriculture and fisheries projects.

Aires Ali, the president of Mozambique, said that investment for the various sectors in the country is vital for combating poverty, improving living conditions, creating job opportunities, encouraging the establishment of small and medium-sized companies and increasing production and productivity, as well as boosting the spirit of entrepreneurial and creative initiatives.

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RM215.8 million (US$70 million) last year.

More from StanChart Saadiq

PAKISTAN: Standard Chartered Bank Pakistan has enhanced its suite of Shariah compliant products under Standard Chartered Saadiq.

The new products include Shariah compliant credit cards such as Saadiq Platinum and PIA Co-Brand Platinum credit and debit cards, and the Saadiq Saver Plus Monthly Savings Account.

MIDDLE EAST

Al Baraka's expansion

BAHRAIN: Al Baraka Banking Group, through its subsidiary Al Baraka Islamic Bank, has acquired 60% of Al Tawfeek Financial Group, a Saudi-based closed joint stock company.

Al Tawfeek Financial Group has an authorized capital of SAR360 million (US$96 million) and undertakes Shariah compliant asset and portfolio management, custody, debt and equity arranging as well as research and advisory services.

The group is also targeting the establishment of a full retail bank in Libya by 2012 in the hope that the country's change in government will hasten its expansion plans.

Adnan Ahmed Yousif, the group's president and CEO, said that it has been interested in expanding into Libya since 2010, but its application for a license to set up a representative office was stalled due to the revolution in the country.

Islamic refinancing deal in the pipeline

SAUDI ARABIA: Telecommunications company Etihad Etisalat (Mobily) is in the process of concluding an Islamic refinancing agreement with local banks worth SAR10 billion (US$2.7 billion) aimed at refinancing its remaining debt.

Through this arrangement, Mobily will be able to convert the financings into a long-term facility, made up of four tranches with terms ranging from five to seven years. The refinancing facilities come at a Murabahah rate of SAIBOR plus 70 basis points (bps) for the first two tranches and SAIBOR plus 65bps for the remaining two.

The company's existing debt comprises a short-term SAR1.2 billion (US$320 million) financing received in 2010; a medium-term SAR1.5 billion (US$400 million) facility from 2009 and a SAR10.78 billion (US$2.9 billion) long-term financing which it received in 2007.

Capital increase for Barwa Bank

QATAR: Barwa Bank's shareholders have voted in favor of a rights issue that will increase the bank's issued capital from QAR1.9 billion (US$520 million) to QAR3 billion (US$820 million) and its authorized capital from QAR2.5 billion (US$690 million) to QAR6 billion (US$1.65 billion).

Double digit growth

BAHRAIN: Ahli United Bank has reported a 19.5% year-on-year increase in its net profit to US$240.3 million for the first nine months of 2011 as third quarter net profit rose 20.6% to US$78.6 million.

Net operating income in the third quarter surged 15.2% to US$481.3 million while total assets grew 2.8% to US$27.2 billion as at the 30th September 2011.

The growth in assets was attributed to an increase in financing and advances as well as customer deposits, which rose 3.6% to US$15 billion and 12.4% to US$16.7 billion, respectively.

Consistent performance

JORDAN: Jordan Islamic Bank has reported a net profit of JOD21.1 million (US$29.7 million) for the nine-month period ended the 30th September 2011, a 2% increase against the same period last year.

The bank's assets stood at JOD3.14 billion (US$4.4 billion) at the end of the nine-month period, growing 8.8% year-on-year.

Customer deposits rose 9.6% to JOD2.84 billion (US$4 billion) while owners' equity was at JOD199.6 million (US$281.1 million).

Crédit Agricole considers Sukuk

Sukuk abound in Malaysia

MALAYSIA: State-run utility firm Tenaga Nasional has closed its first Sukuk, worth RM4.85 billion (US$1.55 billion), which was oversubscribed by over four times.

The 20-year Islamic bond, which was rated 'AAA' by local rating agencies RAM and MARC, was issued through its special purpose vehicle, Manjung Island Energy. It was aimed at financing the company's coal-fired plant in the state of Perak.

The Sukuk was sold in 16 portions and drew an estimated RM23 billion (US$7.3 billion) in orders at the lower end of the initial yield guidance. CIMB Islamic and Bank Islam Malaysia were the lead managers for the transaction.

Investors can anticipate at least five more Sukuk issuances out of Malaysia in the near future, with potential issuances from a Gulf-based firm as well as four domestic companies.

These include ANIH, a privately-owned company established to acquire toll road concessions in the country, which has reportedly appointed CIMB Investment Bank and Maybank Investment Bank to arrange the issuance of its proposed RM2.5 billion (US$667 million) Sukuk Musharakah program. The issuance was assigned a preliminary rating of 'AAIS' by MARC.

News of ANIH's decision to tap the domestic Islamic bond market was followed by an annoucement by Bahrain-based Elaf Bank in October 2011 that it had received Sukuk mandates worth at least US$1.5 billion from three Malaysian firms.

According to Jamil El-Jaroudi, CEO of Elaf Bank, the Islamic bonds, ranging between US$100 million to US$1.2 billion, are being planned for the first quarter of 2012. However, he did not disclose the identity of the issuers.

Jamil added that Elaf Bank would be the sole arranger of the Sukuk, although there is a possibility that other banks could participate in the issuances at a later stage.

Meanwhile, UAE's Abu Dhabi National Energy Company has revealed that it is in the 'early stage' process of launching its own RM3.5 billion (US$1.12 billion) Sukuk program in Malaysia in order to diversify its funding sources.

BAHRAIN: Crédit Agricole Corporate and Investment Bank (CIB) is considering issuing either a single Sukuk or setting up a wider program that could lead to several issuances in a bid to diversify funding, said Simon Eedle, the managing director of the bank's Middle East headquarters and the global head of Islamic banking.

Eedle said that the bank has not fixed a specific timeframe for the potential issuance as it takes into account the current market environment and the benefits of a single issuance versus a larger program.

He added that while multiple issuances will be preferred, the bank will also have to justify this against its asset growth.

Any Sukuk will be structured based on the Ijarah principle, he said.

New branch for Boubyan

KUWAIT: Shariah compliant Boubyan Bank has opened a new branch in the city of Ahmadi, as part of its five-year plan to open an additional 30 branches in the country.

Barwa Bank expands presence

QATAR: Shariah compliant Barwa Bank has opened three new branches in Al Sadd, Al Rayyan and West Bay to cater to its fast-growing customer base.

The bank will also open a new 'prestige branch' later this year to serve its elite customers.

UAE banks report third quarter results

UAE: Several conventional banks in the emirates with Islamic operations have posted strong financial performances in the three-month period ended the 30th September 2011 compared to the corresponding period last year, with the exception of Emirates NBD and its Islamic window, Emirates Islamic Bank.

Abu Dhabi Commercial Bank almost doubled its third quarter net profit to AED613.17 million (US$167 million). The bank reported that its total net interest and Islamic financing income for the period rose 52% to AED1.33 billion (US$362 million).

First Gulf Bank's third quarter net profit grew by 8% to AED920 million (US$250.5 million). The bank's Islamic financing revenue surged 26% to AED1.35 billion (US$367.5 million).

Another bank, Union National Bank, reported a 7.3% increase in its net profit to AED496.7 million (US$135 million). Its Islamic financing stood at AED1.77 billion (US$482 million), a year-on-year increase of 21%.

Emirates Islamic Bank, on the other hand, reported a third quarter loss of AED121.8 million (US$33.2 million) against a profit of AED12.5 million (US$3.4 million) in the corresponding period last year. The bank also received 66.7% lower income from its parent, Emirates NBD, at AED35.1 million (US$9.6 million).

Emirates NBD, which recently acquired Dubai Bank, reported a 59% decrease in its third quarter net profit to AED175 million (US$47.6 million).

Fully fledged Islamic banks in the emirates also showed healthy results. The net profit of Dubai Islamic Bank rose 10.5% to AED298 million (US$81.1 million) while assets grew by 3.7% to AED93.5 billion (US$25.5 billion).

Abu Dhabi Islamic Bank's net profit gained 1.4% to AED319.1 million (US$86.9 million). The bank had reportedly attributed its moderate gain to the Central Bank of the UAE's lending cap.

In May this year, the central bank issued a cap on lending limiting personal financings to 20 times the individual's monthly salary with repayment periods not exceeding 48 months.

However, the central bank has since announced plans to review the lending cap in the beginning of 2012 after receiving feedback from banks and customers.

Study on Islamic window

OMAN: Oman International Bank has commenced a feasibility study into opening an Islamic banking window, said Dr Juma Ali Juma Al Juma, its chairman.

OIB is also currently in discussion with HSBC Oman for a possible merger.

Sukuk revival in 2012

SAUDI ARABIA: Sukuk issuances in the kingdom will pick up in 2012 after being

RATINGS

ENBD on rating watch negative

UAE: Fitch has placed Emirates NBD's (ENBD) individual rating of 'C' and viability rating of 'bbb' on rating watch negative. The ratings agency also affirmed the bank's long-term issuer default rating at 'A+' with a stable outlook.

Strong finish

TURKEY: Fitch has assigned Kuveyt Turk Katilim Bankasi's five-year US$350 million Sukuk issuance a final rating of 'BBB-'.

Successful redemption

MALAYSIA: MARC has withdrawn its 'MARC-2ID/AID' ratings on Goodway Integrated Industries' RM80 million (US$18.3 million) Murabahah notes issuance facility/Islamic medium-term notes (MUNIF/IMTN) with immediate effect.

This follows the redemption of the program's outstanding RM50 million (US$16.2 million) and its concurrent termination, as confirmed by its facility agent, MIDF Amanah Investment Bank.

'AA1' rating assigned

MALAYSIA: RAM has assigned long- and short-term ratings of 'AA1' and 'P1' to Sabah Credit Corporation's proposed RM1 billion (US$326.4 million) Islamic medium-term notes and Islamic commercial papers programs. The outlook on both ratings is stable.

First fiduciary ratings received

PAKISTAN: JCR-VIS has assigned the first fiduciary ratings of 'A/A-2' to Burj Bank. The rating has a stable outlook.

Under the spotlight

PAKISTAN: JCR-VIS has placed the outstanding fund stability 'AA(f)' rating of ABL Islamic Income Fund, formerly the ABL Islamic Cash Fund, under 'Rating Watch-Developing'.

Stable ratings

KUWAIT: S&P affirmed its 'BBB+/A-2' long- and short-term counterparty credit ratings on Al Ahli Bank of Kuwait (ABK) and then withdrew the ratings on ABK at its request. At the time of the withdrawal, the outlook was stable.

hampered by global economic woes, with a benchmark deal from a sovereign or large corporate name, said Faysal Badran, the chief investment officer of NCB Capital.

Faysal said that while the current pipeline of Islamic bonds in Saudi is "decent", issuers have stayed on the sidelines as a result of the European debt crisis and geopolitical uncertainty.

An offering from the government or a very large corporate, likely to come to market next year, will help revive the market, he added.

Jail verdict remains

UAE: The Dubai Court of Appeal has upheld the 10-year jail sentence and a fine of AED1.8 billion (US$490 million) for the six individuals involved in the Dubai Islamic Bank fraud case.

The appellate court panel, presided by Judge Moustapha Shinawi, upheld all aspects of the primary conviction of the defendants, comprising two Pakistani former bank executives and two British, one Turkish and one American businessmen, in the AED1.8 billion fraud case.

The court has also upheld the acquittal of a seventh defendant, a British businessman, on charges of aiding and abetting the six defendants in defrauding the bank. The verdict can be appealed at the Court of Cassation within 30 days from the 26th October.

Two banks mandated for Sukuk

UAE: Local shopping mall developer Majid Al Futtaim has reportedly hired HSBC and Standard Chartered Bank (StanChart) to structure its planned Sukuk program.

HSBC and StanChart will arrange the documentation for the Sukuk and establish a process for banks to pitch for lead manager roles on any Islamic bond issued under the program at a later date.

Possible Sukuk for Oman

OMAN: The sultanate may consider issuing Sukuk in the future, according to Hamood Sangour al Zadjali, the executive president of the Central Bank of Oman.

Sukuk markets stronger

SAUDI ARABIA: Sukuk issuances in the GCC region rose to US$3.19 billion in the third quarter this year compared to US$361.7 million in the corresponding period of 2010, according to a study by the National Commercial Bank.

The study showed that the Sukuk markets are experiencing increasingly positive momentum despite economic and political turmoil in the region, whereas conventional bond issuances slowed to US$20.9 billion in the first nine months of 2011 against US$21.5 billion in the same period last year.

Third party Sukuk guarantee fund

SAUDI ARABIA: The Islamic Corporation for the Insurance of Export Credits and Investment (ICIEC) is still considering establishing a third party Sukuk guarantee fund, according to Abdel Rahman Taha, its CEO.

He added that the corporation has begun work internally to design a new Sukuk policy which will enhance the credit structure and appeal of Sukuk.

Coming up...

Volume 8 Issue 44 – 9th November 2011

Meet the Head
Abdul Jalil Abdul Rasheed, CEO of Aberdeen Islamic Asset Management

Features
Unseen poverty shadows — A closer look at Sri Lankan Muslims; By Muath Mubarak, director of studies and corporate strategy at First Global Knowledge Center, Sri Lanka

Islamic finance and technology investment — The next wave? By Zaid Hamzah, a technology innovation lawyer covering Islamic technology and intellectual property-based investment and strategic advisor to governments, businesses and academic institutions.

Disharmony between Islamic finance & Islamic economics growing; By Salman Ahmed Shaikh, head of Islamic financial advisory at BMC Pakistan.

MOVES

HONG LEONG ISLAMIC BANK

MALAYSIA: Hong Leong Islamic Bank has announced the appointment of **Raja Teh Maimunah Raja Abdul Aziz** as its new CEO, confirming a report by Islamic Finance news on the 13th October 2011 (Volume 8 Issue 41).

FRESHFIELDS BRUCKHAUS DERINGER

UK: Law firm Freshfields Bruckhaus Deringer has appointed **Tarek El-Assra** as its global head of Islamic finance. He was previously a senior associate at Allen & Overy.

CONYERS DILL & PEARMAN

UK: Legal firm Conyers Dill & Pearman has appointed **Charles Collis** as the head of its London office, replacing Christopher Johnson-Gilbert, who will take on the role of counsel.

Collis, who was previously a senior member of the law firm's insurance practice in Bermuda, will lead Conyers' London team of lawyers, who have expertise in a range of practices including Islamic finance.

MASHREQBANK

UAE: Mashreqbank has appointed **Hameed Noor Mohamed** as its new head of SME banking.

Hameed was previously the head of the bank's contracting finance division and Japan desk.

NOMURA GROUP

HONG KONG: Nomura Group has appointed **Michael Kurtz** as its chief Asia equity strategist and the managing director for its Hong Kong branch.

Kurtz was previously the Asian regional equity strategist for Macquarie Securities.

Flight to quality in the offing?

The uncertain economic outlook for next year may make investors more cautious when taking up Sukuk, but the market remains uncertain on whether this heightened risk aversion will lead to an all-out flight to quality and hamper issuances.

Speaking on the outlook for the Sukuk market at the IFN 2011 Issuers & Investors Asia Forum recently, Steven Choy, the president and CEO of Malaysia's national mortgage company, Cagamas, said that: "Amidst the current situation, namely unrest in MENA and financial turmoil in Europe, definitely for that matter in 2012, there will be some form of flight to quality. Credit will become an issue.

"Going forward, most investors will really be looking at credit and that, of course, will affect pricing. 2011 has been a good run, but we're not sure whether 2012 will be as good in terms of issuances."

However, some in the market remain cautiously optimistic that investors will not just stick to the sidelines holding out for high rated issuances. Ahmad Zulrqarnain Onn, CEO of Malaysian credit enhancement firm Danajamin Nasional, which was set up during the 2009 recession amid a closed market for lower-rated papers, believes that credit will continue to be available from the financial system, depending on the prevailing economic circumstances.

While he noted that investors, in the event of becoming more cautious against the backdrop of any weak economic sentiment, will gravitate closer to higher quality issuances, such as 'AAA'-rated issuers, the fixed income market has improved since 2009.

In a response to Islamic Finance *news*, he said that: "For 2012, Danajamin will continue to maintain issuance levels of approximately RM3 billion (US$974.4 million) as with 2011, taking into account the government's expected economic growth of 5-6% for 2012 and the number of private finance initiative projects that the government is rolling out, as well as the demand from the corporates.

> ***"In 2012, there will be some form of flight to quality. Credit will become an issue"***

"While 2012 may have its fair share of challenges, we believe that there are always opportunities present in such times."

He also said that more 'AA'-rated issuers have capitalized on the market improvement since 2009 and have been issuing across tenors, although there is room for improvement to make it more compelling for single 'A'-rated issuers to tap the private debt securities market directly.

"This is where Danajamin can play our role of catalyzing the bond market. We can value-add to these issuers by facilitating issuances of 'AAA'-rated securities under our guarantee platform. These 'AAA'-rated securities are expected to continue to be well-received by the investing community regardless of prevailing economic conditions," he noted.

Meanwhile in the Middle East, where bankers have seen continued sluggish issuance from corporates even in this record year for Sukuk sales, there are concerns that a demand for higher credits could further weigh down the market.

However Eric Swats, the head of asset management at Rasmala Investment Bank in Dubai, said that the bank is not expecting a flight to quality for fixed income investments next year. He said that notwithstanding this, Rasmala's asset management team always undertakes a balanced allocation, particularly in investment grade issuances — adding, however, that it is difficult to make broad statements on the market without looking at individual issuers.

Nevertheless, speaking to Islamic Finance *news*, Swats remained optimistic on the outlook for next year. "It is unlikely that next year will be worse than this year. This year has been a year of heightened uncertainty with the tsunami in Japan, the Arab Spring, the Eurozone debt crisis and the downgrading of the US debt. We expect things to get better next year," he said. — *EB*

Islamic indexes: Falling prey to market conditions

Global economic conditions have called for more introspection amongst capital market players in re-evaluating the relevance and effectiveness of their products, and creating a more streamlined approach to investments. In other words, the Darwinian concept of 'the survival of the fittest' is becoming increasingly apparent in today's fiscal universe.

Islamic indexes, similar to their conventional counterparts, have been experiencing unprecedented fluctuations and volatility caused by investor uncertainty, the debt crisis in the Eurozone, and political turmoil in the Middle East. Despite Islamic investors currently showing a preference towards equity over commodities, akin to conventional investors, many are keen to keep their investments in cash and short-term liquid products in light of the high levels of uncertainty in the markets. One industry player noted that: "Islamic investors have been slow to return to global markets; especially in real estate and equities."

Within the Dow Jones Islamic Market Indexes (DJIM) family, the DJIM Pakistan Index posted the largest advance in September, gaining 3.5%. With its year-to-date gain of 5.32%, the DJIM Pakistan Index is also the DJIM family's top gainer for the first three quarters of 2011. In contrast, while the DJIM Kuwait Index added 0.2% in September, it is still down 17% since the beginning of the year, making it one of the top losing composites year-to-date. David Lubin, an economist and the head of emerging markets at Citigroup, commented: "Due to the politically divided environment, along with some corruption scandals in Kuwait, the Kuwaiti government's ability

Continued

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to implement its ambitious US$104 billion investment plan is compromised. It is unlikely, in our view, that full execution of the plan will occur, with a more realistic scenario of around US$70 billion of the projects actually being implemented, at best."

All other Shariah compliant benchmarks in the DJIM Indexes family posted losses in September, including those in emerging markets and in Europe. The DJIM BRIC Index and the DJIM Hong Kong Index both ended the month down 15.6%; underperformed only by the DJIM China Offshore Index, which plunged 18.84%. The performance of other Islamic indexes such as the FTSE Shariah Global Equity Index (launched in October 2007) and Thomson Reuters' Socially Acceptable Market Investments (SAMI) Halal Index (launched in April 2011) has also been relatively muted.

Although the reasons behind the merger of Standard & Poor (S&P)'s 500 Index and the Dow Jones Industrial Average have not been officially revealed, it has been confirmed that the respective owners of the indexes (McGraw Hill and CME Group) are actively discussing the prospect of a merger which would leave McGraw Hill with a 75% stake in the combined venture. S&P's index business is currently worth US$1.7 billion, comprising more than 100,000 indexes globally. Perhaps the move is an effort to revive its position in the market and remain afloat during these troubled times.

At the recent IFN Asia Forum 2011 Raja Teh Maimunah, CEO of Hong Leong Islamic Bank, commented on Islamic indexes, stating: "The equity indexes currently being churned out — which are off the shelf — are not used so much, as opposed to Sukuk indexes, which are critical for benchmarking. We have not seen equity indexes used very much to make products aside from Islamic ETFs which themselves are not performing very well." — *NH*

Market volatility opens up room for sovereign Sukuk sales

With sovereign issuances a clear favorite for fixed income investors and the Eurozone debt crisis creating a higher demand for quality credit, the current environment remains as good a time as any for sovereign Sukuk sales, despite prevailing market volatility.

The equal footing of sovereign Sukuk pricing with that of sovereign conventional bonds should also spur the issuance of sovereign Sukuk. According to data from Dealogic, between the 26th October 2010 and the 27th October 2011, Malaysia's US$800 million and US$1.2 billion sovereign Sukuk (issued in June) were priced at 4.65% and 2.99%, respectively, while a UK sovereign issuance worth US$7.94 billion was priced at 4%.

However, it should be noted that the timing, size and issuer will likely be the ultimate deal-maker for either type of offering.

With comparable pricing between sovereign conventional bonds and sovereign Sukuk, investors are now looking forward to the sale of Indonesia's global Sukuk, which will not just represent a quality offering, but highlight the success story of the country's rise through the credit ratings.

"With the Eurozone crisis and continued sluggishness of the US economy, what has happened is not capital destruction, but capital transfer; along the lines of a transfer to quality. Investors will look for a safe home to park their capital and Indonesia is one of the fantastic credit stories of the past decade," said Syed Alwi Mohamed Sultan, the head of Islamic finance for Asia Pacific at BNP Paribas Malaysia, when speaking at the IFN 2011 Issuers & Investors Asia Forum.

Meanwhile, data also shows that apart from issuances from Asia ex-Japan, sovereign conventional bond issuances came to a halt in June. While the volume of sovereign Sukuk has lagged behind that of sovereign conventional bonds this past year, sovereign Sukuk sales have continued throughout the year, driven by offerings from Malaysian sovereigns.

Malaysian sovereigns have also proven particularly successful in issuing papers even during the worst of times. The government sold a five- and 10-year global Sukuk Wakalah in June, while Khazanah Nasional issued its landmark yuan-denominated Sukuk in October, both during periods this year that industry players have noted as being among the tightest credit conditions.

Meanwhile, demand from investors for quality credit also leaves room for the continued issuance of sovereign Sukuk, especially amid current market and economic conditions.

Rafe Haneef, CEO of HSBC Amanah Malaysia, who was also a panelist at the IFN 2011 Issuers & Investors Asia Forum, said that: "The GCC market is still very active and very liquid. Despite the turmoil in the Middle East, this does not mean that the GCC is impacted. The GCC is very much alive and kicking. It is hugely liquid and looking for good quality assets to invest in.

> ***"Investors will look for a safe home to park their capital"***

"European investors are also looking for good quality assets. They wouldn't buy a Greek, Spanish or Italian paper as much as they would have bought last year or the year before. They need to diversify and they want high quality issuers. The moment a quality issuer comes from Asia, that would be better perceived compared to another issuer from the Europe or the US."

As Mohamad Safri Shahul Hamid, the deputy CEO of CIMB Islamic and another speaker at the IFN forum, explained: despite the current volatility, with further uncertainty in the future and with the benign interest rate environment, "now is a very good time for potential issuers, especially sovereigns, to hit the market." — *EB*

ASEAN calling

ASEAN remains an important leader amongst Asian nations and has the potential to accelerate beyond its current 6-8% growth rate, challenging China and India as one of the prime movers in Asia.

Andrew Sheng, the chief advisor to the China Banking Regulatory Commission, says that ASEAN is positioning itself into the new world order. "The world is changing rapidly. Even as we speak Europe is in crisis, America is struggling through a period of economic restructuring and political debate, while Japan is still recovering from the tsunami and its lost decades." And at the present moment, the world financial markets are still trying to decide which way the global economy is headed.

ASEAN currently represents over 600 million people with both a GDP and trade volume of US$1.5 trillion each. On paper it should be a rival to the economic powerhouses of the US, Europe and China.

However, there are numerous structural changes that have to occur at a regional and global level to encourage the current western-centric trade flows to allow regional groupings such as ASEAN to decouple from the global economy and emerge in their own right. "ASEAN must grow its own identity" says Sheng.

In the current economic situation ASEAN should also be playing a greater role in cushioning its member countries from the harmful global economic trends currently permeating the financial landscape as well as removing member nations from an over-reliance on exports; instead focusing on domestic consumption and inter-ASEAN driven growth and trade. This will be aided by the de-leveraging practices currently underway in the US and Europe.

The hubris pre-crisis was that Asia had arrived on the global stage. However, this position is not preordained and is linked to real sector transformation. According to Sheng: "The financial world has become divorced from the real sector," and is no longer a servant to real sector growth. Business to business activity is crucial, as well as the active participation and inclusion of businesses in the policy making agenda.

"The financial market is undergoing a revolution. The crisis forced a re-think: there will be tighter regulation, greater attention to systemic risk, greater policy coordination and a shift in wealth through Asia."

Nazir Razak, the managing director and CEO of CIMB Group, meanwhile expressed his concern at further economic integration and has added his voice in pushing for a business leader to helm ASEAN.

Nazir acknowledges the importance of ASEAN and the collective benefits that integration could provide, however he says that businesses within ASEAN are not yet fully engaged and are unwilling to lead this regional integration. "Governments can only provide the framework, it is up to businesses to lead" he says.

So what is in it for us? Nazir suggests that: "We should probably think of a 21st century version of Zopfan," the Zone of Peace, Freedom and Neutrality signed by the foreign ministers of the founding ASEAN member states in 1971 in reaction to the underlying cold war mentality of the time.

"Given the global financial crisis and the attention given over to Asia and ASEAN, I wonder whether it is possible to achieve consensus on collective agreements that will protect ASEAN against the forces of global financial crisis, strengthening the basis of ASEAN and the merits on offer," Nazir ponders, adding that: "At the moment there is no-one championing the ASEAN cause".

In the 250 years since the rise of the western powers there has been a divergence between the west and the rest. With the rise of China, and the emerging market groupings of the BRICS and ASEAN nations, there is now a real convergence at the regional level that is beginning to narrow the disparity in these markets.

Can ASEAN decouple? According to Sheng the answer is no and yes. "In the short term there is no way that we can decouple, despite the tremendous potential. However, in the long run that decoupling is possible". ASEAN and Asia have a demographic endowment that has allowed the regions to grow rapidly, cementing their position in the world. It is assumed that this tremendous growth will guarantee decoupling. The ADB has projected that by 2050, Asia will account for 50% of world GDP as well as approximately 50% of the world's assets and savings. Nazir adds that: "Our emphasis is on enterprise, and the facilitation of free enterprise that will promote intra-ASEAN trade." However, Asia still hasn't invested heavily enough in itself to decouple from its export-driven model.

Sheng also highlighted that there are three 1.3 billion population centers or communities in Asia: China, India and the global Muslim community, which is the fastest growing in the world and shares a commonality that can transcend boundaries.

Nazir supports this notion by saying that: "There is a role for Islamic finance within ASEAN; the potential is there particularly in terms of savings and the flow of petrodollars into ASEAN at large." Most of this capital is currently swallowed up by the west and then to destinations unknown. "I would like to explore the greater intermediatory role in channeling those funds directly into the ASEAN region," says Nazir.

"CIMB has CapAsia where we have an Islamic infrastructure fund that we manage on behalf of the ADB and IDB and that is an example that emerging market intermediaries can help that process for their own benefit. In the long term there are no issues for the potential of Islamic finance in ASEAN," he concludes.

Agreeing with Sheng's opinion that: "If ASEAN is to rise, indigenous financial institutions must take a leading role in channeling and distributing such investment," Nazir believes that investors are now looking at ASEAN investments, asking what is happening in ASEAN, giving tremendous scope and opportunity for financial institutions and investment to tap into the region at large.

As a result, new avenues for financial intermediation are going to be opened up across the region as accrued wealth and opportunities for investment remain in situ. — *SW*

Attraction to alternative investments

With the launch of CIMB Group's Islamic securities services at the IFN 2011 Investors & Issuers Asia Forum we are seeing the entry of another key market player offering its global Islamic services onto the wider global stage. It also highlights the current scramble for alternative assets amongst global investors and could be a considerable boon to the Islamic financial market as a whole.

In offering the ancillary services required by the Islamic funds industry, CIMB aims to reinforce its position as a fully-integrated service provider of Shariah compliant securities services on a single platform to institutions and individuals, both domestic and abroad.

> *"In view of the burgeoning increase in global Islamic assets, there is an urgent need for the establishment of an integrated Islamic securities services platform"*

Speaking at the launch of the services Badlisyah Abdul Ghani, the executive director and CEO of CIMB Islamic, said that in view of the burgeoning increase in global Islamic assets, there is an urgent need for the establishment of an integrated Islamic securities services platform.

With the overall Islamic asset management industry growing at a rate of over 20% per annum, the industry is now estimated to be currently worth in excess of US$292 billion.

"The recent shift from traditional investments such as equities and real estate funds to investments in new alternative asset classes such as Shariah compliant ETFs and hedge funds is further evidence of the critical untapped opportunities for local and international service providers," explained Badlisyah.

The establishment of CIMB Group's Islamic securities services will greatly increase the group's global market share, thereby establishing it as the central hub for Islamic business within Southeast Asia and beyond as well as its ability to assist global investors and issuers access to the Islamic markets in the region.

Mukhtar Hussain, the deputy chairman and CEO of HSBC Malaysia, adds that Malaysia is currently on the threshold of a very exciting period for investors and that this is in line with Malaysia's aim to attract flows of foreign investment into the country.

Meanwhile, HSBC Amanah has also stated that its securities services will more than double the value of the Islamic funds it services. HSBC attributes this to the increasing demand for Islamic funds as the global economic slowdown prompts investors to seek alternative investments to help manage risk.

According to Germain Birgen, the global head of HSBC Amanah Securities, his unit will help to set up more than 30 Shariah compliant funds globally over the next 12–18 months. About US$10 trillion was wiped from the value of global equities in the third quarter of this year amid concern over the European debt crisis and general tentativeness regarding global financial stability.

Islamic funds have so far managed to remain isolated from the pitfalls of the conventional industry as they are not exposed to the same level of derivative techniques. As a result HSBC Amanah Securities have received a growing number of queries for Islamic funds from clients in countries as far afield as Australia, South Africa and Brazil.

The key players in Islamic fund management are also expecting a large amount of wealth from investors in the GCC to add more than US$70 billion to the so-called addressable Islamic fund universe by 2013 according to reports from Ernst & Young MENA.

As the large global Islamic financial players begin establishing large globally marketed funds and services to tap into the current demand for alternative assets they are also successfully managing to attract the large conventional players into the Shariah compliant investment universe. With markets rebounding following the EU summit on the Eurozone crisis, Islamic finance could be in an ideal position to capitalize on this shift. — *SW*

IBBL extends cooperation for establishing Islamic bank in Nigeria

BANGLADESH

By Md Shamsuzzaman, IFN Correspondent

A reception program of four executives and officers of Islami Bank Bangladesh (IBBL) was held on the 24th October 2011 in the boardroom of Islami Bank Tower in Dhaka on the occasion of their joining Jaiz Bank, the first proposed Islami Bank in Nigeria, expected to roll out by this year.

Md. Setaur Rahaman, the deputy managing director of IBBL, will work as the chief operating officer; Md. Saidur Rahman, the vice president, will work as the head of training; Md. Shakil Mahmood, the senior principal officer, as the IT specialist; and Md. Touhidur Rahman, the principal officer, will work as the operations manager at Jaiz Bank in Nigeria.

Presided over by Mohammad Abdul Mannan, the managing director of the bank, the function was attended by Hafizul Islam Mian, Engineer Muhammad Dawood Khan, Professor Mohammad Nazrul Islam and Humayun Bokhteyar, ACPA, FCA. Mohd Shamsul Haque, Md. Habibur Rahman and Md. Nurul Islam, deputy managing directors of the bank, were present at the function. Engineer Eskander Ali Khan, the chairman of the executive committee, was present as chief guest at the occasion.

A management agreement was signed between Islami Bank Bangladesh and Jaiz Bank, Nigeria on the 14th September 2011 at Sonargaon Hotel in the capital.

Prior to this another technical agreement was signed between the two banks on the 24th December 2010 where the chairman and the managing director of Jaiz Bank were present.

Under this agreement Islami Bank Bangadesh will make available suitable, qualified and experienced personnel required for the efficient operation of the business; develop capacity building programs; and provide training and development of the workforce. In addition, the bank will design and implement appropriate procedures for all processes, transactions and products to ensure smooth, efficient and effective operations; select and implement an appropriate information technology platform; develop a marketing policy and strategy; and design, develop and entrench an appropriate Islamic banking risk management framework.

IBBL will also assist in establishing a competent Shariah Supervisory Board and design and implement an efficient and effective roll-out program including branch development of Jaiz Bank, Nigeria.

IBBL organized a week-long training program for the executives of Jaiz Bank, including its managing director, on the 9th — 15th November 2009.

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

Islamic Criminal Law in Brunei Darussalam and the future for Islamic banking and finance

BRUNEI

By Muhd Jamil Abas Abdul 'Ali, IFN Correspondent

His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah, the Sultan and Yang Di-Pertuan of Brunei Darussalam, put the question: "What more are we waiting for?" with reference to the establishment of Shariah courts and amendments to be made to existing criminal law.

The sultan further said that the changes could be carried out in a gradual manner and that both the civil courts and the Shariah courts "can run parallel without affecting one or the other".

A senior officer of the government of Brunei went on to state that: "Brunei Darussalam will soon see the creation of a unique hybrid legal system where Islamic laws are integrated into existing civil legislation, making them Shariah compliant." The senior officer explained that: "All existing legislation in Brunei will be reviewed to ensure it is Shariah compliant and amendments will be made to any sections that contradict Islamic law," and further that: "Instead of having a separate act or set of laws to apply to Muslims, Shariah laws will be integrated into the existing Penal Code and other offences that are punishable under Hudud.

> ***"All existing legislation in Brunei will be reviewed to ensure it is Shariah compliant and amendments will be made to any sections that contradict Islamic law"***

"When we bring it together there will no longer be Shariah courts or civil courts, there will be Hudud courts and Takzir courts."

From the wishes of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, it is apparent that criminal law, both procedural and substantive, will need to be reviewed and amended where necessary to accommodate Shariah laws in these areas to make secular laws Shariah compliant; and that the civil courts and the Shariah courts will run parallel without affecting one or the other.

What is not clear from the statement of the senior officer is whether there will only be one set of courts, that is, either Hudud courts or Takzir courts.

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His Majesty's titah can be seen as a definite shift towards a greater role to be played by the Shariah in the lives of the people of Brunei Darussalam, particularly in the domain of al-akham al-'akhlaqiyyah (rules of conduct, morals and ethics).

The civil and Shariah courts will operate in parallel. This would mean that in the areas of private law, commercial law and banking law, the civil courts would still function and have jurisdiction.

Whether there will be a wholesale review of all laws in Brunei Darussalam in the future is difficult to say.

However, it is uncertain whether this will have any material significance for the future of Islamic banking and finance in Brunei Darussalam, particularly with regards to dispute resolution.

Presently, such disputes are heard in the civil courts with the Shariah courts playing no role except where disputes arise under the Pawnbrokers Order of 2002 which regulates the Islamic banking product of ar-rahnu.

The Pawnbrokers Order, despite its anglicized name, is a legislation based on Hukum Syara' and gives exclusive jurisdiction to the Shariah courts for all disputes under the Order.

In Islamic banking and finance, the fundamental concepts — Shariah approval, documentation, implementation, marketing and concluding transactional contracts, including the institutions that provide the relevant products — are avowedly based on Islamic laws or, if there is any significant difference, then some would say, are Shariah compliant. Jurisdiction over disputes is reserved for the civil courts with rules of evidence, procedure and substantive law which may be vastly different from Shariah rules and principles of law.

Whether, how and when any move will be made to align this area of the law, al-'ahkam al-'amaliyyah (dealing between individuals), and dispute resolution in line with the Shariah is left to be seen.

Muhd Jamil Abas Abdul 'Ali is a legal advisor with Abrahams, Davidson & Co and he can be contacted at chiewjamessh@brunet.bn.

Establishing Islamic microfinancing for SMEs in Iraq

IRAQ

By Khaled Saqqaf, IFN Correspondent

The Central Bank of Iraq (CBI) with the help of USAID-Tijara Provincial Economic Growth Program (USAID-Tijara), has recently been concentrating on developing a clear legal framework for the financing of small and medium-sized enterprises (SMEs) in Iraq in order to try and revitalize the local economy and help locals rebuild homes and businesses damaged by the violence.

Such measures range from the introduction of Ordinance No.3 of 2010 to regulate the operations of SMEs, which outlines the conditions and requirements that SME financing companies have to abide by, including encouraging SME financing companies to extend credit to Iraqi persons for projects which are economically beneficial, resulting in a decrease in unemployment and better standards of living and in accordance with the financing company's internal policies and procedures; to the development of a SME banking strategy based on qualities such as risk reduction, funding and capacity building.

> *"Finding financing avenues that are truly Shariah compliant is no easy task"*

Until recently, however, there has been no clear framework for Islamic microfinancing of SMEs. Rather, the NGO-Microfinance institutions (NGO-MFIs) have begun developing a variety of Murabahah lending schemes, which help finance Muslim SMEs. In order to ensure that such schemes are Shariah compliant, the NGO-MFIs have been regularly meeting with several local sheikhs in order to discuss the types of financing arrangements to be introduced and whether they form a true and honest Murabahah.

These discussions, however, have proven to be rather difficult and time-consuming as finding financing avenues that are truly Shariah compliant — particularly given that there is no set framework for Islamic financing — is no easy task.

For that reason there is a pressing need, particularly at this time, for the creation of a clearly defined Shariah-based legal structure for Islamic financing, including the financing of Shariah compliant SMEs, which is hoped will provide them with the requisite capital needed to establish and expand their corporations and ultimately benefit Iraq's volatile economy.

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ADIB not resting on its laurels

Having reported a record quarterly profit in the third quarter ended the 30th September 2011, Abu Dhabi Islamic Bank (ADIB) appears to be growing from strength to strength. Although the bank maintains a cautionary stance for next year due to prevailing global economic uncertainty, it remains confident that it has achieved a clear growth trajectory and is even preparing to expand to the UK.

Although some concerns over its balance sheet health still linger, the bank has been able to build up other areas of its business to offset weaknesses while moving to plug the leaks where it remains vulnerable. It may not be smooth sailing for ADIB just yet, but it looks like it may have weathered the worst of the choppy seas.

Watershed results

In the third quarter of this year, ADIB reported a net profit of AED319.1 million (US$86.87 million) against a net profit of AED314.53 million (US$85.63 million) in the previous corresponding period. For the nine months to the 30th September, net profit rose 3.2% year-on-year to AED938.9 million (US$255.61 million).

Its record profit was attributed to a AED1.09 billion (US$296.74 million) profit from its core banking business in the nine-month period. However, it was also impacted by the Central Bank of the UAE's recently released guidelines on retail lending, which pinched its asset base to AED74.16 billion (US$20.19 billion) as at the 30th September from AED75.28 billion (US$20.49 billion) as at the 31st December 2010, while income from financing fell to AED866.54 million (US$235.91 million) in the third quarter from AED874.41 million (US$238.05 million) a year earlier.

In a statement, the bank noted that the subdued growth in assets and personal banking fee income is expected to continue into 2012, although this could be offset by its transaction and investment banking franchises, which recorded a 6% year-on-year growth to AED118.92 million (US$32.38 million) in the third quarter.

Beltone Research commented that: "Asset quality was stable, which was the best sign during the quarter, as NPLs had moved sharply upwards over the second quarter of 2011. For the financial year 2011, we leave room in the fourth quarter for the higher provisioning we didn't see in the third quarter, particularly because during the last quarter the account audits occur with the central bank, which can necessitate higher impairments."

Moody's also noted in a recent report that ADIB's asset quality is constrained by its exposure to the real estate sector, causing the bank's asset quality to lag behind that of its Abu Dhabi-based peers.

> *"The main area of concern is the concentration of non-performing real estate assets"*

Feet on the ground

To its credit, ADIB appears fully cognizant of possible lean times ahead and that it remains weighed down by its real estate investments. "We do not expect this period of economic uncertainty to end soon and remain concerned about global growth rates and the impact on our markets. The UAE may face another down cycle in the credit environment triggered by the prevailing negative global sentiment and its impact on the entire region. The main area of concern is the concentration of non-performing real estate assets, which require a lot more time to recover," said Tirad Mahmoud, its CEO, in the bank's financial statement notes.

Some of the bank's disappointment in real estate stems from its loss-making property subsidiary, Burooj Properties. ADIB expects Burooj to post continued losses until the real estate market achieves a meaningful and positive change, pending which ADIB continues to carefully manage and restructure Burooj's portfolio and further reduce costs in the business, said Tirad.

"We have also been closely monitoring what has been happening in the broader region and its follow-on impact on some of our customers and operations. Furthermore, we remain aware of the increasingly competitive environment in which we operate in the UAE and the increased regulatory oversight that is being brought to bear on the market as a whole, all of which makes the year ahead a challenging one," he added.

However, he noted that despite those realities, the bank remains on a clear growth trajectory and continues to focus on building its business in the UAE and abroad as opportunities arise.

UK foray

One of those opportunities appears to be a move into the UK market – certainly a bold measure given the country's sluggish economy and exposure to the financial crisis and where the success of Islamic banks has been mixed.

However, the bank seems content to hedge its bets, noting that while the end of the current financial crisis is still some way off, it continues to look for opportunities to grow its business while cautiously expanding into new segments, products and markets. It is this considered approach that the bank credits for its watershed profits in the third quarter and it is apparently with this same stance that it is undertaking its entry into the UK.

The bank is currently awaiting its UK banking license and is expected to establish its first branch in the country in November this year. According to Phillip Manning, CEO of ADIB UK, the bank will commence by offering current accounts, with an eye on expanding into areas including the mortgage business. However, he added that the bank will assess demand for mortgages before it sets up a division for the business.

With the worst likely behind it and a clear bearing of its current position, ADIB seems set on seeking out new business amid prevailing uncertainties. Despite the possibility of dampened growth next year, the bank's prudent initiatives may help it scale greater heights in the future. — *EB*

Islamic finance in Saudi Arabia: Myth and reality

Saudi Arabia is one of the most active players in Islamic finance market in terms of total Shariah compliant assets. It is the home of the Islamic development bank, and hosts some of the largest Islamic banks in the world. But can the country move beyond these standard headlines? Dr ABDERRAZAK BELABES provides some suggestions.

The Islamic financial system was born in the seventh century with the establishment of the first Muslim state in the city of Medina. It took on a meaningful dimension with the prohibition of usury. The founder of the Kingdom of Saudi Arabia, King Abdulaziz, never lost sight of this injunction: for example, when he borrowed money at the beginning of his reign from traders and entrepreneurs of Al-Qasim, Shaqra and Riyadh.

Article 2 of the Charter of the Saudi Arabian Monetary Agency No. 23 of the 15th December 1957, prepared during the reign of his son and successor, King Saud, states: "The Saudi Arabian Monetary Agency shall not pay nor receive interest, but it shall only charge certain fees on services rendered to the public and to the Government, in order to cover the Agency's expenditures. Such fees shall be charged in accordance with a regulation passed by the Board of Directors and approved by the Minister of Finance."

> ***"In the absence of reliable econometric studies, the relationship between Islamic finance and financial stability cannot firmly be established"***

This article clearly states that while the Saudi government abstains from interest, it guarantees that this restriction does not extend to banks conducting business in Saudi territory: leaving it to their discretion as to whether or not they comply with the government policy.

The legal framework for Islamic finance in Saudi Arabia calls therefore for the need to overcome the simplified interpretation that i) regulators are not really in favor of Islamic finance; or ii) that if they establish a specific law for Islamic banks, they would recognize de facto there are Islamic and non-Islamic banks.

According to the latest annual report of the Central Bank of Saudi Arabia (SAMA), 12 Saudi banks and eight foreign banks are currently established in Saudi Arabia. Among these 20 banks, only three banks declare themselves to be Islamic. The others offer both conventional financial products and Shariah compliant financial products.

Despite considerable efforts made in terms of improving the transparency of banking data, it is still very difficult to obtain detailed data on the distribution of Shariah compliant financial products. According to a study conducted in 2009, 92% of these products are based on debt and only 3% on profit-and-loss sharing. This trend seems to be out of touch with the spirit of Islamic finance principles. These principles are meant to be more oriented to the construction of the future than the imperative of immediate operation.

It reveals, moreover, that Islamic finance is the result of an interactional dynamic between Islamic, financial and cultural specificities. Hence the need for a systemic approach that goes beyond the traditional legal approach. It shows, finally, that the measure of consumer satisfaction should go beyond the symbolic aspect of why consumers opt for the Shariah compliant products to such cognitive aspects; with questions such as: "On what philosophy are the selected Shariah compliant products based?" When we ask some bankers in charge of Shariah compliant products about the pre-eminence of products based on debt, they say: "We are only responding to consumer demand, otherwise we would be out of the market!"

This epistemological extension could lead, in a sense, to a classic debate between substance and form or letter and spirit. It could also bring more depth to a debate on the conditions of the applicability of Islamic finance.

Following the financial crisis, some analysts have argued that Saudi banks have weathered the crisis well and that Islamic finance is therefore a credible alternative to conventional finance. However, the relative strength of the Saudi banks throughout the financial crisis could be related to many factors, such as the abundance of liquidity from oil revenues or the limited integration of Saudi banks within the global financial landscape.

In the absence of reliable econometric studies, the relationship between Islamic finance and financial stability cannot firmly be established.

If on the one hand we consider that Islamic finance principles contribute to the stability of the financial system, on the other hand, Islamic banks in the present circumstances pose to risks to that financial system that differ in many respects from those specific to conventional banks: such as liquidity risk, operational risk and legal risk — particularly related to dispute resolution.

In terms of the frequency of scholars' appearances on Shariah boards for Islamic financial institutions around the world, Saudi scholars are not the most popular. Among the top 10 scholars in the market only two Saudis feature. In Saudi Arabia, at the level of Shariah boards for Islamic banks, Islamic windows, Islamic financial and investment companies, the first and the third most popular scholars are Saudis while the second is Syrian. This reveals that the Saudi Shariah boards are relatively open for scholars.

In terms of Islamic finance research, Saudi Arabia remains one of the leading countries; in particular thanks to the Islamic Economics Research Center, established in 1977, and international efforts undertaken by the King Abdulaziz University. These resulted in the creation

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in 2009 of the Saudi-Spanish Center for Islamic Economics and Finance at the IE Business School, located in Madrid; and the Chair of Ethics and Norms of Finance at the University Paris 1 Pantheon, Sorbonne, in 2011.

In addition, the Saudi academic world has seen the establishment of the SABIC Chair for Islamic Financial Market Studies at the Imam Mohammed bin Saud Islamic University, and the Chair for Islamic Banks and Finance at the King Fahd University of Petroleum and Minerals.

> ***"Saudi Arabia is behind in terms of education not only compared to the UK and Malaysia, but also compared to its neighbors"***

In terms of education, Saudi Arabia currently offers only one program dedicated to Islamic finance: the Executive Master in Islamic Financial Management offered by Effat University in Jeddah - the first private non-profit women's educational institution in Saudi Arabia. This program was developed by the Ecole Supérieure des Affaires (ESA), a French management school established in Beirut, in conjunction with the Rotterdam School of Management.

Saudi Arabia is behind in this area not only compared to leading countries such as the UK and Malaysia, but also compared to neighbors such as the UAE, Bahrain, Kuwait and Qatar.

At the international level, Islamic finance has become for European countries one of the most important new areas of cooperation with Saudi Arabia. In a recent interview with the French Political and Parliamentary Review, the former French minister of foreign affairs and the president of the Franco-Arab Chamber of Commerce, Hervé de Charette, was questioned as to how France could attract Saudi capital. His answer was: "Opening France to Islamic finance would be great. About Islamic finance, we can say that two thirds of the Saudi financing are Shariah compliant… We are working hard to promote Islamic finance in France and our ministry of finance has also come to make some decisions, via circulars, which allow to accommodate for… French legislation [on] the constraints of Islamic finance.

That said, the treasury is also preparing new texts on the subject. For my part, I think it's in the interest of France to be present on this front and open its doors to one or two Islamic banks from the Gulf countries. And this for a simple but decisive reason, [we are] encouraging Saudi investment in France".

In short, Islamic finance in Saudi Arabia is complex and covers several aspects: legal, economic, societal, scientific and educational. It illustrates the existing gap between perception and reality.

Paradoxically, this phase shift makes the subject interesting and gives it some originality. The study of Islamic finance in Saudi Arabia could open new research perspectives for the social sciences. To understand the scope, it is important to distinguish the historical, economic and sociological analysis, which reveals Islamic finance as a movement under multiple constraints: from an ideological reading which portrays it as conservative and rigid, to one that represents the most original model. It is therefore necessary to analyze Islamic finance in Saudi Arabia as it is and not as we want it to be.

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The new age art of wealth management

JAMAL HIJRES explains the differences between private banking and wealth management, traces their development and potential in the wealthy Middle East region, and explores the opportunities which exist for the industry in Islamic finance.

Recently, I was at a bank and I observed an eight year old boy who had come to deposit money given by his parents. Looking at this young future banker, I decided to observe him while he was filling out the cash deposit form. I marveled at this boy's attention to detail as he filled in the information with perfection and without any errors. This meant that he had been visiting the bank from an even earlier age. I was impressed by the parents who had shown the courage to entrust their son with cash and instilled in him the art and importance of wealth management from such a young age.

So what is wealth management at a macro level?

Private banking has a very long pedigree, stretching back to the 17th century in the case of some British private banks. It is, however, only really over the last 15 years or so that the term 'wealth management' has found its way into common industry parlance.

Wealth management can mean different things in different geographic regions. The US and Europe have traditionally stood at two extremes in this regard. In the US, wealth management is considered more closely allied with transaction-driven brokerage and is typically investment-product driven. In Europe, the term is more synonymous with traditional private banking, with its greater emphasis on advice and exclusivity.

There is no generally accepted standard definition of wealth management – both in terms of the products and services provided and the constitution of the client base served – but a basic definition would be financial services provided to institutions and high net worth individuals (HNI) and their families.

Today, private banking forms an integral, more exclusive part of wealth management. Until recently, private banking largely consisted of banking services, discretionary asset management, brokerage, limited tax advisory services and some basic services offered by a single designated relationship manager. On the whole, many clients trusted their private banking relationship manager to get the job done and took a largely passive approach to financial decision making.

However, private banking has since evolved as a result of several factors: such as the arrival of mass affluence during the latter part of the twentieth century, more sophisticated client needs throughout the wealth spectrum and a desire among some clients to be more actively involved in the management of their money.

> ***"According to estimates, today there are around a million wealthy households in the GCC with total investable assets of US$1 trillion to US$1.2 trillion"***

Wealth management actually now focuses on both sides of the client's balance sheet. It places a greater emphasis on financial advice and is concerned with gathering, maintaining, preserving, enhancing and transferring wealth. In other words, it has evolved as a result of HNIs and ultra HNIs taking a personal interest and looking for institutions that could provide personalized attention to their wealth at a micro level.

The Middle East story

The Middle East region is blessed with an abundance of one of the most valuable commodities on earth - oil. The region's gross domestic product has grown significantly along with individual fortunes since the 1970s, when several GCC member countries nationalized oil companies and prices spiked.

As a result, the GCC is today one of the newest and most important markets for wealth management. Post-2008, global private banking players have been consolidating while smaller local players have also been emerging across various geographies.

According to estimates, today there are around a million wealthy households in the GCC with total investable assets of US$1 trillion to US$1.2 trillion. These figures include total investable assets belonging to wealthy GCC-based individuals; and assets are held both within the region (onshore) and outside it (offshore).

Overall, GDP and personal wealth have increased over the past 40 years; and so has the GCC population. Strong GDP growth has helped GCC countries sustain high levels of GDP per capita. Therefore today a third of GCC clients prefer Islamic products over conventional products, depending on ethnicity and investment style.

Islamic finance and wealth management: how does it work?

Islamic wealth management is a core segment of the Islamic finance industry. The related wealth for the industry is expected to increase considerably in the coming years. The main objectives taken into consideration by investors are capital appreciation, current income and safety of principal. The relative importance of each of these objectives needs to be determined. The main aspect that affects these objectives is risk. Some investors are risk takers while others try to reduce risk to the minimum level possible. Identification of constraints arising out of liquidity, time horizon, tax and special situations need to be addressed.

In most banks, asset allocation recommendations are made by a team of senior investment professionals

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and analysts with diverse experience and research capabilities, representing each asset class. The diversified asset management portfolio generally includes investments in fixed income products, global and regional listed equities, real estate and alternative investments and fund advisory services. Furthermore, the wealth manager considers the outlook for financial markets and sets a globally balanced benchmark.

> ***"Many of the established international players have been hit hard by the crisis, and local banks are quickly revamping their capabilities"***

From an Islamic finance point of view, banks aim to identify the best Shariah compliant opportunities and ensure the best diversification of assets that will perform well in the varying financial and economical environment. The banks identify the finest compatible partners with a strong demographic presence as well as local and regional expertise to implement a well structured strategy together.

Winds of change and the way forward

The dynamics in the Middle East region are undergoing significant changes. Many of the established international players have been hit hard by the crisis, and local banks are quickly revamping their capabilities. There are several mergers and acquisitions taking place within the financial services industry both locally and internationally. Furthermore, offshore private banks are increasingly coming onshore. In this ever changing scenario, institutions have to redefine how they are going to position themselves in the market.

GCC growth will definitely be driven by oil, along with large government led infrastructure projects. In addition to the oil wealth, another key factor is the region's healthy per capita income. This, coupled with its young population, will help to support consumer spending and investment which will in turn increase the demand for financial products and services moving forward.

The private banking and Islamic wealth management industry is one of the leading torchbearers of the financial services industry, continuing to expand rapidly despite the recent financial situation. Today, Islamic wealth management has evolved significantly and offers opportunities for innovation and global growth. Several providers have now diversified their offerings beyond equities and real estate. There is a wide choice of structured products, multimanager funds, Takaful and alternative investments available from major international, regional and national financial institutions.

The entire Islamic finance industry has expanded from just an idea a few decades ago to the world's fastest-growing financial segment. In the context of the current accelerated pace, innovation has played a key role in shaping the industry. The Islamic wealth management industry will play a vital role in taking the Islamic finance industry to the next level in the near future.

On the other hand, wealth managers must continue to understand and anticipate their clients' needs, offering customized services to maintain the close connection to their diverse client base and retain a competitive edge over others. Flexibility is the key when addressing the complete financial system of planning, execution, reporting and adjusting. Equally, private banks will be required to also support investors who retain an interest in more sophisticated asset classes or in non-publicly traded investments including hedge funds, commodities, venture capital, private equity and investment real estate.

But for all this to fall into place like a jigsaw puzzle, I must stress the fact that everyone should start early with regard to wealth management - just like the little boy at the bank.

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Trade is not riba and riba is not trade: The principle of reciprocity

MOHAMMAD AAMIR examines the criteria that can be used to identify the existence of riba in any economic or financial transaction, be it at the corporate level or between individuals.

The debate on riba has reached a point where it is abundantly clear what constitutes riba. However, there is still room to substantiate this discussion in the form of some definite economic criteria against which the existence of riba in a transaction can be tested with less ambiguity.

In conventional economics, interest (which here will also include 'usury') is recognized as a legitimate cost of using money: and this is termed as rent. Furthermore, the rest of the factors of production, i.e. land, labor and capital, have their respective returns when put to use in a real economic process in the form of rent, wages and profit for the entrepreneur.

Under Shariah, on the other hand, interest (riba) is disallowed by whatever name it may be called, while trade is allowed as a legitimate activity. If we look at the distinct characteristics of all the factors of production, including money, then we note an interesting observation. It appears that there is a sharp contrast between the form of return on the use of money under Islamic injunctions and conventional economics. This contrast brings to light that there are two types of payment considerations, which are a) non-reciprocity payments (NRP); and b) reciprocity payments (RP).

The term 'reciprocity' here is of significance and means that there should be established benefits that are exchangeable between parties to a transaction. The consideration for such an identified established benefit is paid in money form or in kind against the goods and services being acquired for some useful economic purpose. Where parties to a transaction undertake an activity according to this reciprocity principle, then it will qualify as a RP, otherwise it will be a NRP. By taking reciprocity as a litmus test, we can identify which factors of production fall into a RP and which into a NRP.

Let us proceed by first testing the exchange of money transaction where rent (interest) is to be paid for the use of money. The following diagram shows how this process works.

Chart 1: Non-reciprocity payment

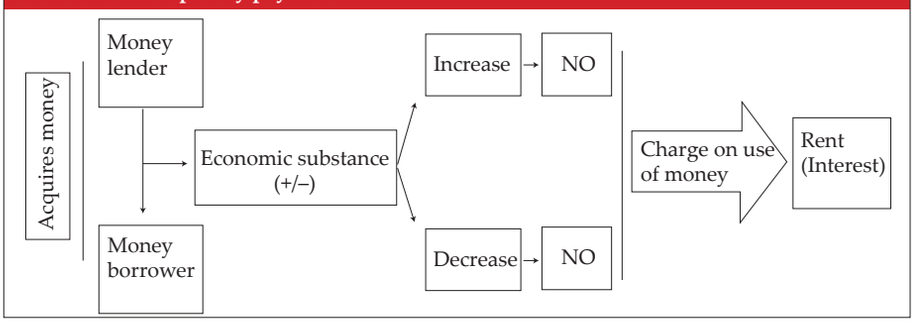
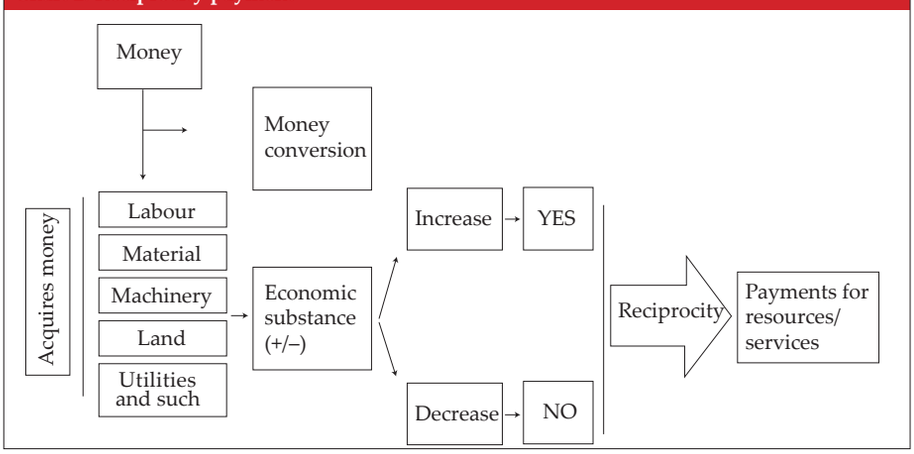


Chart 2: Reciprocity payment



It appears that whatever rent is paid for the use of money is not being reciprocated with any form of established economic benefit as money has not been put to any use to add any value or give any direct benefit at this stage. Obviously money cannot do this as it has no physical or any other kind of property that will make it possible. Hence no physical or any other kind of transformation can take place resulting in any economic value addition in this process. In order to take this discussion forward, consider the above diagram.

In the above diagram, money is used for a real economic activity for employing certain economic resources that have some physical and known benefits to their creator. Their benefits are embedded because wherever they will be put to use, they will demonstrate the same kind of characteristics: land will produce commodities (economic benefits), and/or provide a physical opportunity to sustain shelter for housing/industrial/ commercial purposes (usufruct); labor by its operation will produce the same kind of result in any part of the world when it is applied to a required process such as a teacher enlightening students with his mental abilities and knowledge (labor/ effort), or a civil engineer helping construct projects with his abilities (labor/ effort), or iron (material) producing established benefits when used.

Therefore, whenever some processes are applied to these kinds of resources or they are applied to a process, this will invariably yield established and known

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benefits. This behavior of economic resources other than money (currency or any kind of medium of exchange) results in reciprocity of stated benefits in exchange for money. Hence, their worth can be benchmarked against their direct economic benefits. (It is equally important that wage levels should be standardized across a community by fixing its prescribed ranges for a given type of labor/services so that due considerations can be exchanged in a given economic environment. Otherwise, undue advantage to either of the parties will result in the same kind of disparity which is associated with riba. This implies that there should be an open market and level playing field for other agents of factors of production and also so that their exchange considerations can be established through a price discovery process).

Money or anything else which does not exhibit any such direct known benefits falls within the category where reciprocity will not hold good. In fact the benefit of money or any other medium of exchange is reliant on other factors of production to assign it a value. The value that can be assignable to money is also contingent on the methods to which it is put to use and will vary according to the underlying purpose. This can also be stated by saying that keeping in view the principle of reciprocity: any resource that does not result in a direct benefit at the first stage and instead gives rise to an occurrence of such benefit at some later stage will cause riba to incur at the NRP stage.

The accruing of benefits at some other stage would rarely result in a quantum commensurate with its cost at the first NRP stage and hence would leave one of the parties to a transaction at a comparative loss.

This means that the determining price or value in exchange for the use of money in advance without weighing the quantum of the ultimate benefits from a pre-specified purpose/use will render the whole arrangement as riba. This applies to both riba al nisa'a and riba al fadl. (It is an established fact that the difference in quality of the same crop or commodity has a direct bearing on the contents of minerals, vitamins and other nutrition contained in them. Therefore, exchanging the same commodity but of different qualities without due regard for its independent market price will result in a disproportionate amount of exchange consideration, which is riba. This is also referred to in a hadith involving the exchange of a high quality of dates for a lower quality of dates. Furthermore, price deferral for the commodity or some other thing purchased will also result in a non-fulfillment of the reciprocity test, as deferment will deprive the seller from realizing immediate benefit of sale proceeds, while the buyer can do this immediately by selling it).

> ***"The use of money itself does not give rise to riba but its terms of arrangement render it in a riba category"***

The use of money itself does not give rise to riba but its terms of arrangement render it in a riba category. To understand this point fully, take an example of employing money in Ijarah instead of lending it on interest. Now the same amount of money will be used to acquire an asset by a party who invest in, say 1,000 units of currency. The asset can be offered to some other party who needs it for certain economic activity. The user of the asset usufruct will compensate the owner of the asset with an agreed rental payment, say 50 units of currency, in lieu of the usufruct.

Hence, the money will now generate benefits for its owner according to its underlying and identified productive use. On the other hand if interest on money had been charged at 7% (or 4%) instead of Ijarah rental then the borrower would end up paying 100 (or 40) units of currency to the lender, which has no relevance to the asset's productive use. Observe that the ultimate use of the asset was to have a usufruct of an asset but the change in mode of utilizing money has resulted in a NRP.

Now take a Musharakah arrangement to test the reciprocity criteria. Assume that a party has money to invest under the conventional economic system. The party can invest it in a bond offering a fixed rate of return, say 10%. On investment of 1,000 units of currency, the fixed return would be 100 units of currency regardless of the outcome, i.e. whether the user of money makes any profit or not (no reciprocity).

But if the party invests the money under a Musharakah arrangement, the business potential of the investee party will dictate the kind and extent of return rather than fixing a pre-specified amount on the investment size. Under the arrangement there would be a profit and loss sharing ratio and the return to investor would be determined according to this ratio. The return to the investor may be equivalent to 10%, 8% or 12% of the amount invested or even a loss is also a possibility.

Now the question is how has the reciprocity resulted in such an arrangement? The answer is that the investor decided to assume the risk and reward as an entrepreneur along with the investee party. The reciprocity to an entrepreneur for his capital and efforts is the profit from the business or even a loss.. This is also a recognized principal of conventional economics. Now, when there is a profit to the entrepreneur, the investor party shares it as its due share and when there is a loss, it is also allocated to him.

Therefore, the reciprocity test holds good here as both the parties to the Musharakah transaction would receive their share against the use of money and effort as business partners, without having any undue advantage over the other. This would not happen if money is lent on interest regardless of whether the entrepreneur has made a profit or loss or even whether he can make payment or not.

Again, it becomes evident that the money is dependent for its worth on generating benefit for its owner on some other underlying real economic activity, as it has no embedded and established reciprocity as is the case with other economic resources.

I hope it is clear what reciprocity and non-reciprocity means; and that the

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Chart 3

Symbol	Factors of production	Cost	Reciprocity	Symbol	Items	Figures
X	Labour	500	√	P	Price	2200
Y	Material	1,000	√	Pf	Net profit	50
Z	Over Head	500	√	S_1	First step coversion VAP	1
	Total cost before interest	2,000		S_{-1}	No-first step coversion VAP	-1
Rm	Money rent	150 (*47.13)	x	Pf_b	Profit before money rent	200 (*62.84)

*US$

VAP= Value addition points in units

Pf is a function of: $P-\{x_{(S1)}+y_{(S1)}+z_{(S1)}+n_{(S1)}=Pf_{b+}Rm_{(S1)}$

2200-(500x1)+(1,000x1)+(500x1)=200+(150*-1)

Pf= 50

Chart 4

Symbol	Factors of production	Cost	Reciprocity	Symbol	Items	Figures
X	Labour	500	√	P	Price	2200
Y	Material	1,000	√	Pf	Net profit	50
Z	Over Head	500	√	S_1	First step conversion VAP	1
	Total cost before interest		2,000	S_{-1}	NO-first step conversion VAP	-1
Rm	Money rent	150 (*47.13)	x	Pf_b	Profit before money rent	200 (*62.84)
					Money rent	

*US$

VAP= Value addition points in units

Pf is a function of: $P-\{x_{(S1)}+y_{(S1)}+z_{(S1)}+n_{(S1)}=Pf_{b+}Rm_{(S1)}$

2,200-(500x1)+(1,000x1)+(500x1)=200+(150*0)

Pf= 200

one represents a value of economic substance whereas the other lacks it. We can now present the above discussion with the help of some basic mathematical workings. In order to distinguish reciprocity with non-reciprocity, we assign value addition points (VAP) in units having positive and negative points.

Factor of production which meet the reciprocity test are assigned '1' point, and those that do not are assigned '-1' point because this is a charge against profit in the absence of any direct and identified value addition.

As discussed, interest appears to be the only factor of production which does not meet the reciprocity test. Therefore, to assess its impact as a charge against profit, we can keep changing the amount of interest in the formula. In the above example, profit after interest comes to 50 and by changing the interest figure to 50 and 250, respectively; we will have profit after interest of 150 and -50. This shows that the non-reciprocity type of interest makes the profitability volatile despite the fact that there may be no change in the profit before interest income.

Now testing money use on reciprocity basis, we assign money directly to any of the factors of production instead of charging interest merely for the reason that money has changed hands at the first stage. Here the return on money would be a charge against the profit, but would reflect as a cost component in the form of wages, rent of land or costs of raw material as part of a real economic activity.

The following example shows the result of this change in money's form of utilization where interest VAP has been assigned '0' point since it has no role there.

We notice that the profit before interest and after interest remains the same in this case because interest payment is not represented by any of the established benefits.

The above workings show the same characteristics of interest which are commonly referred to as degrees of financial leverage (DFL), which recognizes that interest payment brings volatility in profit before interest and taxes (EBIT) and computes the degree with which EBIT is influenced by the level of interest payment changes per percentage point.

It is also a well-established financial management principle that the profit a business can earn has no relationship with the mode which is used to fund it - i.e. the profit potential of a business remains intact regardless of whether it is financed with 100% equity, 100% debt or a mix of equity and debt.

Therefore, based on the above discussion, the reciprocity test presents itself as a useful tool in identifying the existence of riba in a financial and economic transaction and makes it easier and less arguable to determine what involves riba and what does not.

With the help of the reciprocity test, it can be determined at what stage the money stands. In this way we can also avoid riba in disguise. We can present the above mathematical approach in the following alternate manner where we want to try to work out the mathematical equivalent of interest reciprocity.

Finally, I reproduce the following chart (next page) which demonstrates that riba has no sympathy with economic growth. The chart is taken from a statistical tool-based study on the US economy conducted by me and titled: "Is riba a real world economic issue? Evidence from historical economic data". The study covers 40 years of US economic data from 1966 to 2007.

The chart demonstrates that the riba income of banks has been growing without any regard to increase or decrease in real GDP growth. In fact, at an average, riba has been growing at a multiple of 10 (i.e. whatever was

Continued

Continued

Chart 5

If:

$$Money+Interest+Ent_E=Money_P+X+P_R$$

Where:

Money = Currency/medium of exchange at disposal (own + borrowed)
Interest = Predetermined amount of return on Money borrowed
Ent_E = Entrepreneurships Efforts as Entrepeneur (including risk of commiting his capital)
$Money_P$ = Sum of 'money' paid to factor of production excluding interest
X = Usurfruct/established benefits in exchange of interest

PR = Payment for utility/convenience by buyer (market place compensation to entrepreneur for product/services). It is determined by market in the short-run to long-run

Solve equation for X

By adopting on each side we can simplfy our equation.

1) Money against MoneyP, we get...

$$Interest + EntE = X+PR$$

2) EntE against PR, we get...

$$Interest = X$$

Now, if we can determine 'X' then we can prove that Interest is not Riba and it has reciprocity. If not then it is riba (usury or interest) no matter what. If it prove that it has reciprocity then it is like 'Trade' otherwise it is not like 'trade.

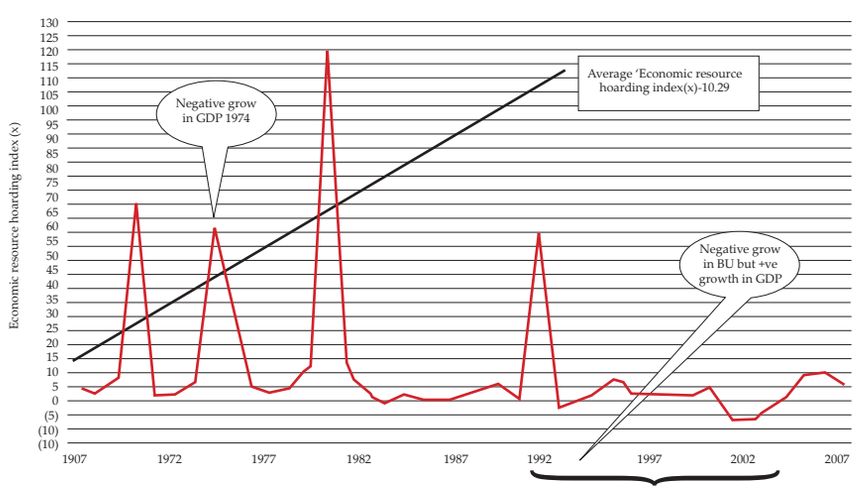
If we assume that entrepeneur has the ability to pass the interest component to market even then 'X' should remain unsolved for reciprocity

Whereas the 'Trade' is:

$$Money+Ent_E = MoneyP+P_R$$

Here 'interest' takes the form Ent_E and 'X' become redundant and finds no place in equation.

Chart 6



happening to the economy, riba-based banks made money at a rate of 10 times that). I call this the Economic Resource Hoarding (ERH) Index for determining riba's wealth-destroying ability in an economy.

Another ERH Index is computed with reference to a totally different platform: the US government. Here the amount of riba that was taken to assess its relationship with real GDP was the interest payment made by the US government on its debts every year. The amount was in trillions of US dollars, whereas it was in billions of US dollars in the case of the banks' riba income. Further, banks held less than 5% of total US government debt, so there is no chance of duplication of computations when compared to the above chart results.

Surprisingly riba demonstrated exactly the same kind of behavior this time also. There is no relationship between real GDP growth and riba.

Interestingly the ERH Index was also 10 times in this case which is noticeable as the quantum of riba used for comparison was very different in both cases. The riba income earners were making money 10 times higher than the rest of the economy.

Conclusion

The above discussion helps to make the point clear that in the absence of reciprocity in any kind of transaction, either one of the parties will be at a comparative undue advantage, causing extraction of resources for the benefits of a few (riba earners) and keeping society and the economy under a continuous stress.

This behavior of riba does not allow an economy to expand to its full potential and it deprives the masses of their due share. I called it in my above-mentioned study the source of economic disequilibrium (SED) where the riba tool has no regard for the rest of the economy and keeps damaging society in the short-run as well as in the long-run.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 43

Education is paramount

Cover Story

Exchange traded funds (ETFs) are one of the newer investment products to surface in the Shariah compliant asset management sector.

Surprisingly, the launch of the first Islamic ETF came not from the Muslim world but rather from Europe's leading Islamic financial center – London. iShares, then an arm of Barclays Global Investors, now Black Rock, launched the iShares MSCI World Islamic, the iShares MSCI USA Islamic and the iShares MSCI Emerging Markets Islamic in 2007.

In that same year, six other ETFs were launched including Deutsche Bank's ETF platform 'db x-trackers', AXA Investment Managers' and BNP Paribas' joint 'Easy Etf' brand, along with offerings from Japan's Daiwa Asset Management (based in Singapore) and UK-based ETF Securities.

Since then seven other ETFs have been launched globally, all to lukewarm investor reception. Currently the largest ETF in terms of asset under management is Malaysia's MYETF- DJIM25, managed by i-VCap Management, with RM509.3 million (US$165.92 million) as at the 28th October 2011.

Islamic ETFs are still in their early days according to Mahdzir Othman, CEO of i-VCap, speaking as a panelist at the IFN Issuers & Investors Asia Forum. He said more education was needed for investors to understand the potential of such equity-linked products. This, he contends, can be facilitated by the launching of more Islamic country or regional themed ETFs in the market.

Asked the reason for the investors' tepid response towards Islamic ETFs, Mahdzir said that it was probably due to the issue of liquidity, as the ETF units are not highly traded in the secondary market.

The other possibility he highlighted was that the Islamic ETFs were too focused on a particular asset class or theme. "If there were other Islamic ETFs, fund managers [would be] able to allocate their portfolio in accordance to the risk appetite for each ETF that is available in the market," he said.

Mahdzir believes that investors would likely be attracted to a sectoral or thematic or regional ETF such as a regional dividend yield fund, an infrastructure fund or a commodity/ agriculture based fund.

The other challenge Mahdzir points out is to entice conventional fund managers to diversify their portfolios to include Islamic ETFs. "Again here is where investor education is needed to encourage more institutions, particularly, to be more receptive to Islamic ETFs.

"To a large extent, I would say Islamic ETFs can be considered as ethical investments and are less risky. In the case of equity for instance, the underlying stocks are in accordance to Shariah; not involved in prohibitive business such as gambling, liquor and tabacco and generally are defensive stocks. They are not highly geared because of the screening methodology and you do not have financials which in times of crisis, this sector can really rock the boat. You can actually see the Shariah compliant ETFs have been quite resilient and over the long term, such ETFs have performed. Investors have to understand that. The perception that only Shariah compliant funds can invest in Islamic ETFs must also be addressed," he says.

Since the launch of nine Islamic ETFs in 2007, only seven other ETFs have surfaced in the Islamic space. This accounts for less than 3% of total global Islamic mutual funds.

Mahdzir reckons fund managers will launch more Islamic ETFs when investors' interest picks up. He is of the view that Islamic ETFs can be launched during any market condition. "It would be good to launch more in such volatile times, as investors should look to having ETFs in their portfolio because they can better manage their portfolio risk."

Conventional ETFs have had a head start of more than a decade compared to their Islamic counterparts, with roots tracing back to the US in the 1990s. The asset class has since become extremely popular with investors, particularly in the US and Europe. Although in its infancy, Islamic ETFs can look forward to a very bright future with continuous investor education from regulators and fund managers. — *RW*

In this issue...

New equity protected note

QATAR: QInvest has launched its Qatar Equity Protected Note. The note is aimed at replicating the movements of Shariah compliant equities and securities listed on the Qatar Exchange with the most liquidity.

The note, which offers full capital protection, has been closed. No other details were afforded by QInvest.

Profitable exit for KFH

MALAYSIA: Kuwait Finance House received KWD1.8 million (US$6.6 million) in profit when it exited the Asia 2 real estate fund, according to Abdul Nasser Al-Subeih, its associate general manager of investments.

He added that the fund's internal return reached 15.8% annually. The Malaysia-based fund began operating in 2010 by investing in the development of Pavilion 2, a real estate project in Kuala Lumpur.

Dividends for aircraft fund

BAHRAIN: Capital Management House has made the third distribution of dividends to GCC investors from its aircraft leasing investment fund, for the third quarter ended the 30th September 2011.

Dividends are paid on a quarterly basis and have been calculated at 10% per annum.

Trustee license for Ohad Trust (Labuan)

MALAYSIA: The Labuan Financial Services Authority has granted a trustee license to Ohad Trust (Labuan), the joint venture of Bahrain-based financial institutions Elaf Bank and Ohad Trust.

The firm is expected to attract trust-related work, especially in relation to Sukuk, according to Stefan Cnoops, CEO of Ohad Trust.

Distributions and dividends declared

MALAYSIA: Public Mutual has declared a distribution of 5 Malaysian sen (1.61 US cents) for its Public Islamic Bond Fund and a dividend of 1.25 Malaysian sen (0.4 US cents) for its Public Asia Ittikal Fund.

As at the 30th September 2011, Public Mutual's total net asset value stood at RM41.3 billion (US$13.33 billion).

Chasing the money: The dominance of Saudi Arabia in Islamic funds

TARIQ AL-RIFAI explores the reasons why Saudi Arabia has the largest Islamic fund market in the world, and looks at what investment firms in other countries can do to replicate its success.

It will come as no surprise to those involved in Islamic finance that Saudi Arabia is the largest Islamic fund market in the world. However, Saudi Arabia is not the largest Muslim country in the world by a long way, with a population of just over 26 million Muslims – compared to Indonesia (the largest Muslim population) which has over 211 million; Pakistan with well over 185 million; and India, a non-Muslim country, which has a Muslim population of nearly 160 million. So why then would one expect to see Saudi Arabia with the largest Islamic fund market? Could it be wealth?

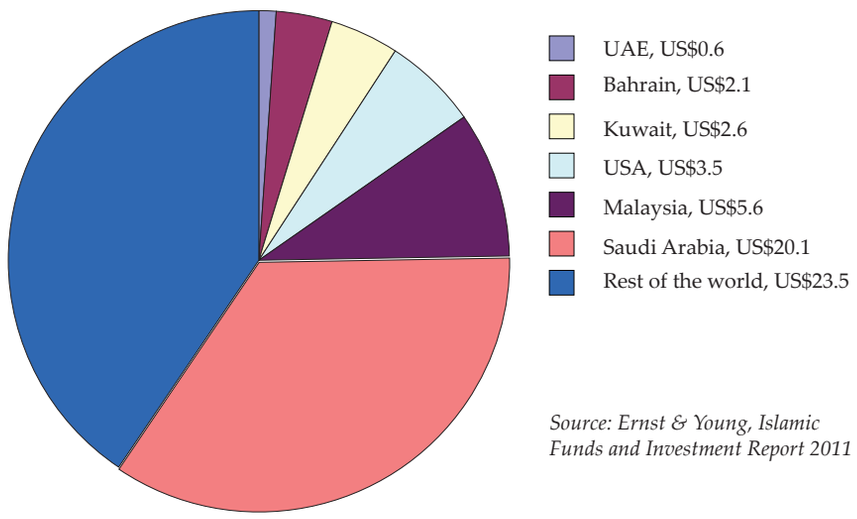
According to the International Monetary Fund, Saudi Arabia's GDP per capita in 2010 was US$16,257. Although it is much wealthier than Indonesia and Pakistan, it is much less wealthy on a per capita basis compared to its GCC neighbors. Kuwait's GDP per capita in 2010 was US$37,009, the UAE was US$57,884 and Qatar was US$74,901. So wealth cannot be the only reason for the success of Saudi Arabia's Islamic fund industry.

From our research, we have come to the conclusion that the relative success of the Islamic fund market in Saudi Arabia can be credited to four main factors:

1) The early launch of funds;
2) Strong government support;
3) A high percentage of high net worth individuals; and
4) Extensive branch distribution networks.

1) Early launch of funds
Funds as investment vehicles are still new in much of the emerging and frontier markets. In the Islamic market, Saudi Arabia was one of the first countries to introduce funds. The first Islamic funds in the form of short-term Murabahah (or money market instruments) and equity funds appeared in Saudi Arabia around 1992. It wasn't until the later part of the 1990s when funds spread to other neighboring countries.

Figured 2: Total Islamic fund assets under management (in US$ billions)



Source: Ernst & Young, Islamic Funds and Investment Report 2011

Investors seem by now to have accepted funds as an investment vehicle. Over the two decades following their introduction, total fund assets domiciled in Saudi Arabia have reached US$20 billion. In addition, many of the Islamic funds domiciled in offshore centers such as Luxembourg and Ireland were also set up by Saudi institutions or western institutions targeting Saudi and other GCC investors. The number of funds has grown from an estimated 40 in 1996 to an estimated 693 in 2011. Saudi Arabia accounts for over one third of all assets in Islamic funds worldwide. Assets of Islamic funds in the UAE in contrast account for only 1% of the market. Bahrain, which has long been the banking center of the GCC, makes up less than 4% of all assets in the market.

Early entry to the market is therefore clearly only part of the answer as to why Saudi Arabia dominates; as otherwise Bahrain would have a larger share of the market as it was also one of the first to enter the fund space.

2) Government support
Flush with petro-dollars from the 1970s, the Saudi government realized early on that it needed to develop the wealth of its citizens and offer them local investment opportunities. As a result of limited investment opportunities at home, the Saudi government and its citizens were forced to look outside the country to park their new wealth. Much of this wealth ended up in Europe and the US and the term 'petrodollar' was used to explain this phenomenon.

In the 1970s, the Saudi government spent a considerable amount of wealth developing the country's infrastructure: building roads, airports, ports, hospitals and schools. It also promoted the development of industries, such as petrochemicals, manufacturing and even farming. This helped build a diversified economic base.

With the government focused on building up its economic base, it fell short of developing financial institutions. It wasn't until the late 1970s that the push to develop the banking sector took off. Saudi Arabia has had foreign entities active in its financial sector since 1926, when it allowed the Netherlands Trading Society to set up a branch in the country in order to help finance the haj pilgrims coming from the Dutch East Indies (now Indonesia). For the most part, the financial sector was closed off

Continued

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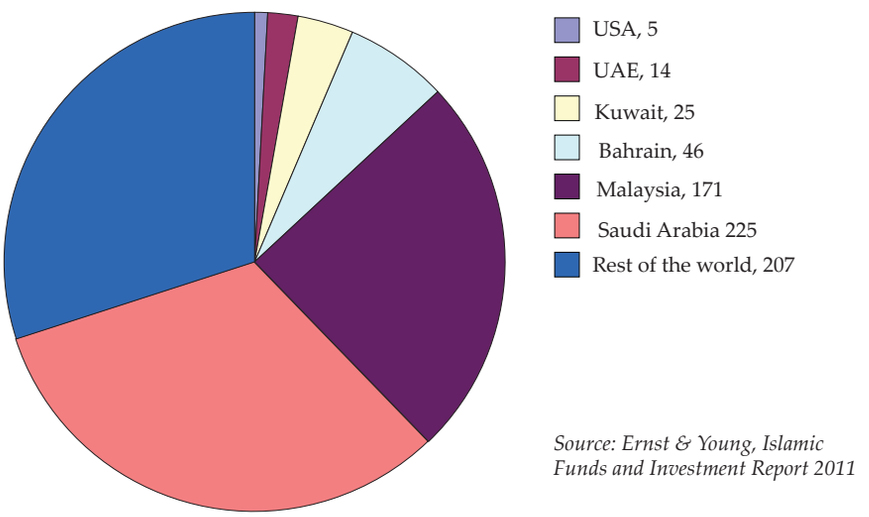
Figured 3: Number of funds domiciled in country



Source: Ernst & Young, Islamic Funds and Investment Report 2011

to foreign institutions. However, with the country developing rapidly, the government allowed foreign institutions to participate in developing the Saudi banking and finance sector by forming joint venture banks. Foreign banks could form a minority joint venture with Saudi investors. This was a success, as foreign banks got the chance to participate in the lucrative Saudi financial sector and Saudi Arabia got foreign expertise in developing its financial system. Some of the key joint venture banks set up during this time were the Saudi Hollandi Bank (ABN AMRO) in 1969; the Saudi Fransi Bank (Crédit Agricole) in 1977; the Saudi British Bank (HSBC) in 1978; and the Saudi American Bank (Citibank) in 1980.

These banks grew rapidly as they helped finance the Saudi government's vast projects. They also pushed ahead to develop the retail banking sector, and today Saudi Arabia boasts one of the most sophisticated retail banking sectors in the Middle East. The government also pushed for the establishment of the Saudi Arabian Monetary Agency (SAMA) in 1984 to regulate the informal stock exchange, now known as Tadawul. The Saudi exchange is the largest stock market in the Middle East with a market capitalization of over $325 billion.

3) High percentage of high net worth individuals

According to the Credit Suisse Global Wealth Report 2011, Saudi Arabia has over 44,000 millionaires, and this is expected to grow by 45% over the next five years to 64,000. The UAE holds the number two slot in the Middle East with 40,000 millionaires, followed by Kuwait with 31,000. The higher concentration of wealth in the country can also be attributed to the growth of the fund market.

4) Bank distribution networks

There are only 11 banks currently operating in the country and a large area to cover. This helps explain why some of these banks have hundreds of branches. Al-Rajhi Bank, which was formed in 1978 as a currency exchange and trading company, is considered to be the first Islamic bank in Saudi Arabia. It has over 466 branches and was the first to launch an Islamic fund in 1992. Like many other banks in the country, its vast distribution networks have been a leading factor in the increasing popularity of Islamic funds. Not only does Saudi Arabia have the largest number of funds, the funds are larger in terms of assets under management than funds domiciled in other countries. This is a clear sign that Saudi banks are able to attract assets to their funds.

Not everything is so positive

For all the success of the Saudi fund market, there are still some issues that are holding it back from reaching its full potential. Legal and regulatory issues aside, there are two key issues affecting the market: 1) Investor psychology, and 2) Restrictions on foreign investors.

For centuries the Middle East has had a strong trading culture, which has continued through modern times. However, due to the petro-wealth of the governments in the GCC, expensive welfares states have developed. Though there are many positive aspects of this, there are also negative side-effects, one of which is the lack of a savings culture. There is little incentive to save or invest for the long-term if you know that the government has a comfortable retirement plan waiting for you down the road. Thus, speculation and trading are in and savings are out.

On the other hand, foreign investors are not allowed to invest directly in publicly traded companies. This is why we have had to construct two versions of our indexes for the Middle East: one version for local investors and another version for foreign investors - the Dow Jones Islamic Market GCC Index with and without Saudi Arabia. Saudi Arabia is not the only country that restricts foreign investors in the GCC. Kuwait and the UAE both have some restrictions. It is only in the last two years that the restriction has been modified in Saudi Arabia to allow foreigners to participate via fund vehicles. The success so far has been limited.

Final words

Saudi Arabia became the largest Islamic fund market because it allowed the establishment of funds early on. It also had strong government support backing up its financial services industry coupled with a large number of high net worth individuals. However, a key factor to this success has been the vast distribution networks of banks in the country. This not only allowed its banks to offer a wide range of investment products, it also insured that these products would be supported by a strong asset base.

Although many other countries would like to copy Saudi Arabia's success, the market is still being held back from achieving its full potential by the lack of a long-term investment and savings culture. If this issue were to be addressed, the Saudi fund market would be likely to experience another rapid growth phase.

Tariq Al-Rifai is the director of Islamic Market Indexes at Dow Jones Indexes and he can be contacted at media@djindexes.com.

MyETF Dow Jones Islamic Market Malaysia Titans 25

The fund's objective is to closely correspond to the performance of the benchmark index, regardless of its performance. The fund manager attempts to achieve an absolute value of tracking error of less than 3% between the net asset value (NAV) of the fund and the benchmark index.

What led to the fund being launched?

Two things. First, it is a government initiative designed to reduce the holdings of government-linked companies (GLCs) in the 25 big cap Shariah compliant stocks listed on Bursa Malaysia and improve their free float. The other reason is to promote ETF products in the market, and provide exposure for investors into the Malaysian market.

Why has this particular region/ asset class been chosen?

The unitization of the holdings into an ETF would be an orderly manner for the release of shares into the market. Investors will hopefully participate through the ETF and provide liquidity in the underlying stocks through the creation and redemption activities.

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

It is the Malaysia story, because the country has always been deemed as a defensive market. As witnessed by the recent pull back, the Malaysian market was not as badly affected as the other regional or emerging markets.

Who are your investors?

Currently the majority of our unitholders are local investors. However, we have seen growing interest and queries from foreign investors and this has led to an improved liquidity over the last two years.

What specific risks does the fund take into consideration?

These include the risk that units may trade at a discount or premium to net asset value (NAV); NAV may not track the benchmark index exactly; income distributions are contingent on dividends paid on index shares; dependence upon trading market for index shares; trading in units on Bursa Malaysia may be suspended; reliance on participating dealers; suspension of creations and redemptions; as well as Shariah non-compliance.

How often do you review this fund?

It is done on a quarterly basis. Dow Jones, our index provider, will furnish us with the updated list of stocks and their weightings and the fund manager will undertake rebalancing exercise accordingly.

What are the sectors you are heavily invested in?

Currently, our top three sectors are industrial, telecommunication and plantation.

What is the market outlook for this fund?

We expect the unit price to remain choppy in the near term, largely due to the uncertain economic and market conditions. However, MyETF is expected to be resilient and may outperform the other country ETFs as the Malaysian equity market has been deemed as a defensive market.

Fact sheet	
Fund Manager	i-VCAP Management
Trustee	Deutsche Trustees Malaysia
Shariah advisors	CIMB Islamic
Benchmark	Dow Jones Islamic Market Malaysia Titans 25 Index
Domicile	Malaysia
Inception date	17th January 2008
Fund characteristics *(as at the 28th October 2011)	**Units In Circulation(Fund Size)** 543.7 million **NAV per unit** RM0.95 (US$0.3) **Minimum creation and redemption size** 400,000 units **Management Fee** 0.4%

*Top five holding of the ETF for October 2011
Company
Sime Darby
Axiata Group
Petronas Chemicals Group
IOI Corporation
Maxis

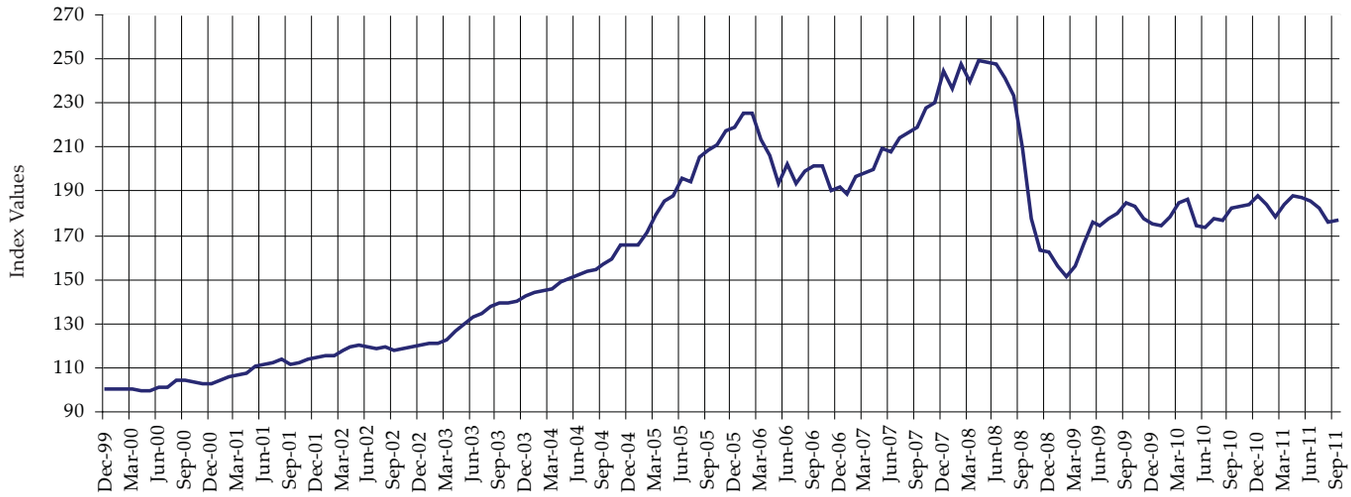
*Performance	
1 Month	8.67
1 Year	3.79
YTD	0.74

Source: Bloomberg

*Perfomance Graph

Source: Bloomberg

Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 Monthly returns for Asia Pacific funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	JS Islamic	JS Investments	7.38	Pakistan
2	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	6.44	Pakistan
3	Atlas Islamic Stock	Atlas Asset Management	6.42	Pakistan
4	Meezan Islamic	Al Meezan Investment Management	5.84	Pakistan
5	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	5.69	Pakistan
6	Al Meezan Mutual	Al Meezan Investment Management	5.56	Pakistan
7	Pakistan International Element Islamic Asset Allocation	Arif Habib Investment Management	4.98	Pakistan
8	United Composite Islamic	UBL Fund Managers	3.22	Pakistan
9	Alfalah GHP Islamic	Alfalah GHP Investment Management	3.14	Pakistan
10	AmStaples	AmInvestment Services	1.57	Malaysia
	***Eurekahedge Asia Pacific Islamic Fund Index**		**-2.63**	

** Based on 98.14% of funds which have reported September2011 returns as at 1st November 2011*

Top 10 Monthly returns for Middle East/Africa funds

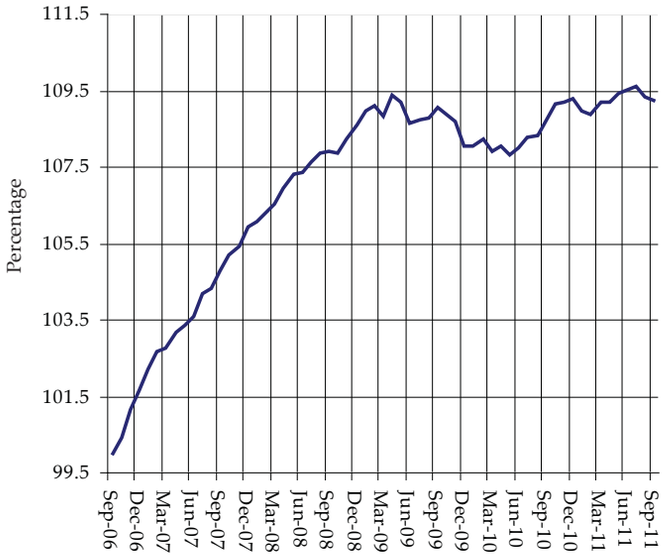
	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Islamic Certificate on the LLB Top 20 Middle East TR Index	ABN AMRO Bank	5.68	Netherlands
2	FALCOM Saudi Equity	FALCOM Financial Services	4.79	Saudi Arabia
3	Bakheet Saudi Trading Equity	Bakheet Investment Group	4.11	Saudi Arabia
4	Al Rajhi Petrochemical and Cement Equity	Al Rajhi Bank	3.73	Saudi Arabia
5	Jadwa GCC Equity	Jadwa Investment	3.59	Saudi Arabia
6	AlAhli Saudi Mid Cap Equity	NCB Capital Company	3.41	Saudi Arabia
7	Al-Saffa Saudi Equity Trading	Banque Saudi Fransi	3.36	Saudi Arabia
8	Al-Mubarak Pure Saudi Equity	Arab National Bank	3.11	Saudi Arabia
9	Jadwa Saudi Equity	Jadwa Investment	3.10	Saudi Arabia
10	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	3.07	Saudi Arabia
	Eurekahedge Middle East/Africa Islamic Fund Index		**0.21**	

** Based on 98.96% of funds which have reported September 2011 returns as at 1st November 2011*

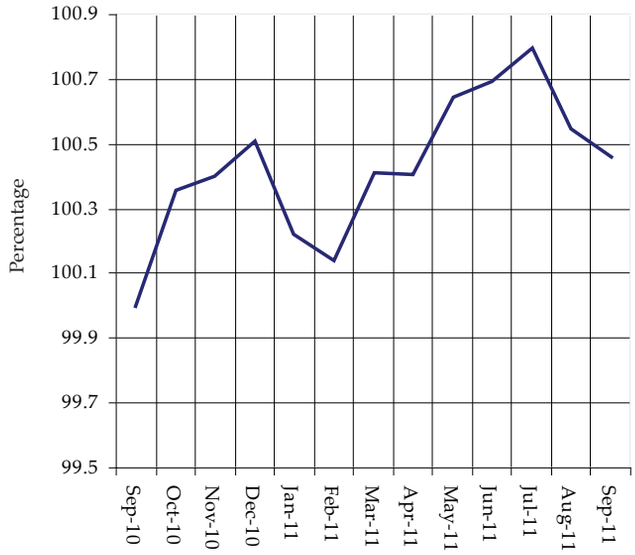
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, 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.

FUNDS TABLES

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

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	ING i-Enhanced Cash	ING Funds	3.99	Malaysia
2	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	2.79	Pakistan
3	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	2.73	Pakistan
4	PNM Amanah Syariah	PT PNM Investment Management	1.68	Indonesia
5	Solidarity Leasing	Solidarity Funds Company	0.97	Bahrain
6	RHB Cash Management - Institutional	RHB Investment Management	0.77	Malaysia
7	MAAKL Al-Ma'mun	MAAKL Mutual	0.70	Malaysia
8	OSK-UOB Institutional Islamic Money Market	OSK-UOB Unit Trust Management	0.68	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		**-0.23**	

** Based on 95.24% of the NAV for September 2011 as at 1st November 2011*

Top 5 Islamic Commodity Funds

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	ETFS Physical Gold	ETFS Metal Securities	7.50	Jersey
2	AmPrecious Metals	AmInvestment Management	5.53	Malaysia
3	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	1.44	Malaysia
4	ETFS Physical PM Basket	ETFS Metal Securities	-4.50	Jersey
5	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	-6.07	Ireland
	Eurekahedge Islamic Commodity Fund Index		**-5.13**	

** Based on 100% of funds which have reported September 2011 returns as at 1st November 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

2nd November 2011

Setting the scene for risk in Takaful

Cover story

Takaful operators are faced with two different and distinct sets of risks. The first is in relation to their fiduciary responsibility to their participants, while the second is in relation to their day-to-day business operations.

We currently have the IFSB outlining a risk management master document, due to be released in the near future. However, what are the main current differences between conventional insurers and Islamic insurers, from a risk management perspective?

There is one primary difference. In Takaful you have to contend with two regulatory bodies: you have the conventional regulatory arrangements (even if you have a regulatory body favorable towards Islam, such as Bank Negara Malaysia), and you have the Shariah board's rulings. Both of these must be strictly adhered to. However the case must be determined as to whether an oversight body, regulator or Shariah board can involve themselves in commercial decisions.

Another element in risk management that is unique to Takaful is the underwriting of the risk pool: the operator does not participate in any deficit on the risk pool. The temptation is there to write new business in order to increase business based on premiums, knowing that the operator is not a participator in the deficit. If the operator is participating in the surplus (another issue in itself) this creates an enormous conflict in interest issue. In conventional insurance this is simply a risk transfer procedure, whereby the operator can take as much risk as he wants with his capital; unlike the Takaful operator, who is limited by the proxy nature of acting in the benefit of the risk pool.

Another issue that emerges is the fact that many Takaful operators are still not utilizing re-Takaful for their pooling. In terms of re-Takaful, the industry is currently 'reinsurance in green'. This amounts to significant reputational risk. However, due to inherent commercial goals, significant amounts of capital were invested into re-Takaful in the heady pre-crisis years.

> *"Modern day Takaful operators are simply fund managers inviting participants to pool their risk"*

According to Wan Saifulrizal Wan Ismail, an associate director at Towers Watson: "Modern day Takaful operators are simply fund managers inviting participants to pool their risk. From a participant's perspective they have very little say in day-to-day Takaful operations, whilst having to bear the risk, and can only assume that the Takaful operator will act in their best interests."

Should participants be made aware of their risk exposure and that of the fund? Disclosures are mainly revealed only to analysts and investors. Is there a more meaningful way to communicate risk? Wan Saifulrizal suggests that there should be risk appetite statements or communications between the operator and the participant, highlighting the risks to which the fund is exposed as a cornerstone of the industry.

This risk appetite statement would be able to serve as an indication as to whether the client's claims can be paid out in full or if the fund requires qard. It could also serve as the tenet for a Takaful operator to align themselves in relation to pricing, investment strategies and even if they are utilizing re-Takaful.

Wan Saifulrizal goes on to add that there are a number of side benefits that Takaful operators could also achieve from a risk appetite statement. For example: optimizing asset allocations, creating equality in pricing structures and ultimately deciding whether or not they undertake surplus distribution.

It also highlights how little representation participants actually have in what is supposed to be a cooperative business. Using a board of trustees under an actuary to communicate the actions of operators has been mooted: however, cost considerations make this unfeasible. This would be a likely outcome should a cooperative and non-commercial entity enter the Takaful market in the future, however, and it would also be useful in terms of transparency and disclosure. – *SW*

In this issue...

Expanding Takaful workforce

MALAYSIA: Great Eastern Takaful has appointed Korperasi Angkatan Tentera Malaysia as its first corporate agency.

The appointment aims to help expand the firm's Takaful workforce as well as increase the penetration rate of Takaful in the country.

Takaful partnership

MALAYSIA: Hong Leong MSIG Takaful (HLM Takaful) has signed a MoU with the Malaysia Building Society (MBSB) for a Takaful distribution partnership.

HLM Takaful will offer its HLMT i-Save family Takaful plan to MBSB's customers while providing advice on financial planning to the latter regarding Takaful sales and licensing.

Following the partnership, HLM Takaful expects to increase its revenue contribution from its Takaful segment to 60% by 2014 from its current 40%. The company also aims to gain RM10 million (US$3.3 million) in gross distributions in the first year of the partnership.

MBSB also aims to raise Takaful contributions to its fee-based income by 7% from the current 20%.

Joint study on Takaful

NIGERIA: The National Insurance Commission (NAICOM) has entered into an agreement with German-based state-run Deutsche Gesellschaft für Internationale Zusammenarbeit Agency (GIZ) to conduct a study on Takaful and micro-insurance products in Nigeria.

Fola Daniel, the commissioner for insurance at NAICOM, said that the collaboration was part of NAICOM's drive to open up and develop the insurance market as well as to boost the sector's contributions to Nigeria's GDP.

Good decade for Takaful

BAHRAIN: Takaful businesses in the country have recorded a 40% increase in compound annual growth rate (CAGR) to BHD38.55 million (US$102.2 million) in 2010 compared to BHD1.89 million (US$5 million) in 2001, according to the Central Bank of Bahrain's Insurance Decennial Report 2010.

Reinsurance and re-Takaful firms registered a 25% increase in CAGR to BHD323 million (US$856.6 million) in the 10-year period to 2010.

There are currently seven Takaful firms and two re-Takaful firms in the country.

Profits slump

PALESTINE: Al-Takaful Palestinian Insurance has reported a 75.4% drop in its net profit before tax to US$174,024 for the first nine months of 2011 against the corresponding period last year.

The firm's total assets rose to US$16.99 million in the nine-month period, from US$14.11 million as at the 31st December 2010.

Erica Soeroto, president director, Sarana Multigriya Finansial (Persero) (SMF)

Erica Soeroto is the president director of Sarana Multigriya Finansial (Persero) (SMF), a secondary mortgage corporation 100% owned by the Republic of Indonesia. She has been instrumental in developing the secondary mortgage market in Indonesia, including supervising the issuance by SMF of the country's first mortgage-backed securities in 2009.

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

The Indonesian government started to promote home ownership in 1976 by establishing a bank dedicated to providing housing loans for the low-income segment. For the mid-income segment, the Central Bank and IFC established a non-bank financial institution.

In 1993 the government found that the growth of home ownership was very slow, and so with the assistance of USAID it conducted a series of studies to assess the situation. This concluded that the maturity mismatch of funding sources was the main problem, and the establishment of a liquidity facility institution was recommended.

Due to the Asian financial crisis in 1997, the establishment of the institution was delayed. SMF was established on the 22nd July 2005, 100% owned by the Indonesian government, as a secondary mortgage institution with the special mission of making affordable home ownership possible for Indonesian families through the development of the secondary mortgage market.

What does your role involve?

Explicitly, the mission promotes the changing of the role of players and products, to be shifted into the mortgage financing framework. The short-term funding source has to be shifted to mid/

long-term bonds, and the bank income must be shifted from interest-spread to fee-based income.

Strengthening the primary market is the foundation of the secondary mortgage market in Indonesia. SMF offers loans with a source of funds from debt instrument issuance. It is expected that gradually there will be more 'sound' mortgage portfolios ready to become underlying assets of mortgage related securities. As part of the effort towards market creation, SMF also develops mortgage-related securities and facilitates market players in making transactions.

In this early stage, SMF participates as a party in the transactions. Later on, when the transaction volume has increased, indicating that a market has emerged, SMF will gradually reduce its role as a party in the transactions themselves and instead position itself as a guarantor.

What is your greatest achievement to date?

SMF successfully facilitated the first issuance of mortgage-backed securities for the amount of IDR500 billion (US$352.8 billion) in 2009. This year, a fourth securitization of IDR1 trillion (US$705.7 billion) will be issued.

SMF's main program is to strengthen the primary market by providing liquidity. From 2006 up until today, SMF has financed mortgage lenders with sums amounting to IDR3 trillion (US$2.1 trillion). Thus the total funds flowing to the housing sector are IDR5 trillion (US$3.5 trillion), which is 3.1% of the nationwide mortgage portfolio.

Which of your products/ services deliver the best results?

a) Repo Program: SMF purchases mortgage loans from mortgage lenders with recourse and based on agreed terms: whereby at the end of the period the mortgage lenders have the option to repurchase the loans.
b) Shariah Financing: SMF grants financing to Shariah mortgage lenders collateralized with a pool of mortgages to produce new mortgages. To fund these programs, SMF raises funds from the capital market by issuing bonds.
c) Securitization: SMF facilitates securitization transactions as an arranger and credit enhancer.

What are the strengths of your business?

a) The only secondary mortgage institution in Indonesia.
b) Fully owned by the government.
c) An experienced management team in the mortgage industry.

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

a) The strong commitment of the management team.
b) Regulation and government support.

What are the obstacles faced in running your business today?

Market readiness: including sellers, buyers and investment grade portfolios.

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

The Islamic finance industry is expected to grow rapidly in the next five years. The national target is to grow from 2% to 5% of the banking industry. In mortgage financing, SMF promotes the development of Musharakah Mutanaqishah which later on could be securitized.

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

I would like to see some changes in the regulation of Islamic securitization.

Pembinaan BLT US$371 million Sukuk

Pembinaan BLT (PBLT) has launched its second Sukuk issuance of 2011 with a RM1.17 billion (US$371 million) offering on the 13th October 2011. The Sukuk was issued through Aman Sukuk, an SPV specifically established to facilitate the issuance of PBLT's Sukuk program.

PBLT is a wholly owned entity of the Malaysian government which constructs facilities and quarters for the Royal Malaysia Police (Polis DiRaja Malaysia, or PDRM) under a build, lease and transfer project model.

The bookbuilding exercise for the Sukuk once again proved successful for the government-linked entity, as it was able to take advantage of the current low interest rate environment.

Orders for the Sukuk totaled RM8 billion (US$2.61 billion) as local investors continued the scramble for highly rated sovereign linked credit, further highlighting the strength of the domestic Sukuk market.

The fundraising exercise is part of PBLT's 25-year Islamic medium-term notes program of up to RM10 billion (US$3.25 billion). To date US$732 million has been issued under the program. PBLT stated that the funds would be used for the nationwide construction of police quarters and facilities as well as for the repayment of existing debt.

PBLT managing director and CEO Mohammed Redza Mohd Yusof said demand for the notes came from a wide array of investors, including government agencies, financial institutions, fund managers and insurance companies, adding that: "The overwhelming response indicates a strong demand for our Sukuk and brings PBLT closer to achieving its financial plan."

The Islamic medium-term notes program is the long-term financing facility for PBLT, which seeks to match the expected sub-lease rental payments from the government with its construction projects to redeem the Sukuk.

To date PBLT has recorded high delivery rates with 37 projects completed and another 19 projects due for completion on a sectional basis. "Investors can look forward to our next issuance in the coming months," Mohammed Redza said, adding that: "We have crossed the 50% mark as far as project delivery and values are concerned."

The Sukuk assets primarily consist of rights, entitlements and benefits to the sublease rental receivables under the sublease agreements pertaining to completed facilities constructed by PBLT for the PDRM. PBLT will dispose of its Sukuk assets to Aman Sukuk via legal assignments. The proceeds from notes issued under the program will be used to finance development costs of various projects of PBLT, including its operating expenses, financial costs and repayment of existing borrowings.

> ***"Local investors continue the scramble for highly rated sovereign linked credit"***

Each series of notes is essentially secured by and serviced from defined sublease rental payments made by the Malaysian government pursuant to the terms of respective sublease agreements for identified completed facilities.

PBLT has recently come under heavy criticism for incurring losses of RM80 million (US$26.1 million) in consultation fees due to project cancellations and undervaluation, according to the auditor-general's report of 2010.

The report highlighted a trend of declining profits of RM0.97 million (US$ 316,528) in 2009 compared with RM1.59 million in 2008 (US$518,845). This decline is attributed to the postponement of projects due to the economic downturn and rise in raw material costs or cancellations due to the unsuitability of the site and higher contract prices.

The auditor-general's report also noted that there were several weaknesses in its business case; highlighting the late signing of the project development and management agreements. – *SW*

Aman Sukuk

RM1.17 billion (US$371 million)

13th October 2011

Issuer	Aman Sukuk
Obligor	Pembinaan BLT (PBLT)
Issuance price	RM1.17 billion (US$371 million)
Purpose of issuance	Nationwide construction of police quarters and facilities under the build, lease and transfer model
Tenor & Return	3.6% per annum for the three-year tranche. 3.75% per annum for the five-year tranche. 3.95% per annum for the seven-year tranche. 4.1% per annum for the 10-year tranche. 4.25% per annum for the 12-year tranche. 4.45% per annum for the 15-year tranche.
Currency	Ringgit Malaysia
Joint managers	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
Listing	Domestic market public issue
Rating	MARC- 'AAAIS'
Investor breakdown	Government agencies, financial institutions, fund managers and insurance companies
Investors breakdown	37% — Malaysia, 30% — Singapore, 26% — Hong Kong and 6% — EU

ISSUER	SIZE	DATE ANNOUNCED
Sabah Credit Corporation	RM1 billion	28th October 2011
Credit Agricole	TBA	27th October 2011
Anih Berhad	RM2.5 billion	24th October 2011
Axis Real estate Investment Trust	RM300 million	24th October 2011
Finance ministry of Pakistan	TBA	20th October 2011
Goldman Sachs	US$2 billion	19th October 2011
Almaraj, Saudi Arabia	TBA	16th October 2011
Manjung Island Energy	RM5 billion	13th October 2011
Mydin	RM350 million	13th October 2011
Majid Al Futtaim	TBA	11th October 2011
Barwa Bank	TBA	11th October 2011
Mashreq Al Islami	TBA	10th October 2011
Dow Chemical Company & Saudi Arabian Oil Company	TBA	9th October 2011
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
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
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

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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

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managing partner, Hegazy & Associates

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

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partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

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Islamic finance expert, SEO

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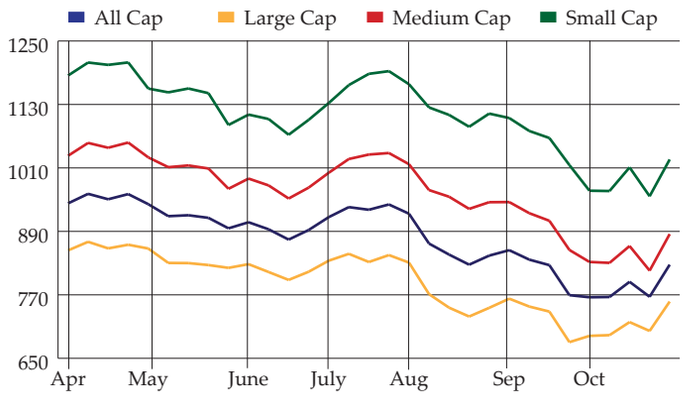
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

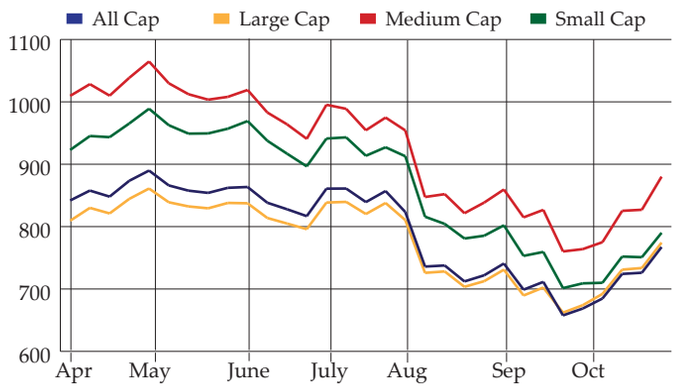
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

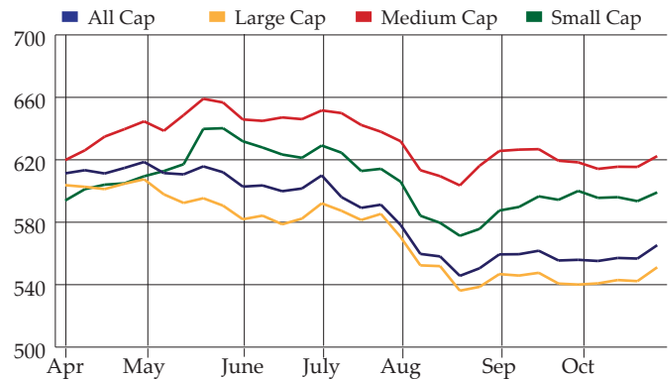
REDmoney Asia ex. Japan *6 Months*



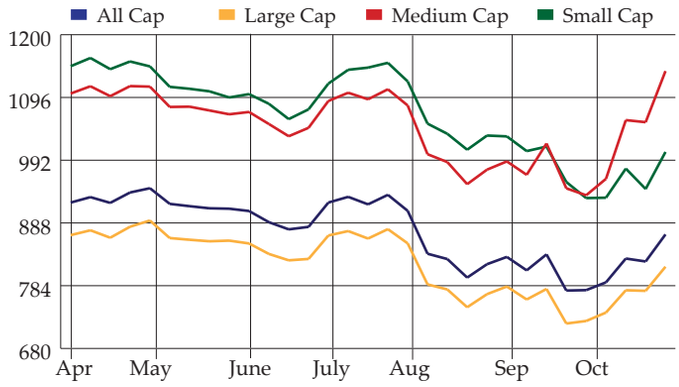
REDmoney Europe *6 Months*



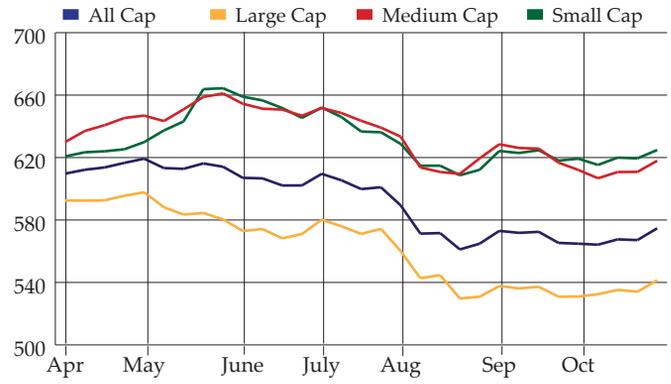
REDmoney GCC *6 Months*



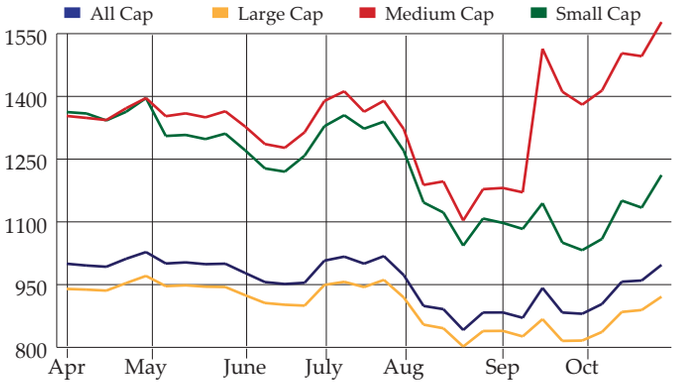
REDmoney Global *6 Months*



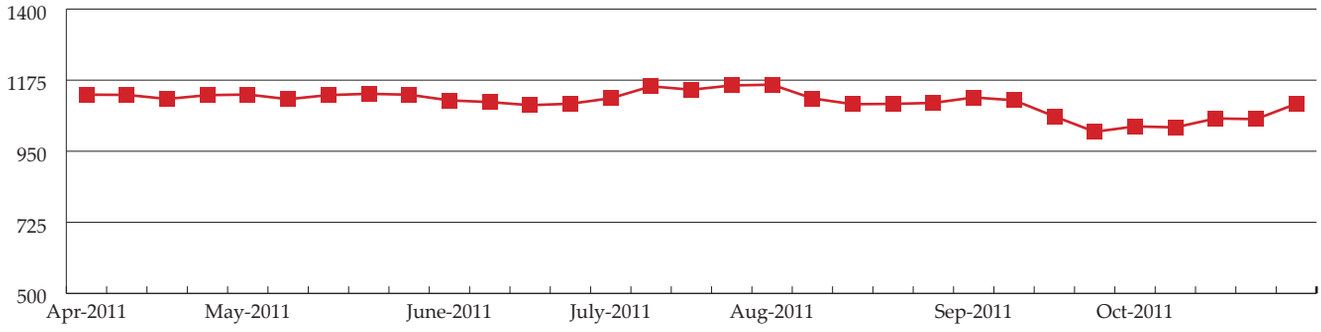
REDmoney MENA *6 Months*



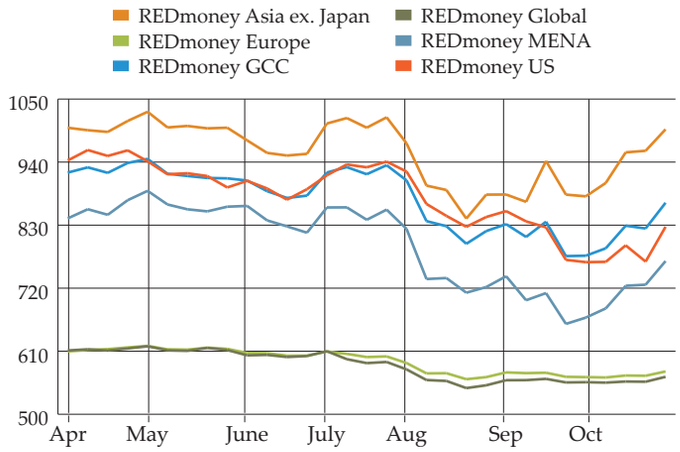
REDmoney US *6 Months*



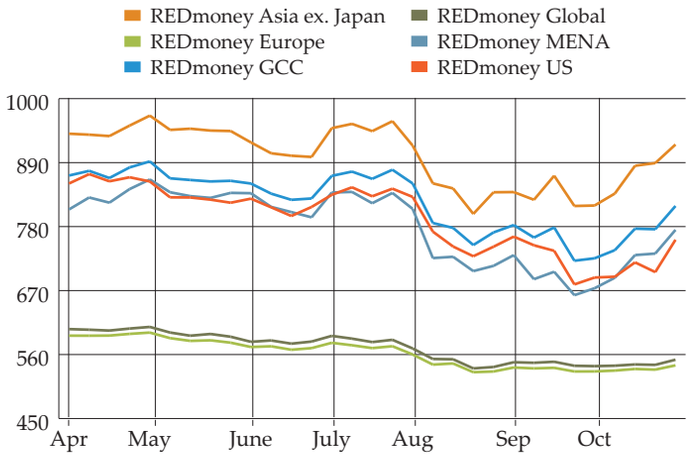
SAMI Halal Food Participation (All Cap) *6 months*



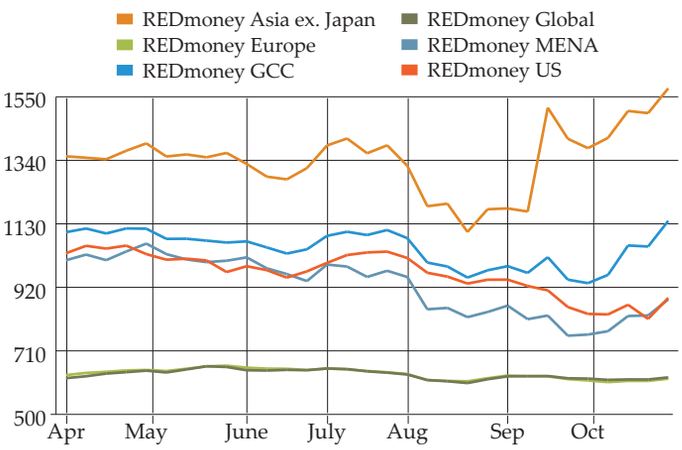
REDmoney Global Shariah Index Series (All Cap) *6 Months*



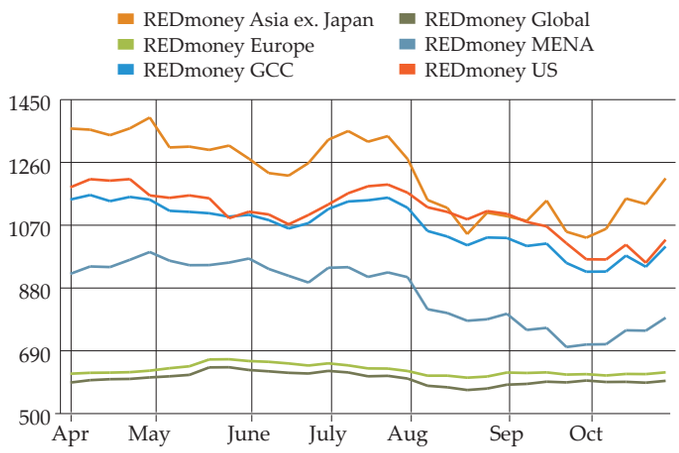
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



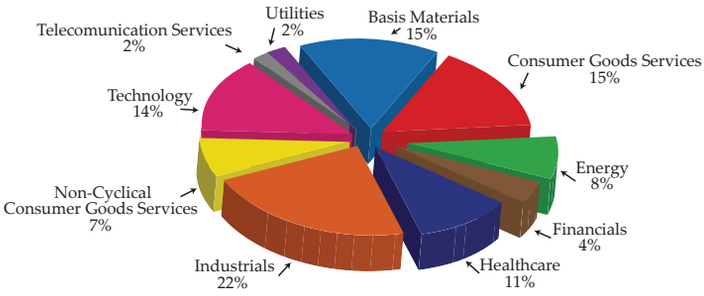
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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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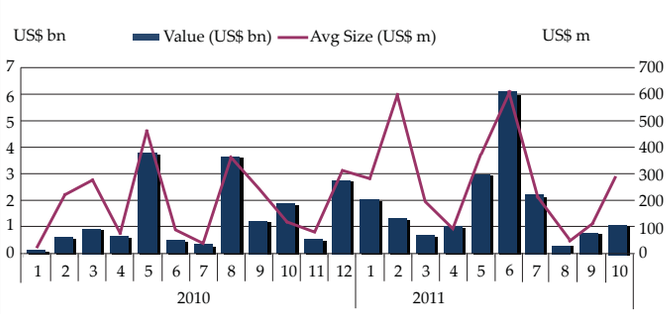
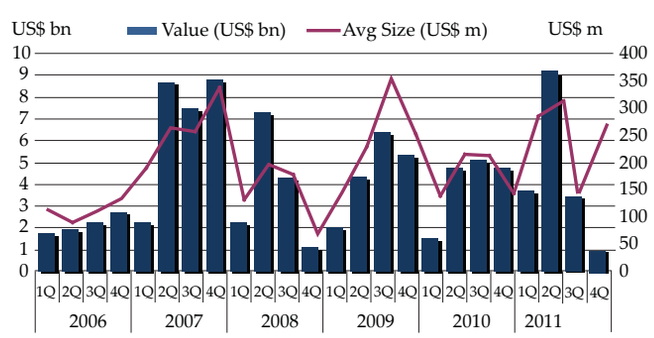
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Commerzbank Group, Abu Dhabi Investment Council
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	190	Public Bank, AmInvestment Bank
14th Sep 2011	MISC	Malaysia	Sukuk	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	Domestic market private placement	167	AmInvestment Bank
26th Jul 2011	Syarikat Prasarana Negara	Malaysia	Sukuk	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	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	Euro market public issue	2,000	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
17th Jun 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	1,910	CIMB Group, Maybank Investment Bank
16th Jun 2011	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	Maybank Investment Bank
14th Jun 2011	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	RHB Capital, AmInvestment Bank
13th Jun 2011	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	Deutsche Bank, Riyad Bank
8th Jun 2011	Bank Muamalat Malaysia	Malaysia	Sukuk	Domestic market private placement	133	DRB-HICOM, Maybank Investment Bank
2nd Jun 2011	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	Maybank Investment Bank
26th May 2011	Putrajaya Holdings	Malaysia	Sukuk	Domestic market private placement	229	CIMB Group, AmInvestment Bank, Maybank Investment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	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	Issued under issuer's RM3	Domestic market public issue	1,275	2	Maybank Investment Bank
4	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
5	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
6	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
7	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	732	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
8	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
9	Cagamas	Malaysia	Issued under issuer's RM5bn Islamic MTN programme	Domestic market private placement	663	13	RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, AmInvestment Bank, Maybank Investment Bank
10	First Gulf Bank	United Arab Emirates	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
11	HSBC Bank Middle East	United King-dom	Sukuk	Euro market public issue	500	1	HSBC
11	Emaar Sukuk	United Arab Emirates	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	United Arab Emirates	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
16	Government of Ras Al Khaimah	United Arab Emirates	Sukuk	Euro market public issue	393	1	RBS, Citigroup
17	Kuveyt Turk Katilim Bankasi	Kuwait	Turkish sukuk issue	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Commerzbank Group, Abu Dhabi Investment Council
18	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
19	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
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				**20,090**	**100**	

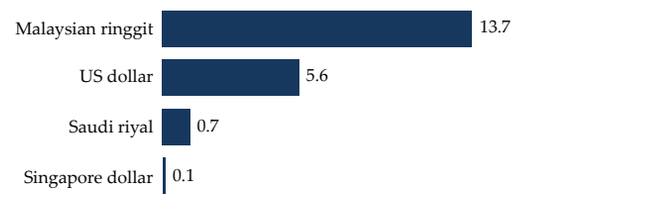
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	5,145	28	25.6
2	CIMB Group	4,199	32	20.9
3	HSBC	3,260	15	16.2
4	AmInvestment Bank	1,929	27	9.6
5	Citigroup	1,181	5	5.9
6	RHB Capital	1,027	6	5.1
7	Standard Chartered Bank	898	6	4.5
8	Deutsche Bank	427	2	2.1
9	RBS	416	3	2.1
10	Riyad Bank	240	1	1.2
11	BNP Paribas	188	1	0.9
12	OCBC	173	6	0.9
13	Public Bank	163	5	0.8
14	Affin Investment Bank	155	4	0.8
15	Lembaga Tabung Haji	153	3	0.8
16	JPMorgan	133	1	0.7
17	DRB-HICOM	123	2	0.6
18	KFH	70	1	0.4
18	Commerzbank Group	70	1	0.4
18	Abu Dhabi Investment Council	70	1	0.4
21	Hong Leong Bank	40	2	0.2
22	Al-Rajhi Banking & Investment	16	1	0.1
23	OSK	13	2	0.1
24	Mitsubishi UFJ Financial Group	1	1	0.0
	Total	**20,090**	**87**	**100.0**

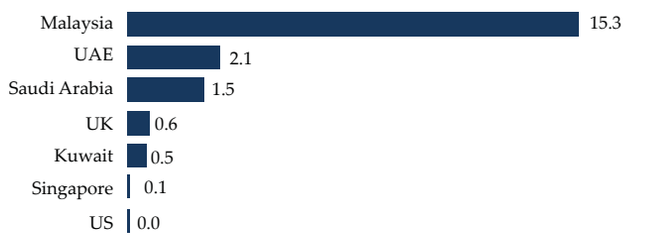
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	762	4	16.7
2	Riyad Bank	363	3	8.0
3	Public Investment Fund	304	3	6.7
4	HSBC Holdings	269	3	5.9
5	Arab National Bank	249	2	5.5
5	Samba Financial Group	239	3	5.2
7	Al-Rajhi Banking & Investment	237	2	5.2
7	Bank Al-Jazira	234	3	5.1
9	Saudi Hollandi Bank	231	2	5.1
10	Alinma Bank	179	2	3.9

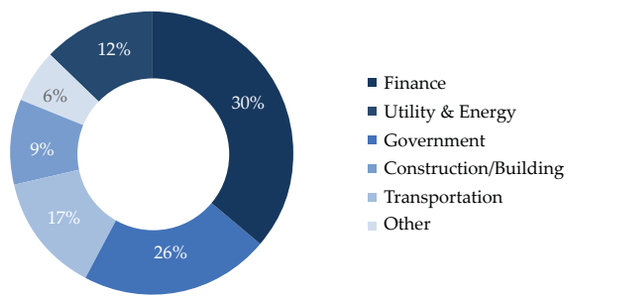
Sukuk Volume by Currency US$ (billion) *12 Months*



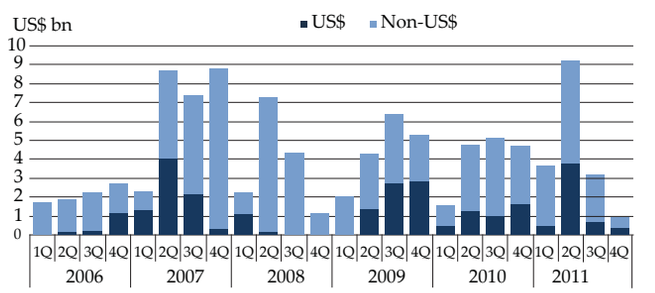
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisors Ranking *12 Months*

	Legal Advisor	US$ (million)	No	%
1	Al-Jadaan & Partners Law Firm	3,709	3	30.7
1	Baker & McKenzie	3,709	3	30.7
1	Clifford Chance	3,709	3	30.7
4	Herbert Smith Gleiss Lutz Stibbe	400	1	3.3
4	Latham & Watkins	400	1	3.3

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	1,005	6	12.2
2	Maybank Investment Bank	709	4	8.6
3	Samba Capital	660	4	8.0
4	AmInvestment Bank	471	3	5.7
5	Saudi National Commercial Bank	462	2	5.6
5	Banque Saudi Fransi	462	2	5.6
7	Citigroup	425	6	5.1
8	Abu Dhabi Islamic Bank	398	3	4.8
9	Standard Chartered Bank	354	7	4.3
10	RBS	233	1	2.8
11	CIMB Group	232	3	2.8
12	Emirates NBD	180	3	2.2
13	RHB Capital	164	1	2.0
13	Lembaga Tabung Haji	164	1	2.0
15	Arab Banking Corporation	162	3	2.0
16	Deutsche Bank	150	1	1.8
17	Noor Islamic Bank	147	2	1.8
18	BNP Paribas	134	3	1.6
19	Riyad Bank	129	1	1.6
19	Bank Al-Jazira	129	1	1.6
21	WestLB	115	3	1.4
22	Bank of China	93	1	1.1
23	Saudi Hollandi Bank	74	1	0.9
23	Export Development Canada	74	1	0.9
23	Arab Petroleum Investments	74	1	0.9
23	Arab National Bank	74	1	0.9
23	Alinma Bank	74	1	0.9
23	Al-Rajhi Banking & Investment	74	1	0.9
29	Bank of America Merrill Lynch	73	2	0.9
30	Arab Bank	65	2	0.8

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	19.0
2	Citigroup	524	6	6.3
3	Abu Dhabi Islamic Bank	428	3	5.2
4	Maybank Investment Bank	237	1	2.9
5	RBS	233	1	2.8
5	HSBC	233	1	2.8
7	Standard Chartered Bank	165	3	2.0
8	Bank of China	93	1	1.1
9	National Bank of Kuwait	87	1	1.1
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
23rd May 2011	Natrindo Telepon Seluler	Indonesia	450
16th Nov 2010	Jambatan Kedua	Malaysia	383
22nd Sep 2011	Albaraka Turk	Turkey	344
14th Dec 2010	Majid Al Futtaim Properties	UAE	310

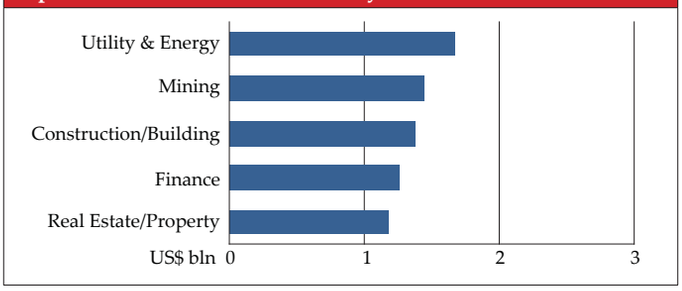
Top Islamic Finance Related Loans by Country

12 Months

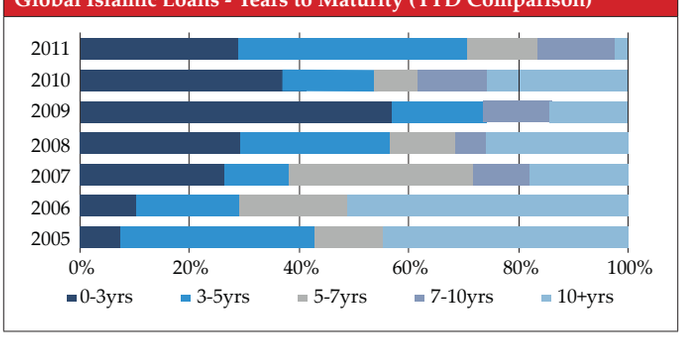
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,924	3	35.4
2	Malaysia	1,777	5	21.5
3	UAE	1,704	8	20.6
4	Turkey	988	5	12.0
5	Indonesia	450	1	5.4
6	China	93	1	1.1
7	Kuwait	87	1	1.1
8	Singapore	77	1	0.9
9	Pakistan	60	2	0.7

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

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

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

15th November 2011
IFN Roadshow 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)*

4th – 6th December 2011
Alternative Investing Summit
Laguna Niguel (*Opal Financial Group*)

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*)

17th — 18th December 2011
Oman Islamic Economic Forum
Muscat, Oman (*The Amjaad Group*)

16th — 18th January 2012
2nd Annual Middle East and Africa Insurance Summit
Dubai (*Fleming Gulf*)

7th — 8th February 2012
Middle East Insurance Forum
Bahrain (*MegaEvents*)

21st – 24th February 2012
Islamic Finance Africa Africa
(IIR South Africa)

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