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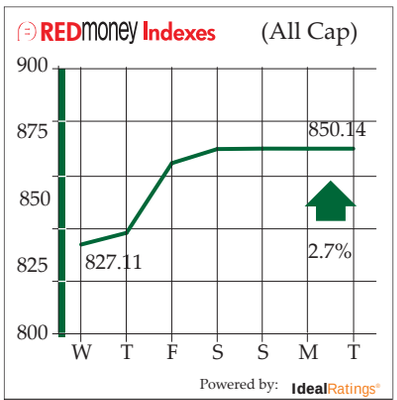

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Shariah auditing for the Islamic finance industry

Cover Story

Shariah non-compliance risk is a vital issue for Islamic finance as the industry moves towards a greater role in the global financial markets. In recent years market events have demonstrated that the impact of Shariah non-compliance can have significant financial and operational consequences. Shariah auditing within the wider Shariah governance framework is a vital tool in protecting against non-compliance across the Islamic finance universe. But just how effective is the current Shariah auditing process for Islamic financial institutions, and what are the key weaknesses that the industry must address in order to strengthen its defences?

Increased risk

"Before, there was a general idea that Shariah non-compliance risk led to an overarching reputational risk for Islamic banks: meaning that if there are certain Shariah non-compliant events your reputation might be tarnished, your relationship with your customers might be affected, and so on," explained Nik Shahrizal Sulaiman, an executive director in financial services – internal audit at PWC. "But increasingly we have seen from the crisis over the last few years that Shariah non-compliance risk can escalate into other types of risk: including operational risk, credit risk, and even market risk."

In November 2007 this was highlighted through the impact of the AAOIFI paper on 'Sukuk and Their Contemporary Applications' in which Sheik Muhammad Taqi Usmani, the president of the Shariah council of AAOIFI, estimated that up to 85% of issued Sukuk were not Shariah compliant due to the existence of guaranteed returns or repurchase obligations from the issuer. The impact on the global Sukuk market from this Shariah non-compliance issue was cataclysmic, shrinking from around US$50 billion in 2007 to around US$15 billion in 2008.

The risk of Shariah non-compliance was brought into further focus in 2010 with the legal battle between Kuwait's troubled The Investment Dar (TID) and Lebanese Blom Bank. When Blom Bank sued TID in a British court to recover a US$10.7 million investment plus fixed profit, TID mounted a defense claiming that the deal did not comply with Shariah law and was therefore void, due to the requirement of the original Wakalah contract to return a fixed profit of 5%, which TID claimed was interest and therefore prohibited under Shariah law. While the UK court eventually concluded that TID should return the original investment sum, it also ruled that TID's legal counsel had made "an arguable defense" regarding the additional profit, should Blom Bank choose to pursue it. Following the court's decision however, TID's Shariah supervisory board decided that the contract had indeed been Shariah compliant and asked TID to refrain from using the 'non-compliance' defence

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Islamic finance in a changing global landscape

Editor's Note

Following the events of the Arab Spring and after much theorizing over the ability of Islamic finance to play an important role in the rebuilding of the MENA nations, it seems the industry is finally putting its money where its mouth is.

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IDB offers Egypt US$400 million in financing

Bermuda plans to market island as a jurisdiction for Islamic finance, says governor

Al Baraka Bank Pakistan reports US$5.86 million in pre-tax profit at the 30th September 2011

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DRB-HICOM plans US$571 million Sukuk program

Bank Islam Brunei Darussalam to deploy **Wincor Nixdorf**'s ProCash 8000 biometric-enabled ATMs in November 2011

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Global Sukuk issuances almost doubled in October 2011

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Islamic finance industry in Turkey captures limelight with **Kuveyt Türk Katılım Bankası**'s US$350 million Sukuk

Aldar Properties expected to repay US$1.1 billion Sukuk despite financial problems

ABC Islamic Bank reports 320% growth in net profit to US$6.7 million for the first nine months of 2011

Overly-complex Islamic finance structures may cause disruptive behavior, says **DFSA**

KFH-Bahrain urges government to issue more Sukuk

AGMC and **Abu Dhabi Islamic Bank** unite to introduce exclusive financing package for 2011 Rolls-Royce Ghost models

Interest and profit payments for US$10 billion debt rolled over amid restructuring talks, says **Dubai Group**

Doha Bank does not rule out sale of Islamic banking unit, says CEO

KFH's net profit declines to US$92.1 million in the third quarter ended the 30th September

Palestine Islamic Bank reports 116.2% year-on-year surge in profits in the nine months to the 30th September

Banks in the UAE file cases against mortgagors of foreclosed properties to recover losses

KFH remains interested in investment opportunities in Asia

TAKAFUL

Takaful companies are positively contributing to the overall growth of the UAE insurance industry, says **Takaful Emarat**

ING Insurance Asia exempted from making mandatory offer for **ING Public Takaful Ehsan** and **ING Funds**

AIA Financial and **CIMB Niaga** unveil Fortuna X-tra Plus Syariah

Syarikat Takaful Malaysia pays US$184,222 profit share to **Universiti Kebangsaan Malaysia**

Abu Dhabi National Takaful Company achieves 31% increase in net profits

RATINGS

Moody's downgrades local currency deposit ratings of five Egyptian banks

RAM assigns respective long- and short-term ratings of 'AAA(fg)' and 'P1' to **Poh Kong Holdings**' US$35 million proposed Islamic notes

RAM reaffirms **Maybank Islamic**'s long- and short-term financial institution ratings at 'AAA' and 'P1' respectively

RAM reaffirms 'AAA' and 'P1' ratings of **Pengurusan Air SPV**'s Islamic notes

MOVES

UBS appoints **Anthony Zammar** to head Saudi Arabia desk in Geneva

Adrian Low joins **Clyde & Co**'s Dubai banking and finance practice

Sarana Multigriya Finansial appoints **Raharjo Adisusanto** as new president director

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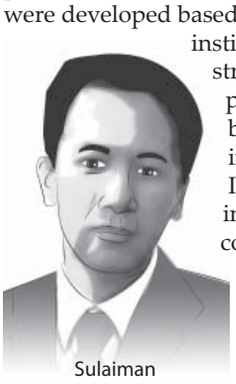
in future litigation, creating further confusion. The case sent shockwaves through the Islamic finance industry, highlighting the dangers of a lack of standardization. Ratings firm Moody's issued a research note in May 2010 stating that the battle between TID and Blom had raised Shariah risk in the industry.

"Anecdotally, from our engagement with the industry," added Shahrizal, "we are also aware that a number of banks have had to donate a certain amount of money – a few million US dollars – because certain transactions were deemed not to be compliant by Shariah scholars. From all these examples we are starting to see a trend that Shariah non-compliance risk not only affects reputational risk, but also is starting to cascade down into financial performance." The issue of Shariah non-compliance has thus been brought firmly to the forefront. As stated by PWC in its December 2010 Shariah Audit Survey: "With the rapid expansion of Islamic finance, it is integral for the IFI industry to maintain its distinctiveness. A robust Shariah Governance Audit framework will help make this possible." But how close are we to actually achieving this?

Why Shariah auditing?

The most important point to be noted is that a Shariah audit is separate from and in addition to the financial and operational auditing processes undertaken by Islamic financial institutions as part of their adherence to the standard requirements of their jurisdictions. But why is a separate Shariah auditing process required? Deloitte explains in its Islamic Accounting Guidelines that: "Standards for Islamic financial institutions have to be developed because in some cases Islamic financial institutions encounter problems because the existing standards were developed based on conventional institions, product structures or practices, and may be perceived to be insufficient… The Islamic finance industry is under considerable pressure to enhance practice and improve risk management systems and protect investors."


Sulaiman

Conventional auditing procedures do not account for the specific Shariah compliance risk to which all Islamic financial institutions are exposed. The role of a Shariah auditor is different to that of a conventional auditor because its remit is derived from the basic values of Islamic society. The auditor is accountable not only for the manner in which the bank undertakes its activities, but also for the effectiveness with which these activities contribute to the principles of Shariah, in order to propagate the virtues of Islam in all areas of the bank.

> ***"The role of a Shariah auditor is different to that of a conventional auditor because its remit is derived from the basic values of Islamic society"***

Current provisions

A number of Shariah auditing guidelines have therefore been set out, both by domestic authorities such as Bank Negara Malaysia (BNM), Malaysia's central bank, and international organizations such as AAOIFI. Although AAOIFI uses the term 'Internal Shariah Review' as opposed to Shariah audit, its guidelines are largely consistent with those of BNM. The Governance Standard for IFIs No.3 states that: "The primary objective of the internal Shariah review (carried out by an independent division or part of internal audit department) is to ensure that the management of an IFI discharge their responsibilities in relation to the implementation of the Shariah rules and principles as determined by the IFI's Shariah Supervisory Board (SSB)."

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CLOSING BELL

Malaysia to issue US$958.31 million Sukuk

MALAYSIA: The government will sell RM3 billion (US$958.31 million)-worth of profit-based government investment issues, maturing in August 2018, on the 15th November 2011.

The sale is a re-opening of a 3.87% tender launched earlier this year.

Central bank to issue US$1.12 billion 2012 Sukuk

MALAYSIA: The central bank, Bank Negara Malaysia, will issue a RM2 billion (US$638.88 million) and RM1.5 billion (US$479.16 million) Sukuk Murabahah, maturing in January and March 2012 respectively, on the 10th November 2011.

The tender for the issuances will close on the 9th November.

CENTRAL BANK OF TURKEY

TURKEY: The Central Bank of Turkey has appointed Islamic economics specialist **Sabri Orman** and credit expert **Ahmet Faruk Aysan** as members of its board.

Sabri was previously a research scholar at the London School of Economics and has taught at both the International Islamic University Malaysia (IIUM) and the IIUM's International Institute of Islamic Thought and Civilization, while Ahmet is a former advisor to the World Bank and the Central Bank of Turkey.

Crescent Wealth Management targets Malaysian Islamic investments

AUSTRALIA: Crescent Wealth Management is hoping to attract investments for its managed funds from Malaysia, which is home to around US$5 billion-worth of Islamic funds under management.

The firm said that it sees significant potential to partner with Malaysian institutions that are attracted to Australia's growing wealth management industry.

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Similarly, in 2010 BNM launched its new Shariah Governance Framework, which became effective as of January 2011. In addition, BNM in July 2010 also released guidelines on the internal audit function of licensed institutions. According to the Framework: "Shariah audit refers to the periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI's business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance."

The Framework is in line both with AAOIFI standards, and also with the Guiding Principles on Shariah Governance Framework for Islamic Financial Institutions issued by IFSB. By the 30th June 2011 all institutions in Malaysia were expected to comply with the new Framework, which is designed to enhance the role of the Shariah board, the Shariah committee and management with specific regard to Shariah review, audit and risk management.

The governance structure sets out the structures, processes, and arrangements to make sure all operations and business activities of Islamic financial institutions are in accordance with Shariah. The Shariah governance attributes provide comprehensive guidance to the board, Shariah committee and management of IFIs in discharging their duties in matters relating to Shariah.

The Shariah compliance and research functions outline the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research. Compared to the previous Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions (2005) there were a number of changes made, including the expanding of the number of Shariah committee members from three to five, a minimum qualification required of a bachelor's degree in Shariah for committee members, and clarified and expanded details in some areas.

The Shariah audit function within the Shariah Governance Framework now provides independent assurance to stakeholders by ensuring conformance with Shariah, including the products and services offered by IFIs and Takaful operators. The function is performed by internal auditors, who must have "adequate Shariah-related knowledge and skills," and whose duty it is to ensure a sound and effective internal controls system for Shariah compliance. The internal auditors may engage the expertise of IFIs' Shariah officers in performing the audit (as long as objectivity is not compromised), or they can appoint an external party to conduct a Shariah audit on their banking operations.

The Shariah audit approach has three levels.

1. Audit of IFIs financial statements;
2. Compliance audit of organizational structure, people and processes;
3. Review of the adequacy of the Shariah governance process, providing recommendations to the Audit Committee and the Shariah Committee.

> ***"Seventy percent of respondents claimed that Shariah scholars had no involvement in the Shariah audit process"***

Key weaknesses

However despite the comprehensive new framework, serious issues within the Shariah auditing process still exist. In December 2010 PWC ran a survey on 15 Malaysian Islamic financial institutions on their current audit practices, and some surprising weaknesses emerged: particularly in the areas of talent shortage, risk management, and communication between the Shariah committee and management.

All of the respondents agreed that the Shariah team had adequate independence and authority to perform Shariah audits without any restriction. However, although 80% believed that the Shariah audit strategy fulfilled a Shariah compliance role, only 60% believed that it fulfilled a Shariah consultative role, suggesting that the audit was viewed more as a 'test of' than as an aid to Shariah compliance. In addition, 30% of respondents believed that they did not have enough staff to perform Shariah audits adequately, reflecting the severe shortage of talent in the Islamic finance industry and highlighting the importance of training and education to maintain an adequate talent pipeline and ensure an effective Shariah audit environment.

Concurrently, 40% believed that their current Shariah audit staff were not adequately trained in Shariah-related audit risks and issues, while 30% believed that the scope of the Shariah audits were not comprehensive enough to cover all the relevant processes in their financial services. In particular, risk management, human resources, legal issues and the Shariah fatwa process were flagged as lacking audit coverage. Specifically, the role of Shariah risk in the risk management framework was ranked one of the lowest. "We find this quite surprising," said Shahrizal, "because, given the prominence of Shariah risk management as part of the Shariah governance framework, we think that this area should be a focus."

Another key issue is a lack of communication between the Shariah committee and management. Seventy percent of respondents claimed that Shariah scholars had no involvement in the Shariah audit process, while 50% said that a dispute resolution process was not in place in their bank's existing Shariah governance framework, meaning that no avenue existed to resolve any potential conflict between the management and the Shariah committee.

This is one of the most serious issues currently facing Shariah auditing. Shariah scholars have to sign the Shariah audit opinion, so their lack of involvement in the actual auditing process is a real concern. "To be able to sign the statement, it is very important for Shariah scholars to be involved in the Shariah audit, to ensure that all the assertions are met," explains Shahrizal. "What we can interpret from these

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results is that there should be more engagement between the work that has been performed in the Shariah audit, and the opinion which the Shariah scholars actually provide."

> ***"On a macro level, a far greater problem remains: the lack of standardization within the industry"***

The road forward

It is clear that the Islamic finance industry still has some way to go before the risks of Shariah non-compliance are met by a comprehensive and efficient Shariah auditing process. Key issues to be addressed include the limited talent pool, a lack of audit-specific expertise, a lack of communication between the committee and management, and a dangerously low coverage of risk management aspects within the current Shariah auditing process.

However, these are only the micro issues. On a macro level, a far greater problem remains: the lack of standardization within the industry. While Shahrizal pointed out that: "At least in Malaysia, it is a regulatory requirement for all Islamic banks to have an effective Shariah audit function as part of the Shariah governance framework," the same cannot be said of other Islamic finance jurisdictions across the globe.

Currently for example, only Bahrain, Qatar, Syria and Sudan make AAOIFI standards mandatory. As long as inconsistencies remain between jurisdictions and there is no standardized set of requirements that all Islamic finance institutions must adhere to, Shariah non-compliance risk will remain an issue that inhibits the development of the industry. With court cases such as TID-Blom highlighting the potential risk of Shariah investments, it is no wonder conventional investors may be reluctant to take on the additional risk.


Hassan

Egpytian Islamic scholar Hussein Hamid Hassan, the chairman of the Shariah Coordination Committee of the Islamic Financial Institutions in the UAE, has been vocal in suggesting that a single Shariah council for the GCC could be established by 2013 to aid in standardizing the industry, based along the lines of Malaysia's National Shariah Council.

A centralized GCC council could reduce differences in Shariah interpretation and enforce guidelines across the region in line with other leading jurisdictions. This would go a long way towards minimizing Shariah audit risk and preventing a repeat occurance of the TID-Blom disaster, which had such a negative reputational impact for the industry. Ultimately — and predictably — it comes down to the same old call: the industry must standardize to survive. Whether it is capable of doing so, is another question entirely. — *LM*

Islamic finance in a changing global landscape

Editor's Note

Following the events of the Arab Spring and after much theorizing over the ability of Islamic finance to play an important role in the rebuilding of the MENA nations, it seems the industry is finally putting its money where its mouth is.

Libya's new government is working on laws to allow for the issuance of Sukuk in the country, while Egypt has been offered financing from the IDB to help fund its budget deficit. Slowly, the fledgling democracies anticipated in MENA are transforming the region, while Islamic finance can also take pride in being a potential catalyst for change in some of the world's richest nations following the failure of the conventional financial system during the recent crises. Our articles this week look at the role of Islamic finance in the changing face of global economics and politics.

Our Takaful cover, by Dr Gerd Kloewer, an international financial regulation and rating consultant, looks at the Takaful industry's future in Egypt, while we also have IFN reports on the issuance of Sukuk by some of the western world's largest conventional banks, and on the development of Islamic trade finance.

With the growing influence of Islamic finance in the global financial markets, our cover story this week looks at Shariah auditing and its role in strengthening the industry.

In Korea, where there has been wide interest in Islamic finance but limited success in developing the appropriate laws for Islamic transactions, Dr Jongweon Kim of Kunkook University, the president and CEO of Shariah Finance, discusses the current state of the industry in the country and the outlook for its further development.

We stay in Asia with a feature by Muath Mubarak, the director of studies and corporate strategy at First Global Knowledge Center, Sri Lanka, who highlights the efforts taken by Islamic finance institutions to help alleviate poverty in the country; while Salman Ahmed Shaikh, the head of Islamic financial advisory at BMC Pakistan, explores the factors limiting the growth of Islamic microfinance in Pakistan.

Islamic Investor features an excerpt taken from a presentation by Abbas Abdul Jalil, the chief operating officer of international business at AmanahRaya Capital Group, at the recent IFN 2011 Issuers & Investors Asia Forum.

Insider highlights the latest developments at Noor Islamic Bank, while our IFN Correspondents have contributed reports on the publication of AAOIFI's Shariah standards in French, and developments in the industry in Indonesia and Iran.

AFRICA

Lifeline for Egypt

EGYPT: The government has received an offer for a US$400 million financing from the IDB, via the Islamic Trade Finance Corporation, to fund food and petroleum spending.

Egypt is working to reduce a EGP129 billion (US$21.61 billion) budget deficit, and has faced challenges in fundraising after turning down US$3 billion in funding from the IMF in June this year.

AMERICAS

Developing Islamic finance

BERMUDA: Plans are in development to actively market Bermuda as a jurisdiction for Islamic finance, said Richard Gozney, the governor of Bermuda.

The government recognizes the importance of diversifying Bermuda's economy and attracting new sources of revenue, with Islamic finance identified as among the initiatives for the new model.

ASIA

On firmer footing

PAKISTAN: Al Baraka Bank Pakistan has reported a pre-tax profit of PKR505 million (US$5.86 million) in the period ended the 30th September 2011 against a loss of PKR1.22 billion (US$14.17 million) a year earlier, before its establishment as a merger between Al Baraka Islamic Bank Pakistan and Emirates Global Islamic Bank (Pakistan).

Its assets have risen to PKR68 billion (US$790.57 million) as at the 30th September 2011, while financing and investments amounted to PKR46.18 billion (US$536.91 million).

CIMB Group leads Sukuk arranging

MALAYSIA: CIMB Group is set to overtake Maybank as the lead arranger of Sukuk following its involvement in managing Tenaga Nasional's RM4.85 billion (US$1.3 billion) Sukuk this month.

The transaction has increased the value of CIMB Group's completed deals to US$4.5 billion, ahead of Maybank's US$3.8 billion, data show.

According to Lee Kok Kwan, the group's deputy CEO, CIMB Group will target attracting Middle East issuers to Malaysia while continuing to close more deals in Malaysia.

CIMB Group sees the Middle East as an important market and has several mandates from the region, he said.

DRB-HICOM's Islamic debt program

MALAYSIA: Automotive company DRB-HICOM has proposed to establish an Islamic medium-term notes program of up to RM1.8 billion (US$571 million) in nominal value with a tenor of up to 15 years.

Proceeds from the Islamic bond will be used to fund the company's working capital, current and future projects and investments. It will also be used to refinance the company's borrowings and defray expenses incurred from the establishment of the Sukuk program.

Maybank Investment Bank has been appointed principal advisor, lead arranger and manager for the Sukuk, which was assigned a preliminary rating of 'AA' by MARC. The proposed program has already received approval from the Securities Commission Malaysia.

BIBD to install biometric ATMs

BRUNEI: Bank Islam Brunei Darussalam (BIBD) will deploy seven ProCash 8000 biometric-enabled ATMs in November 2011 from IT solutions and services provider Wincor Nixdorf.

BIBD has also adopted Wincor Nixdorf's ProView software to monitor its entire ATM network, minimizing downtime from technical glitches and reducing fraud.

Sukuk records solid growth

MALAYSIA: Local Sukuk issuances almost tripled to RM42.1 billion (US$13.5 billion) in the nine months to the 30th September 2011, accounting for 73% of total corporate bond issuances of RM52.6 billion (US$16.9 billion).

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Sovereign Sukuk pipeline flourishing

GLOBAL: The market is awaiting the issuance of at least three sovereign Sukuk in the next six months, with Iran emerging as the latest country to jump on the bandwagon.

Rostam Qasemi, Iran's oil minister, announced on the 1st November that the government will issue up to US$15 billion in Islamic bonds by the end of the current Iranian calendar year, ending the 20th March 2012. The Sukuk will be listed on the Tehran Stock Exchange and will be used to invest in the local oil industry.

Meanwhile, Bahrain is reportedly planning to conduct investor meetings in Asia, Europe and the Middle East this month to market its benchmark-sized, US dollar-denominated sovereign Sukuk Ijarah.

The meetings are to commence simultaneously in Kuala Lumpur and Saudi Arabia on the 14th November and in London and Singapore on the 15th November.

BNP Paribas, Citigroup and Standard Chartered Bank have been appointed joint lead managers and bookrunners for the Islamic bond.

Bahrain earlier planned to sell a US$1 billion conventional bond in February 2011 but was forced to postpone the plans amid political crisis affecting the kingdom. This decision was later replaced with a Sukuk issuance.

The kingdom last tapped the global Sukuk market in 2009 with a US$750 million facility through the finance ministry and the central bank.

Indonesia's eagerly anticipated global Sukuk has been put on hold due to volatile market conditions. Dahlan Siamat, the director of Islamic finance at the government's debt management office, said that the Indonesian government is assessing market movements as it waits for a suitable time to sell its second US dollar-denominated global Sukuk, worth US$500 million.

The government was initially expected to issue the Sukuk in September.

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Total corporate bond issuances are expected to reach RM60 billion (US$19 billion) for the full year.

RAM also said that the recent Budget 2012 announcements on tax deductions and income tax exemptions are expected to encourage more Sukuk issuances.

Talks for tie-up

SINGAPORE: Local legal firm Allen & Gledhill is holding preliminary talks with international law firm Allen & Overy for a possible tie-up.

According to Allen & Overy, the discussions are aimed at establishing whether an alliance or a merger is possible, which will improve the positions of both firms in the Asia Pacific region.

Instability dampening global Sukuk

INDONESIA: Volatility in global markets has resulted in uncertainty over Indonesia's ability to sell its international Sukuk.

Average yields on Sukuk rose 19 basis points (bps) to 3.73% on the 3rd November, according to the HSBC/ Nasdaq Dubai US Dollar Sukuk Index, while spreads between the average yield and Libor widened 33bps to 262.

Scott Lim, the CEO of MIDF Amanah Asset Management in Kuala Lumpur, said that uncertainty in Europe will also lead investors to reduce their holdings in emerging markets.

Dahlan Siamat, the director of Islamic finance at the Indonesian government's debt management office, said on the 3rd November that the government is waiting for the right window to sell its global Sukuk.

CWA opens new branch

MALAYSIA: CIMB Wealth Advisors (CWA) has opened a new branch in the city of Bandar Baru Sri Petaling to provide customers with easy access to conventional and Islamic financial products.

The products include unit trust funds and structured investments, protection products such as insurance and Takaful, credit cards, and estate planning services such as trusts, conventional and Islamic wills, gift (Hibah) and related instruments.

Liquidity boost for Bank Victoria Syariah

INDONESIA: Bank Victoria Syariah is expected to obtain additional liquidity from its parent bank, Bank Victoria, in order to quadruple its financing target to IDR800 billion (US$90 million) in 2012.

According to Djoko Nugroho, its compliance director, the liquidity could emerge in the form of a joint venture, the sale of assets to Bank Victoria Syariah, or through Mudarabah Interbank Investment Certificates. Meanwhile, Bank Victoria Syariah is also planning to raise additional capital through an IPO in the medium-term.

EUROPE

EIIB restructures

UK: The European Islamic Investment Bank (EIIB) has announced a restructuring which will see the reduction of its headcount to 17 from 35 and the shutdown of its Bahrain representative office.

In a statement, the bank also said that its strategic repositioning will involve annualized cost savings of 40% as well as a one-time restructuring cost of GBP750,000 (US$1.2 million).

"The board has also decided to close the Turath Quoted Equities Fund. This will result in GBP13.6 million (US$22 million) of seed capital being released from the fund to EIIB which will be available for future investment opportunities," it said.

Shabir Randeree, the bank's chairman, commented that the reorganization will help the bank to stay lean and focused amid a "very challenging environment", noting that the bank will retain its core capabilities and infrastructure.

"The board of EIIB will outline a new strategic direction for the bank by the end of the year, which I anticipate will focus on asset management and the GCC region," Shabir added.

GLOBAL

StanChart considering Sukuk mandates

GLOBAL: Standard Chartered is eyeing the Sukuk market as it assesses a large number of bond mandates, said Chris Papadopoulos, CEO for its Middle East businesses.

He added that some of the issuances will be offered before the end of the year although he did not disclose how many bonds are under review or could be sold.

Positive Sukuk growth

GLOBAL: Global Sukuk issuances almost doubled in October 2011, as progress towards a resolution to Europe's debt crisis helped push yields to a one-month low.

Sukuk offerings reached US$1.2 billion this month, compared with US$758 million in September and US$1 billion in August, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index.

More liquidity needed

GLOBAL: Rasheed Mohammed Al Maraj, the governor of the Central Bank of Bahrain (CBB), has urged the Islamic financial industry to recognize the need for strong liquidity risk management.

He said that while the CBB has assisted Islamic financial institutions in managing their liquidity, more needs to be done by other regulators and the industry.

He added that with the conventional financial industry becoming conscious of the importance of understanding, monitoring and controlling liquidity risks, this is a factor that the Islamic financial industry should also be aware of.

MIDDLE EAST

Financing agreement assessed

YEMEN: The government has reviewed three financing agreements for the fishing sector signed with the IDB and has submitted the pacts to a ministerial committee for legal revision.

The agreements touch on financing fisheries development projects worth over US$15.3 million, aimed at improving the economic situation and living conditions of small-scale fishermen and their families.

Travel partnership

BAHRAIN: Khaleeji Commercial Bank (KHCB) has partnered with Gulf Air to offer KHCB's Visa credit card holders the opportunity to earn Falcon frequent flyer air miles for every travel purchase made.

Positive momentum

UAE: Ajman Bank reported AED3 million (US$816,727) in its third quarter net profit ended the 30th September 2011, representing a turnaround from the same period in 2010, when the bank reported a net loss.

The bank's third quarter net profit also represents a significant growth from its results in the second quarter of this year, when it reported a net profit of AED500,000 (US$136,121).

Total assets rose 52% to AED4.4 billion (US$1.2 billion) in the third quarter, while Islamic financing reached AED3.62 billion (US$986 million), an increase of 41% as at the 30th September 2011.

Fund back on track

SAUDI ARABIA: HSBC is resurrecting plans to launch its Islamic exchange-traded fund, to be listed on Tadawul, the Saudi stock exchange.

The fund, which will track the top 20 Shariah compliant listed

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Islamic finance thrives in Turkey

TURKEY: The Islamic finance industry in Turkey has captured the limelight recently, riding on the momentum of Kuveyt Türk Katılım Bankası's US$350 million Sukuk issuance on the 20th October 2011.

Strong demand for Kuveyt Türk's papers indicates that Turkey could become a major source of Sukuk for Gulf investors eager to diversify their holdings geographically.

The Sukuk issuance, which represents the second issuance from Turkey so far, was priced with a spread of 447.5 basis points over midswaps and carried a profit rate of 5.88%. The Islamic bond attracted orders totaling over US$500 million, for which Gulf investors accounted for nearly 70% of final subscribers.

Gulf investors have not traditionally focused on bonds from Turkey, instead preferring papers from countries in the region with which they are more familiar, according to Mark Watts, the head of fixed income at the National Bank of Abu Dhabi.

However, the tables have turned as Turkey increasingly demonstrates its ability to manage its economy amidst the global crisis, along with a strong appetite for Sukuk in general.

Additionally, legislative amendments implemented by the Turkish government this year have created a favorable environment for Sukuk issuances in the country. The changes include a reduction of withholding tax on Sukuk Ijarah and exemptions from value-added, stamp and corporate taxes.

Turkey's participation banks are also increasingly making an impact on the global stage, with Türkiye Finans Katılım Bankası recently receiving a US$75 million Murabahah financing facility from Bank Islam Brunei Darussalam. The five-year financing will be used to provide funding for small and medium-sized enterprises in Turkey.

On another note, Mohieddine Kronfol, the chief investment officer at Franklin Templeton Investments (Dubai), has called on the Turkish government to issue a sovereign Sukuk to encourage other local institutions and banks to sell Islamic bonds.

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companies in the kingdom, will be ready for launch at the end of November. The launch was originally scheduled for the end of 2010.

Faith in Aldar's Sukuk repayment

UAE: Investors in Aldar Properties' US$1.1 billion Islamic bond, which is due on the 10th November 2011, are expecting that the real estate developer will repay the issuance even if it means more financial aid from the Abu Dhabi government, which bailed the company out this year.

Aldar is struggling to recover from record quarterly losses at the end of 2010, forcing the Abu Dhabi government to step in with a US$5.2 billion rescue package in January 2011.

Despite its troubles, bondholders are confident that the developer will pay off the convertible Sukuk in full.

According to Mohamed Yasin, the managing director and chief investment officer at CAPM Investment, there is no doubt that Aldar will not miss its payment, adding that a default from the real estate firm could trigger others.

Healthy rise in profit

BAHRAIN: ABC Islamic Bank has reported a net profit of US$6.7 million for the first nine months of 2011, a 320% increase against the same period last year, as third quarter net profit grew from US$1.6 million to US$2.6 million.

Operating expenses in the third quarter remained at US$1.5 million, the same amount as the previous quarter, while shareholders' equity stood at US$226.4 million as at the 30th September 2011, compared to US$$219.8 million at the end of 2010.

The bank's capital base remained strong with a capital adequacy ratio of 26%, of which tier 1 amounted to 25.2%.

However, total income in the third quarter was lower by US$3.2 million, compared to $4.2 million in the second quarter, while total assets declined to US$1.15 billion as at the 30th September 2011 from US$1.24 billion at the end of last year.

Potential for trouble

UAE: Overly-complex Islamic finance structures, such as the Nakheel Sukuk, could lead to a number of legal challenges in the future, according to Peter Casey, the head of Islamic finance at the Dubai Financial Services Authority (DFSA).

He said that this is because such Islamic finance structures, which seek to replicate conventional products, often require a large number of complex agreements.

He added that this also gives lawyers the opportunity to raise new issues in court on behalf of their clients.

Sukuk for liquidity

BAHRAIN: Abdulhakeem Yaqoob Al-Khayyat, the managing director and CEO of Kuwait Finance House-Bahrain, has urged the government to issue more Sukuk to provide short-term liquidity instruments needed by the Islamic finance industry.

He said that the responsibility falls on the government to issue Sukuk to allow financial institutions to invest in the instruments, adding that most financial institutions possess sufficient liquidity and have no need to raise funds through Sukuk.

Financing for Roll-Royce buyers

UAE: AGMC, the authorized dealer of Rolls-Royce cars in Dubai, Sharjah and the northern emirates, has teamed up with Abu Dhabi Islamic Bank to introduce financing packages for the 2011 Rolls-Royce Ghost models to meet the growing demand for the vehicle.

Dubai Group rolling over profit payments

UAE: Dubai Group, which is seeking an agreement with creditors for its US$10 billion in debt, has said that it is having its interest and profit payments rolled over during the negotiations.

The company was responding to news reports that it has not paid the interest and profit since August this year.

The US$10 billion in liabilities is an increase from an original estimate of US$6 billion and includes an outstanding

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RATINGS

On shaky ground

EGYPT: Moody's has downgraded the local currency deposit ratings of five Egyptian banks. The banks are National Bank of Egypt, Banque Misr and Banque du Caire to 'B1' from 'Ba3'; Commercial International Bank (Egypt) to 'Ba3' from 'Ba2'; and the Bank of Alexandria to 'Ba2' from 'Ba1'.

Promising start

MALAYSIA: RAM has assigned respective long- and short-term ratings of 'AAA(fg)' and 'P1' to Poh Kong Holdings' proposed RM150 million (US$35 million) Danajamin-guaranteed Islamic commercial papers/Islamic medium-term notes program (2011/2018).

Good stand

MALAYSIA: RAM has reaffirmed Maybank Islamic's long- and short-term financial institution ratings at 'AAA' and 'P1' respectively. The long-term rating has a stable outlook.

Parental support

MALAYSIA: RAM has reaffirmed its respective 'AAA' long- and short-term ratings of 'P1' for Pengurusan Air SPV's RM20 billion (US$6.39 billion) Islamic medium-term notes program and RM20 billion Islamic commercial papers program, with a stable outlook.

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US$1.5 billion Murabahah financing facility due in August 2011.

In January this year the company appointed eight banks, including Noor Islamic Bank, to represent two committees of creditors to help speed up an agreement.

Doha Bank in consolidation mode

QATAR: Doha Bank has not ruled out a sale of its Islamic banking unit, Doha Islamic, following the Qatar Central Bank's directive for conventional banks in the country to close their Islamic windows by the end of 2011, said Raghavan Seetharaman, the CEO of Doha Bank.

Seetharaman also said that the bank is likely to make an acquisition before the end of 2012, either in Turkey or in an emerging economy.

He added that the bank, which received approval to start operations in Abu Dhabi in October 2011, also plans to start brokerage operations in January 2012 and an asset management business by the end of 2012.

Doha Bank also intends to start operations in Saudi Arabia, where it has already applied for a license, and in India. The bank also seeks to conduct a non-deal investor roadshow in December 2011, as it considers options for raising at least US$500 million in senior or subordinated debt.

Depressed profits for KFH

KUWAIT: Kuwait Finance House has announced a 4.5% year-on-year decrease in net profit to US$92.1 million in the third quarter ended the 30th September 2011.

Net income declined 27.2% from the previous corresponding period to US$257.5 million in the first nine months of this year. As at the 30th September, total assets amounted to US$48.4 billion from US$43.8 billion a year earlier.

Recouping losses

UAE: Some conventional and Islamic banks have reportedly started filing cases against mortgagors of foreclosed properties to recover their losses.

According to Mazen Boustany, the head of banking and finance at legal firm Habib Al Mulla & Company in Dubai, some of his firm's clients, including Islamic financial institutions, have filed cases.

Phenomenal growth

PALESTINE: The Palestine Islamic Bank has reported a 116.2% year-on-year increase in its profit before tax to US$1.46 million in the first nine months of this year.

Total assets rose to US$377.62 million during the nine-month period to the 30th September, compared to US$357.43 million a year earlier.

KFH still keen on Asia

KUWAIT: KFH remains interested in investment opportunities in Asia, including the establishment of new banks, said Sameer Yaqoub Al-Nafeesi, its chairman.

The statement was made upon receiving a delegation from the Indonesian government, headed by Dr Muhammad Anis Matta, the deputy speaker of the Indonesian parliament. Sameer also noted that Indonesia's investment environment and legislation make the country suitable for investments.

Coming up...

Volume 8 Issue 45 – 16th November 2011

Meet the Head
Abdel Qader Abdel Hakim Dweik, CEO, Syria International Islamic Bank

Features
Islamic capital markets: By Alhami Mohd Abdan, head of international finance and capital markets at OCBC Al-Amin Bank

Sukuk: At a cross road? By Neale Downes, partner at Trowers & Hamlins

Private banking & wealth Management in Islamic financial institutions: By Ali M Shervani, partner at Consigliori Consultants, India

Takaful growth anticipated although challenges remain: By Mahesh Mistry and Yvette Essen of AM Best

MOVES

UBS

SWITZERLAND: UBS has appointed **Anthony Zammar** as the head of one of the firm's two desks covering Saudi Arabia. Zammar will be based in Geneva.

Zammar was previously the managing director and a senior client advisor covering the Middle East at JP Morgan Chase & Co.

CLYDE & CO

UAE: **Adrian Low** has joined Clyde & Co's Dubai-based Middle East practice as a banking and finance partner.

Low was previously attached to law firm DLA Piper Kuwait, where he advised Saudi-based conglomerate Alkhorayef on its KWD48 million (US$174 million) syndicated Islamic and conventional facility.

SARANA MULTIGRIYA FINANSIAL

INDONESIA: The government has appointed **Raharjo Adisusanto** as the new president director of Sarana Multigriya Finansial (SMF), replacing Erica Soeroto. Raharjo was previously a senior vice president at Bank Mega.

The government has also named **Trisnadi Yulrisman** as a director of SMF, replacing Yudhi Ismail. Trisnadi was previously the vice president of internal audit at Danareksa.

Western Sukuk in the limelight

With Islamic finance players constantly voicing the belief that the industry has a crucial role to play in aiding the ailing conventional system, while noting the importance of take-up from G20 members in furthering growth of the Shariah compliant industry, it appears Islamic finance is finally walking the walk as well as talking the talk - especially with global giants Goldman Sachs and Crédit Agricole recently announcing impending Sukuk issuances.

The attraction of issuing Islamic paper is likely driven by the need by western banks to diversify their sources of funding due to the impact of the Eurozone debt crisis.

Data from the FTSE Euro Corporate (Financials) Index shows that the index, which stood at 101.6 points as at the 4th October, has lost 2.44% this year. Its yield as at the same date last year was 3.98%.

Goldman Sachs's proposed issuance will be listed on the Irish Stock Exchange, where it has registered a Sukuk Murabahah of up to US$2 billion. The offering may be denominated in Saudi riyals, Singapore dollars, UAE dirhams or US dollars, according to its base prospectus. It has not announced a date for the issuance.

> ***"With some of the west's largest banks finally getting the ball rolling with Sukuk sales, the Islamic finance industry may at last have achieved the recognition it has been striving for"***

In a response to Islamic Finance news, Connie Ling, a spokeswoman for Goldman Sachs, said that the bank is "always looking to diversify" its funding sources, noting that it sold a 50-year US$1.3 billion retail offering last year. However, the bank was unable to comment further on the rationale for its debut into the Islamic bond market.

Meanwhile Simon Eedle, the managing director and global head of Islamic banking at Credit Agricole in Bahrain, recently said that the French bank is considering the issuance of a single Islamic bond or a larger Sukuk program, depending on market conditions.

According to Eedle, the bank is always eyeing the possibility of a Sukuk, but the need to diversify funding has brought a potential issuance to the fore. Meanwhile, HSBC became the first western bank to issue Islamic debt with its US$500 million issuance in May this year. With some of the west's largest banks finally getting the ball rolling with Sukuk sales, the Islamic finance industry may at last have achieved the recognition it has been striving for: cementing its position as a crucial alternative for fundraising amid poorly performing markets. — *EB*

Trade finance boost

Trade volumes between the Gulf and Asia have tripled since 2004, and much of the incremental demand for Gulf exports going forward is expected to come from Asia. Analysts predict that oil consumption in Asia alone will rise by 4.4% annually over the next five years, and it is expected that two-thirds of the world's economic growth will be generated by emerging markets in the next five years. By 2015, emerging markets are projected to account for 41% of global GDP, compared to an estimated 32% in 2011.

Previously, countries in western Europe and North America monopolized trade with the GCC: accounting for 85% of total trade flows. However, since 2009 the emerging markets of Asia have accounted for 45% of GCC trade; growing by 11% on average, thus superseding the western economies which are seeing just 5% annual growth in trade with the GCC. According to data from Dealogic, cross-border flows into Asia from the Middle East reached US$4.38 billion in 2010, comprising 16 deals.

Industry players are growing more optimistic about the channelling of GCC investments into Asia and Africa via infrastructure development projects, and agricultural land projects in Africa particularly; and these are expected to be financed in a Shariah compliant manner. The increase of infrastructure development projects is expected to occur predominantly in the emerging markets of Asia due to its growing population, along with North African countries: specifically Egypt, Libya and Tunisia, all of which were affected by the recent Arab Spring.

Just this week the Islamic Trade Finance Corporation, an arm of the IDB, offered up US$400 million to help Egypt finance imports of petroleum products, wheat and other foodstuffs, to help revive the Egyptian economy post-Arab Spring. The Egyptian government forecasts a deficit of 8.6% of gross domestic product in the year to June 2012, although some economists expect this number to be larger. The central bank's foreign reserves have also tumbled from about US$36 billion before the uprising to a little more than US$22 billion at the end of October.

At the recent World Islamic Economic Forum, it was revealed that total trade finance among the 57 OIC members, which include Saudi Arabia, Malaysia and Turkey, is expected to reach US$4 trillion by 2012: making up one-third of the current US$12 trillion global trade flows.

Tourism and telecommunication are also high growth areas in Asia which have begun to entice GCC investors, while average income countries such as India and Malaysia have become prime choices for high net worth GCC investors looking to invest into financial institutions.

"There is a natural affinity in the Middle East and Asia for Islamic finance, but of course there has to be a genuine growth story for any investor. For Middle East investors, the key concerns are returns and strategic reasons, such as the relationship between countries and how it fits into their investment agenda," an analyst revealed. — *NH*

AAOIFI Shariah standards soon to be in French

FRANCE

By Antoine Saillon, IFN Correspondent

Over the past few months, France has achieved major steps in its Islamic finance initiatives: the AAOIFI Shariah standards have recently been translated into French, while Chaabi Bank has implemented the first Islamic retail products in the country.

As they are widely used throughout the industry, the Arabic AAOIFI Shariah standards are considered to be a strong reference by French professionals. But so far, the only translation available to non-Arabic speakers, or even to non-Shariah law Arabic-speaking experts, is the English translation.

> ***"The French standards still have to be distributed, and be better known in France and internationally, before they really make a difference"***

From now on, French speakers will finally have access to a French translation of the Arabic standards. But more than a mere translation, the French standards actually give a thorough transcription of Shariah law concepts (as described in the AAOIFI standards) into French law concepts. Moreover the French civil law system is very close to those of many French-speaking countries in Maghreb and Africa, and I believe that these French standards will go a long way. The publication announcement for the first 20 Shariah standards in French is expected at the World Islamic Banking Conference in Bahrain on the 22nd November 2011.

On top of this new element in the French Islamic finance-friendly environment, the first actual steps of the banking industry are encouraging. Chaabi Bank, the long-established French subsidiary of Groupe Banque Populaire du Maroc, opened an Islamic window last June. The first results exceed expectations — about 500 new deposit accounts are currently being opened each month, mostly by new customers.

Even though the number seems modest, it is satisfying for a small bank with only 17 branches operating in France, and even more satisfying when considering that no public announcement has been made.

Chaabi Bank's communication strategy relies only on cultural and religious associations, and specialized press catering to the North African and Muslim communities in France (which are estimated to number around five to six million people). This is a smart move for at least three reasons.

First, it allows the bank to develop discreetly, without triggering a political controversy a few months ahead of the presidential election. Second, it gives Chaabi Bank some time to build up its expertise, infrastructures and product range. Third, it makes it possible for Chaabi Bank to match the public's expectations.

With only 17 branches and most of its representatives still accustoming themselves to Islamic finance, Chaabi is better off with a stream of newcomers that can actually be absorbed as they present themselves.

Hopes are now high again that France will develop a sound Islamic finance market.

But much remains to be done. First, the French standards still have to be distributed, and be better known in France and internationally, before they really make a difference. Second, Chaabi Bank has not tackled the most difficult products yet. It is true that putting in place a deposit account has pushed Chaabi Bank to appoint scholars, to implement a Shariah compatible information system and to implement a funds' segregation and Shariah audit processes. However, the products that customers are expecting are mostly financing products: corporate funding and mortgages. These products are the most difficult to engineer under French law, and the final success of Chaabi will depend on its ability to actually and efficiently structure these products in an acceptable timeframe.

The bank has said that it is aiming at a full set of products by the end of 2012, which seems to be a realistic challenge.

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

Increasing interest in Islamic finance in Indonesia

INDONESIA

By Rizqullah, IFN Correspondent

A few months ago a delegation of more than 150 Islamic bankers from Malaysia, headed by the governor of the central bank of Malaysia, attended a conference in Jakarta organized jointly by the two central banks of Malaysia and Indonesia. Just a few weeks ago, more than 30 delegates from the UAE, many of whom were CEOs of Islamic banks, came to Indonesia for a week to explore the country's business potential by visiting the central bank of Indonesia and attending seminars and meetings with local CEOs of Islamic banks.

The UAE has so far directed its investments predominantly towards the US and Europe, but it is now eyeing Indonesia as an alternative potential investment destination: especially in Islamic finance.

This attention to Indonesia is of course not without reason. Firstly, Indonesia is a country with more than 230 million people, 80% of whom are Muslims. This represents a potentially large market for Islamic finance.

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Continued

Secondly, the development of Islamic finance in Indonesia has been tremendous over the past few years. The Islamic banking industry in Indonesia is now the fourth largest in the world after Iran, Saudi Arabia and Malaysia. Its growth over the past five years has been 36% per annum compared to international growth for the same period, which has been 15-20% per annum.

Thirdly, with the increased support from the government and legislative body through the issuance of the Islamic Banking Act and Sukuk Act in 2008, Indonesia's Islamic banking industry has a stronger foundation and greater opportunities to develop.

Fourthly, supporting institutions such as the zakah and waqf institutions as well as universities are coming in to complement the industry. There are now more than 100 universities throughout the country offering graduate and post graduate programs in Islamic economics and finance.

Fifthly, people in general are becoming familiar with the Islamic finance/ banking products and are more willing to use them either as an alternative or complementary to their existing products from conventional banks.

The growth of Islamic banking in Indonesia, however, can only be maintained at the same or higher level than it is today so long as it is also capable of developing more sophisticated products in order to compete with those of conventional banks and attract more funds to support increased portfolios.

The head of the UAE delegation, Saed Al Awadi, the CEO of Dubai Exports, believes that the UAE's Islamic financial institutions can contribute to the development of Indonesia's Islamic financial industry. The delegations' mission will facilitate the development of stronger business links between the two industries.

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Shariah board of the Securities and Exchange Organization in Iran approves treasury bonds

IRAN

By Majid Pireh, IFN Correspondent

Treasury securities are debt financing instruments and they are often referred to as treasuries. There are four types of marketable treasury securities:

- Treasury bills,
- Treasury notes,
- Treasury bonds,
- Treasury inflation protected securities.

All of the marketable treasury securities are very liquid and are heavily traded on the secondary market. The non-marketable securities (such as savings bonds) are issued to subscribers and cannot be transferred through market sales.

Benefits of treasury bills issuance

The main benefits of issuing treasury bonds include:

1. It is a suitable financial instrument for the treasury department of the ministry of finance in order to settle its accumulated debts. It is also a favorable financial discipline for more efficient financial performance of the government.
2. As a result of expansion in the financial status of banks, issuing treasury bills will facilitate fund circulation in the economy and decrease transaction costs.

SEO has approved issue of treasury bonds for specific debts

During three sessions, the Shariah board of the SEO discussed the fiqh aspects of this instrument and reached the following conclusions:

1. Government debts are different and each of them has a different fiqh perspective.

   1.1. Issuance of treasury bills for government debts to contractors, companies, banks and private insurances, has no problem.

   1.2. Issuance of treasury bills for government debts to state banks has no problem only if loans given to the state are from non-state deposits.

   1.3. Issuance of treasury bills for government debts to banks whose shares are owned by state and non-state institutions has no problem only if the loans given to the government are from non-governmental deposits.

   1.4. Issuance of treasury bills for government debts to non-governmental public sector such as the social security's organization and municipalities has no problem.

   1.5. Issuance of treasury bills for government debts to the central bank, state-owned companies and state-owned insurances is prohibited. This is because there is no real debt; because the real property of the government and these institutions are not segregated. Therefore, when the government gives a document to the central bank or state company or insurance, they sell it in the market. In fact it borrows from the people with a stipulation of supernumerary which is regarded as riba.

2. For matured debts, it is not possible to add to the debt value since it is riba.

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

Noor Islamic Bank re-emerges as global dealmaker

Having slipped off the radar following the 2008 crisis, Noor Islamic Bank (NIB) has returned to the limelight with a robust deal pipeline and profitable operations.

The bank is also increasingly scooping up mandates outside its home market of the UAE, growing into one of the most visible emirates-based banks in Turkey. Its leading position is not unfamiliar – it was awarded Structured Finance Deal of the Year and UAE Deal of the Year in 2008 by Islamic Finance news for its US$1.1 billion Sukuk Mudarabah deal for Sun Finance, as well as Best Tawarruq Deal of the Year 2008 for a US$1.5 billion syndicated multi-currency commodity Murabahah facility for Dubai Financial Group, with other rankings also acknowledging the bank as top mandated lead arranger and bookrunner in Islamic finance in the UAE.

With its business again on the up and up and an eye on new markets outside the UAE, NIB appears poised to regain its leading role as an Islamic finance dealmaker. However, this time around the bank may be in for bigger and better things as it expands its presence on the global stage.

> *"NIB will continue to seek strategic opportunities beyond the UAE"*

Romancing the Turks

At the end of October this year, the bank announced that it had been mandated to arrange and lead manage more than US$1.4 billion-worth of Islamic capital market deals in Turkey over the last 18 months, buoyed by positive sentiment on the country's economic and financial sector stability.

The latest of these include a US$350 million dual currency Islamic structured Murabahah syndicated financing facility for Albaraka Türk, the Turkish arm of Bahrain's Albaraka Banking Group. Initially planned for US$150 million, the facility's oversubscription saw it grow to become the largest Islamic structured syndicated financing raised by any Turkish financial institution, said NIB.

The bank also said that it maintains an active pipeline of deals for the rest of this year and going into 2012, including three more Islamic structured facilities which are in the final stages of completion.

Hussain AlQemzi, CEO of Noor Islamic Bank, said that following the bank's success in Turkey and building upon its growing international brand, NIB will continue to seek strategic opportunities beyond the UAE.

"Our Turkish deal pipeline is very dynamic and we are committed to being an active partner to the Turkish Islamic finance industry," he added.

Among NIB's notable deals in Turkey was a US$300 million dual currency Islamic structured Murabahah syndicated facility for Bank Asya, completed in April this year, which also marked NIB's third venture outside the UAE.

NIB acted as initial mandated lead arranger and bookrunner along with ABC Islamic, the National Bank of Abu Dhabi and Standard Chartered Bank for the transaction, which saw take up from 26 international banks.

With Turkey growing increasingly prominent in the global landscape and the UAE still trying to diversify its economy amid a depressed real estate market, NIB's first mover advantage in the central Asian/eastern European region may be just the foray it needed to revive its business.

Firming up financials

Although known for being protective about its financial results, NIB did publish its first half 2011 results this year, reporting a net profit of AED85 million (US$23.14 million) in the period ended the 30th June. It also recorded a net operating profit of AED207 million (US$56.36 million) and revenue of AED386 million (US$105.09 million), compared to an operating loss of AED9 million (US$2.45 million) in the first half of last year.

The bank's capital adequacy ratio stood at 18.36% in the first six months of this year, while it also saw its deposit base increase by 40% from the same period in 2010 and its client base grew by 21%.

NIB attributed its performance to its strategic initiatives and business model realignment undertaken since the beginning of last year, which included a focus on niche business opportunities, increasing revenues and earnings, implementing cost reductions and promoting disciplined risk management practices.

According to Sheikh Ahmed Mohammed Rashid Al Maktoum, the chairman of NIB, the bank will maintain a prudent approach towards its growth strategy.

"We remain confident and positive about our future and are well-positioned to continue to provide consistent performance, both financially and operationally, and to maximize opportunities as the economic situation improves," he added.

Expanding international presence

Going forward, Hussain said that NIB will remain focused on its capital and liquidity management fundamentals while keeping an eye out for opportunities to optimize its costs.

"We will continue to invest in our core franchise proposition through enhancing our transaction and institutional banking, trade finance and wealth management capabilities. Our geographic footprint continues to remain focused on deepening our relationships with our clients in Abu Dhabi as well as extending the reach of our corporate advisory, capital market and structuring capabilities across the region," he added.

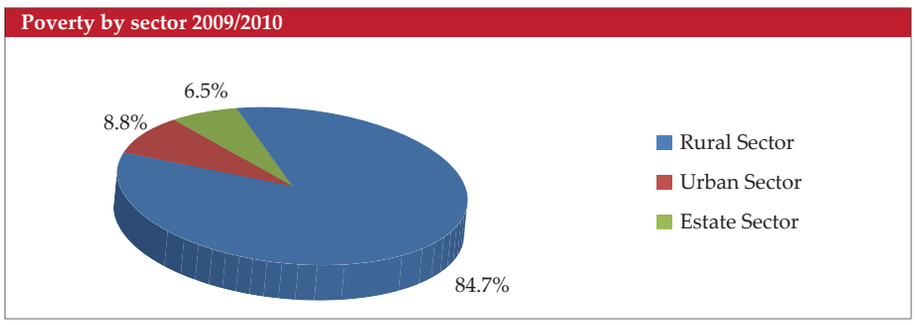
The bank will also focus on its retail franchise, where it will continue to invest in its sales and distribution strategy, he said.

With a strengthening financial position and its foresight in seeking international deals and diversifying its income streams, NIB may yet emerge as one of the leading players in the global Islamic finance industry. — *EB*

Islamic finance: Alleviating poverty in Sri Lanka

In order to solve the issue of poverty in Sri Lanka, MUATH MUBARAK highlights the initiatives that have been taken by Islamic finance institutions in Sri Lanka.

Sri Lanka has been heavily engaged in solving the civil armed violation in the country for the last three decades and the government was finally able to put a full stop to the conflict two years ago. This victory, alongside continuous initiatives for economic development, has led the country to perform well in the South Asian region since the end of the war. This has brought new hope for the future of Sri Lanka, including minorities such as Tamils, Muslims and others.



Background

However, the reality is that Sri Lanka is very poor and is still a developing nation. The country's poverty level has not been resolved even though it has been continuously focused on by the government, non-government organizations (NGO) and individual initiatives, all of whom are striving to address the cause and find a solution. A wakeup call was given by the IMF in 2009 regarding the poverty level of Sri Lanka. As per IMF estimates, Sri Lanka's GDP per capita is US$2,041. This makes it the 119th out of 180 countries in terms of global wealth. The GDP measurement fails to state how this wealth has been distributed within the country, however.

As per the government's recent figures, 15% of Sri Lankans are living under the poverty line. The official poverty line is LKR3,087 (US$30) for a month, based on the household expenditure of an individual.

The poverty can be divided into sectors such as urban, rural and estate sectors. The diagram above shows the corresponding figures. Although there is one remarkable poverty alleviation program initiated by the government, called Samurdhi, catering to almost 1.6 million poor people in Sri Lanka, the statistics indicate that there is a stunningly unequal distribution of wealth in the country. As per the research studies, 10% of the population holds approximately 40% of the wealth. This is evidenced by the Gini Index of wealth distribution, which states that Sri Lanka is the 27th most unequal country in the world in terms of wealth distribution.

How can Islamic finance play a role?

In order to solve the issue of poverty, there are some initiatives that have been taken by Islamic finance institutions (IFIs) in Sri Lanka. Even though it has not yet reached the villages, some of the Muslim NGOs and IFIs are already in the market and striving continuously. As per Islamic principles, wealth should be distributed equally among people, and Islamic principles clearly state how this wealth should be managed, distributed and protected. If the zakat (obligatory charity of 2.5% of wealth) is well-managed and distributed among all groups (as specified in the Quran), the poverty level and the inequality gap will eventually reduce in the island.

Apart from this, Islamic finance can spread wide its hands and invite the people of Sri Lanka to benefit by way of Islamic microfinance. This can be done via various business models as per Shariah law. Islamic microfinance can be achieved through different products such as Musharakah, Mudarabah and other structures. Innovative Islamic microfinance products can become more visible and viable to cater for the poor people and alleviate their suffering.

This richness of the classical Islamic legal framework could produce another Grameen Bank (according its founder Yunus Khan) in Sri Lanka soon.

Conclusion

The country's economy bounced back in 2010, reflecting the post-war optimism and the global recovery from the financial crisis. The GDP growth is estimated to be around 8% (compared to just 3.5% in 2009), based on a positive outlook for healthy growth. Despite Sri Lanka's high achievements in social indicators, the healing process will take double the time if the causes are not properly treated.

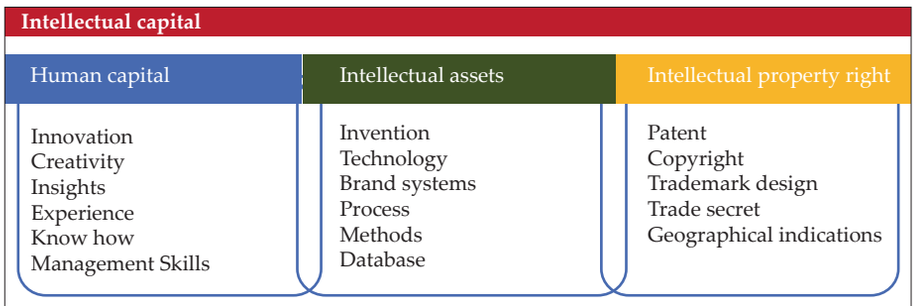
Muath Mubarak is the director of studies and corporate strategy at First Global Knowledge Center, Sri Lanka and he can be contacted at muath2015@gmail.com or muath@firstglobalgroup.com.

Islamic finance and technology investment: The next wave?

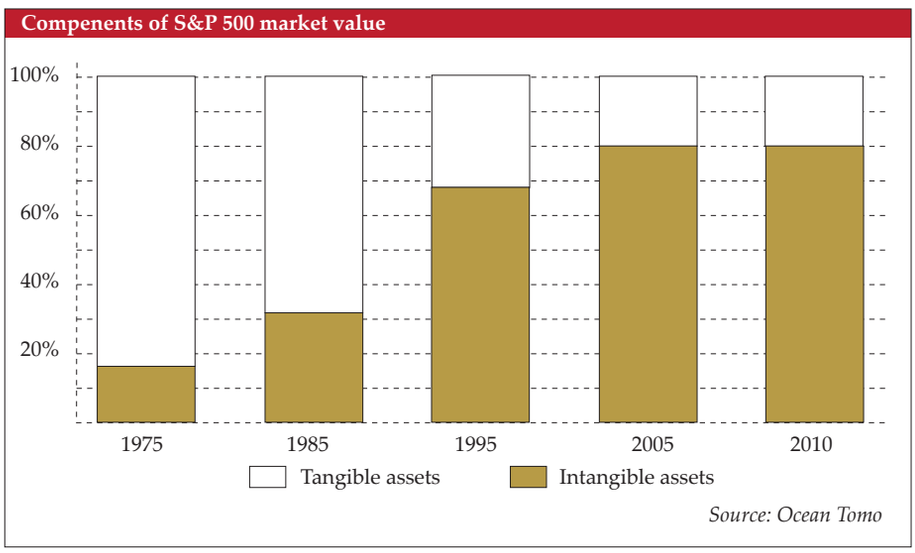
ZAID HAMZAH analyzes intellectual property rights, which are emerging as a major new asset class and defining new forms of assets underlying Islamic investments.

As more and more economies worldwide transition into a technology-driven innovation economy, Islamic finance, specifically Islamic investment in technology-related businesses, has the potential to facilitate and accelerate economic value creation through investment in innovation.

Traditionally Islamic finance has followed the route of conventional finance, providing development as well as risk capital to support infrastructure building, industrial development and consumer asset acquisition — the financing of the physical infrastructure and physical assets. But the strategic economic context under which the Islamic finance universe has been operating for the past few decades is now changing. We are moving into a technology-driven innovation economy and Islamic intellectual capital investment is emerging as a new investment sector.



Intellectual capital comprises human capital, intellectual assets and intellectual property rights, which often overlap



Intellectual capital as the new value driver

Few would doubt today that intellectual capital is now the new value driver: the new factor of production that is not just transforming developed economies but also developing economies. Intellectual capital includes the output of human creativity and innovation, including technology products and services and the intellectual property rights (IPR) such as patent, copyright, design rights or trademarks that underpin technology products and services.

Technology and IPR

Technology and IPR are separate but interrelated. Often what underpins a new technology innovation and what makes it valuable is the underlying IPR. So for example, an innovator may develop a device that converts agricultural waste into energy using both hardware and software as part of the entire process. The device is often described as the 'technology' but the underlying IPR could include devices or processes that have been registered as a patent. The software that runs the system in turn is protected by copyright laws while the shape of the device or parts of the equipment may be protected as design rights. When the product or service is rolled out, the brand of the product or service is usually protected by a trademark registration.

An investor or a financier may invest in the company that creates the technology innovation and that owns the IPR underlying the technology. It is also possible to invest in the IPR where the investor finances the creation, development and registration of the IPR and takes control of the ownership.

The sixth asset class?

After stocks, cash, fixed income, property and private equity, intangible assets like intellectual property rights are now beginning to be regarded as the sixth asset class. In our technology-driven innovation economy, intangible assets like intellectual property assets and brand value and corporate reputation play a key part in driving financial value and providing enterprises with a unique competitive edge.

Over the past decade, IPR has emerged as a valuable asset class in financial markets alongside the other asset classes. Within the last quarter century, the market value of the S&P 500 companies has deviated greatly from their book value. This 'value gap' indicates that physical and financial accountable assets

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reflected on a company's balance sheet comprise less than 20% of the true value of the average firm. Research from Ocean Tomo, an IPR investment banking firm, shows that a significant portion of this intangible value is represented by a patented technology.

Technology, IPR and capital markets

The most valuable assets of many innovative enterprises today are intangible. The capital markets seek to efficiently allocate risk capital to promising and innovative enterprises; the so-called 'deficit units'. With the emergence of IPR as a new asset class, capital markets and the financial system (both conventional and Islamic) have responded to this shift in an attempt to capture the new value of IPR and other intangible assets. The markets' challenge is to create innovative funding mechanisms that can ensure the flow of capital to continue business development and investment in enterprises that are truly driving growth in today's economy. Companies, in turn, will be able to access capital in new ways to finance innovation and expand their businesses.

In the past decade, banking and financial institutions have evolved new strategies and techniques and created new mechanisms and investment models to provide risk capital to companies with significant value in IPR. Specifically, how financial firms treat IPR as an asset class is a major issue for risk capital investment in many of today's fastest growing and most vibrant sectors of the economy, such as the bio-nano-ICT sectors. The development of financial products based on intangible assets is not the next 'hot' re-engineered financial instrument or vehicle. IPR-based or IPR-backed financial products are in fact some of the most basic financing mechanisms in business.

Islamic finance, technology and intellectual capital investments

With the slow but certain move into the realm of intangible assets, which includes technology and intellectual property rights such as patents, copyrights, trademarks and designs that typically underpin technology creation, Islamic finance is slowly creeping into the world of intangible assets. As observed by an international law firm with a strong Islamic finance practice, Norton Rose: "As the Islamic finance industry matures, other asset classes are being financed by Shariah compliant structures: company shares, carbon credits, electricity, intellectual property rights and mobile telephony airtime are just a few examples. The boundaries between tangible and intangible assets are becoming blurred, as scholars accept that certain classes of intangible assets do have a usefulness that can and should be recognized by Shariah."

RESOLUTION No 43(5/5)
CONCERNING
INCORPOREAL RIGHTS

The Council of the Islamic Fiqh Academy, holding its fifth session, in Kuwait-City (State of Kuwait), from the 10th December until 15th December 1988;

Having reviewed the papers presented by the members and experts concerning "incorporeal rights" and after having listened to the discussions on the subject;

RESOLVES

First : Business name, corporate name, trade mark, literary production, invention or discovery, are rights belonging to their holders and have, in contemporary times, financial value which can be traded. These rights are recognized by Shariah and should not be infringed.

Second: It is permitted to sell a business name, corporate name, trade mark for a price in the absence of any fraud, swindling or forgery, since it has become a financial right.

Third: Copyrights and patent rights are protected by Shariah. Their holders are entitled to freely dispose of them. These rights should not be violated.

Source: Islamic Research and Training Institute and the Islamic Development Bank, "Resolutions and Recommendations of the council of the Islamic fiqh academy 1985-2000", 2000

Islamic perspectives on IPRs

IPRs are recognized in Islam as property rights which can be owned by individuals or body corporates such as companies. The box above indicates the decision of the Islamic Fiqh Academy relating to IPRs.

IPR and technology investments in Islamic investment settings

Investments in technology ventures in both the conventional and Islamic context carry the same risks and potential returns. The fact that a technology-related investment deal needs to comply with Shariah does not add any additional commercial risks other than the Shariah compliance requirement. Given that Islamic finance or investment is grounded on the basis of risk taking and profit and loss sharing, investments in technology-related or IPR-related ventures would therefore to be well suited for Islamic finance for the following reasons:

1. Technology developments that are good for society are in line with the objectives of Shariah and the Islamic financial system.
2. Investments in technology are an integral part of the real economy and risk-based Islamic investment may potentially create economic spin-offs to benefit the community in real terms, in contrast to commercial or business transactions based on debt leverage or pure financial arbitrage.
3. The shift from debt-like to more equity-based modes of financing is closer to the 'real' spirit of Islamic financing.

We now take a look at the commercial context in which technology and IPR operates and specifically how IPR can fit into a Shariah compliant structure.

Key commercial issues in IPR-related investments

In considering any IPR-related investment, here are some of the typical commercial issues to be considered by both investors as well as investee companies:

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1. What is the commercial deal involving the IPR-based or IPR-related fund raising exercise? What is the deal structure?

2. Does the commercial deal involve both IPR and other intellectual assets? Which of the two (IPR or intellectual assets) have more commercial value? What is the evidence of the higher commercial value?

3. Which of these structures or deals are applicable in the transactions? Have you considered all options?
   a. IPR-based lending.
   b. Securitization of IPR.
   c. IPR sale and leaseback.
   d. IPR for venture capital or private equity deals.

4. Is the deal more equity- or debt-based or hybrid? What are the pros and cons? Have the financial evaluations for these alternative structures been carried out?

5. Has a financial feasibility or assessment been carried out in relation to the IPR-based financing transaction?

6. Have other alternative structures been considered (other than IPR-based structures) to achieve the commercial objectives and to optimize the deal structure?

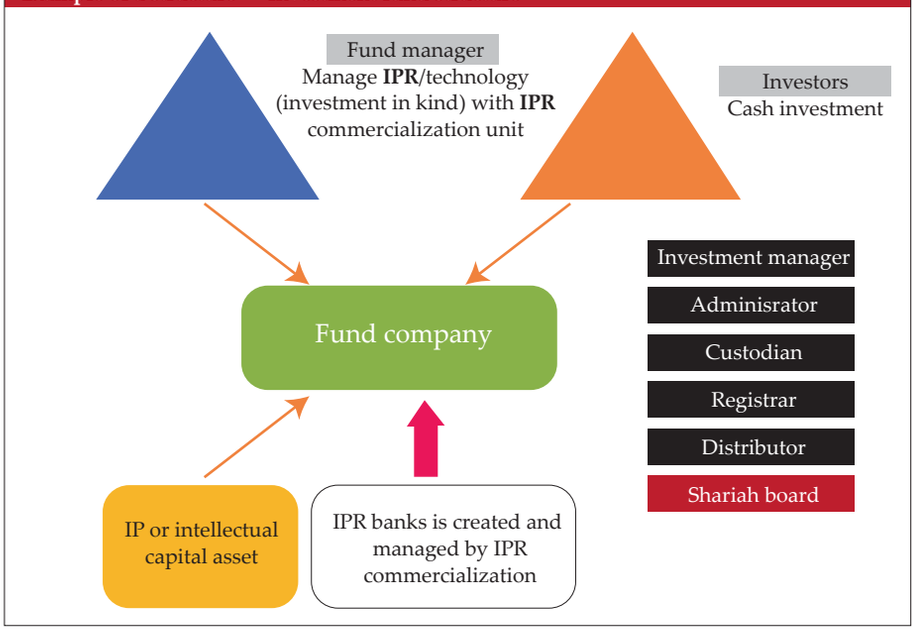
7. What sort of yields or returns can be expected through the IPR?

8. If the IPR component is taken out, how does that affect the entire commercial value proposition?

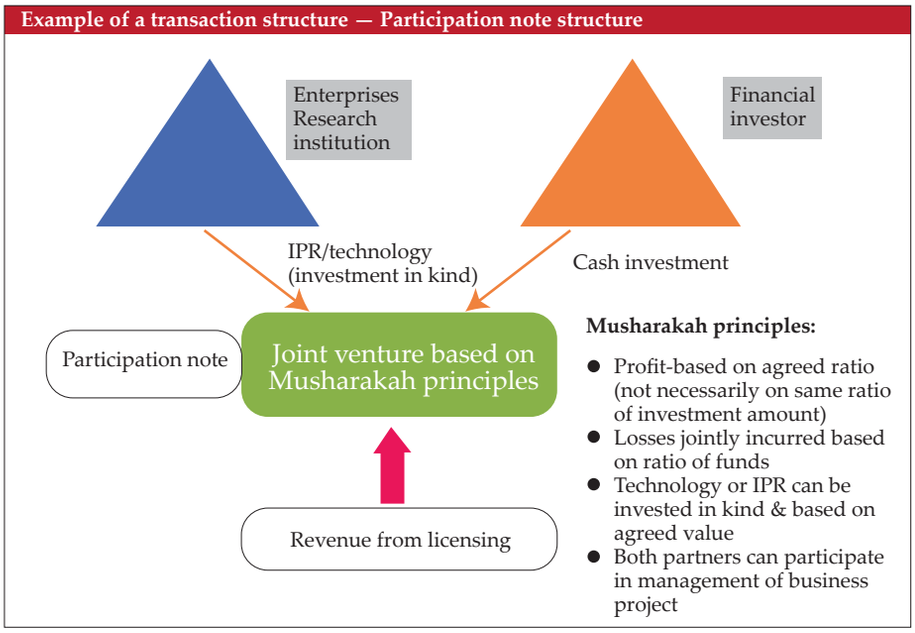
9. How does the involvement of IPR improve the maximization of returns for the investor or lender?

In the context of Islamic financing, the additional question is whether the underlying activities of the business or the investee companies and the investment transactional structures are Shariah compliant. For example, a patented technology designed to be used for gambling machines would clearly not be Shariah compliant. It would be a different issue, however, if the patented technology was not specifically designed for gambling but for other purposes and could be used for gambling activities at the same time. In this instance, the views of the Shariah advisor must be sought.

Example of a structure — Investment fund structure



Example of a transaction structure — Participation note structure



IPR in Islamic investment transaction structure

The above charts show some examples of how an IPR-based investment structure might look:

As can be seen from the illustrations above, IPR is emerging as a major new asset class that will define new forms of assets that underlie Islamic investments.

As more economies transform into innovation-driven knowledge economies, it is anticipated that Islamic investments in IPR-related deals will continue to increase.

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Growing disharmony between Islamic finance and Islamic economics

SALMAN AHMED SHAIKH provides an overview of why Islamic banks have not ventured into Islamic microfinance in Pakistan despite the growth of the Islamic finance industry, in the country.

There are five fully fledged Islamic banks operating in Pakistan and 15 conventional banks with Islamic banking branches. The growth in the Islamic finance industry has been consistently in double digits. The share of the industry in the banking system has risen to over 7% from just 0.5% in 2002.

Despite all this growth, none of the Islamic banks, either fully fledged or those with Islamic banking branches, have ventured into Islamic microfinance in Pakistan.

This is not because the target market is not sufficient to venture into the microfinance business. Approximately, 40% of the labor force is employed in agriculture and this sector would be the main target market for microfinance.

The poverty rate in Pakistan, according to some estimates, has risen to 43%. Pakistan has a huge supply of young labor aged between 15 and 40. It has the sixth largest labor force in the world.

Informal credit markets already exist and recovery rates are higher, at around 95%, offering a great opportunity for sustainable growth. Density of population is high and therefore, transaction costs would be lower. Since interest rate charged in informal credit markets is usurious (as high as 50% or even more), the affordability of the products is also not a problem since formal institutions would target a much lower required rate of return.

In contrast to Islamic banks, there have been several conventional financial institutions and even conventional banks who have informally contributed to promote microfinance in Pakistan.

Reasons

Part of the reason behind the negligence of microfinance by Islamic financial institutions (IFIs) is to do with their management. The management of banks are not interested until the principal institutional investors in the bank agree to it. This is the case with almost every IFI in Pakistan. The principal investors behind such institutions have limited inclination and vision for an Islamic economy, and mostly Islamic banking and finance for them is just a new niche market to enter and diversify.

> *In Pakistan, there are double the number of conventional banks with Islamic banking branches than there are fully fledged Islamic banks*

In Pakistan, there are double the number of conventional banks with Islamic banking branches than there are fully fledged Islamic banks. With dual operations, egalitarian initiatives cannot be expected from these institutions. Islamic banks can also not be expected to come to the rescue due to lack of both intention and will: signified by the fact that despite the huge liquidity at their disposal, they have extremely low advance-to-deposit ratios, due to which their spreads are higher than conventional banks.

Islamic banks' banking spread is 8.8% as compared with 6.9% for the overall industry, according to the State Bank of Pakistan (SBP). Since 6.9% is the average for the overall industry, which includes Islamic banks, the banking spread for conventional banking will be even lower and the gap between the banking spreads of two institutions will be even higher. This makes the idealistic promises of Islamic finance all the more meaningless.

Not only are Islamic banking spreads higher than conventional banks in Pakistan, but the average loan size and average firm size they finance is also much bigger than conventional banks, suggesting that they are currently only financing blue chip companies.

Another point of concern is that Islamic banks provide much less financing to small and medium-sized enterprises than conventional banks.

The asset-backed nature of financing in Islamic finance deprives it of the ability to finance education, health, autonomous and necessary consumption. What it ensures is rent-seeking by Islamic institutions, which insures the asset and adds this insurance cost in the rentals and Murabahah price to make the receivable as secure as interest received on financing by mitigating price, market and asset risk — which is the basic distinguishing feature between trade and riba.

Furthermore, after completing one decade since establishment of the first Islamic bank in Pakistan, Islamic banks still use the same benchmark as conventional banks for pricing products, with the only difference being that Islamic banks' profit margin (banking spreads) are at least two percentage points higher than conventional banks.

Salman Ahmed Shaikh is the head of the Islamic financial advisory at BMC Pakistan, external reviewer at the Bankers Academy US and project director at the Islamic Economics Project. He can be contacted at islamiceconomicsproject@gmail.com.

Islamic finance in Korea: Today and tomorrow

Korea has a strong industrial background which could be conducive to Islamic transactions. DR JONGWEON KIM discusses the potential benefits of developing a vibrant Islamic financial services industry in Korea.

Korea has a Muslim population of 137,000. Although this is a small number, the interest level in Islamic finance has been growing since the sub-prime mortgage crisis. The momentum grew bigger when Shariah Finance Co organized the first Islamic finance conference in 2008, inviting guest speakers from the Islamic Banking and Finance Institute Malaysia and AmanahRaya.

Following the event, the Monetary Supervisory Authority of Korea and the Islamic Financial Services Board (IFSB) jointly held a two-day event in Seoul in January 2009. In the seminar, the head of the Monetary Supervisory Authority emphasized that: "The trading methods of Islamic finance may be the solution [to the problem] that the finance world is facing today with uncontrollable derivative products. We will make efforts to install necessary infrastructure for Islamic finance to flourish in South Korea." In addition, the Monetary Supervisory Authority of Korea announced its plans:

- To benchmark cases of adapting Islamic finance by non-Muslim countries;
- To study standard practices of authorities of Islamic finance;
- To study Shariah principles.

Most importantly, the authority mentioned that it will also lead the infrastructural support to raise human resources and launch a full scale advertising campaign for Islamic finance in South Korea.

The third conference co-organized by the IFSB was held in Korea in 2009 following its first conference in Tokyo, Japan in January 2007 and second conference in Hong Kong in January 2008. In both countries, following the conferences, the interest level in Islamic finance grew and gave life to several financial institutions seeking more activity in the field.

The Monetary Supervisory Service of Korea also participated in and gave a presentation on Korea at the sixth IFSB summit, held in Singapore in May 2009.

	Malaysia	South Korea	Japan
Number of companies	960	200 (KOSPI200)	150 (S&P/TOPIX150)
Shariah compliant stocks	846(88%)	78 (40%)	79 (49.7%)

Companies	Initiatives
Shinhan Investment	January 2007 - Strategic alliance with KIBB Securities
Daewoo Securities	February 2008- Strategic alliance with CIMB
Woori Investment & Securities	June 2008 - Opening a liaison office in Malaysia
Korea Investment & Securities	December 2007 - Strategic alliance with Berjaya Land

The relevant government authorities of Korea have been very aggressive in participating in such events to show the progressive development of Islamic finance in South Korea.

On the 29th September 2009, the Korean government announced a proposal to change its relevant laws and regulations to allow Sukuk to be practicable in the developing stages. Since then a couple of trials of sending the bill to the parliament have not been successful, as the members of the parliament rejected passing the Sukuk bill. However, the government of Korea has announced that it will modify the bill and continue with its efforts to get the bill passed through parliament.

> ***"In 2010, Dongwha GH International also successfully raised US$24 million by issuing Sukuk Murabahah in Malaysia"***

Initiatives by private companies

Securities companies and other financial institutions in Korea have been preparing themselves for the possibility of issuing Sukuk and therefore participating in Islamic finance. Korea Investment Securities, for instance, has set up a special task force team internally to attract Islamic investments by creating financial products. This team has successfully partnered with Dr Mohammed Daud Bakar, a prominent figure in Islamic finance in Malaysia, for consultations on Shariah advisory issues.

The first Islamic finance investment consulting company in South Korea, Shariah Finance Co, and Amanie Advisors of Malaysia, have together developed a Shariah compliant index from the Korean Stock Exchange. This index screens KOSPI 200 stocks and has derived 78 Shariah compliant stocks out of 200.

A venture capital investment company in Korea called STIC has successfully raised funds from Saudi Arabia even before the recent movements in Islamic finance.

In 2010, Dongwha GH International also successfully raised US$24 million by issuing Sukuk Murabahah in Malaysia. A Korean financial institution and a law firm both participated in advising the Korean company and working with the Malaysian institutions towards a successful Sukuk issuance, which also opened the door for other Korean companies to issue.

The above chart shows a list of initiatives by some Korean companies relating to Islamic finance.

Future potential

The potential for Islamic finance in the country will be more significant than ever now that the relevant laws and regulations are making their way

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> *In 2010, the IDB also held discussions with sovereign wealth funds and institutional investors in Korea to raise funds for their projects*

through parliament. However, even before the changes, other Shariah compliant financial products or investments could be launched in South Korea. In addition, creative fundraising in Korea using Islamic methods can also be accomplished.

There are several Korean construction companies in the Middle East and other regions that have tailored successful track records in Islamic finance. Korean financial institutions could invest in such project financing even if the financing requires Shariah compliance.

Based on the current construction progress in the Middle East, the need for funding from sources other than from sovereign wealth funds of the oil rich countries will eventually grow. In the case of the Petro refinery infrastructure facility construction, for example, Saudi Arabia has utilized funds from Japanese financial institutions to invest in Shariah compliant methods.

In 2007, the Ibn Zahr project required US$1.16 billion in investments. US$305 million was invested through the paid-up capital of the partners and the remaining US$855 million was raised via Sukuk Murabahah, with the majority sold to Islamic banks and Japanese Mizuho Bank and Sumitomo Bank. In 2010, the IDB also held discussions with sovereign wealth funds and institutional investors in Korea to raise funds for their projects.

Conclusion

There are efforts currently underway to achieve more successful cases of trans-investment between Korea and Shariah compliant projects. These efforts have been driven by the private industry with the support of the government's initiatives. Once these efforts are implemented, the general public will need to accept the fact that Islamic finance is a very useful alternative method of investment.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 44

Indexing to the next level

Cover Story

The first Islamic indexes were developed and launched by Dow Jones in 1999 to measure the performance of a global universe of investable equities; undergoing two levels of screening consistent with Dow Jones Indexes' methodology.

Soon after, other index providers including Standard & Poor's, FTSE and MSCI began offering Islamic indexes alongside their conventional offerings. Indexes in the Islamic or conventional space generally tend to focus on equities and bonds.

Islamic indexes tracking physical commodities were non-existent however, until the FTSE Physical Industrial Metals Index Series launched this May with the collaboration of FTSE Group and Dubai International Financial Center Investments (DIFCI), through its wholly owned subsidiary Global Commodity Finance, and Merit Commodity Partners. It is touted as the world's first investible Shariah compliant physical industrial metals index series.

Simon Glower, an executive director of Merit Commodity Partners, believes a physical commodities index will allow investors – retail or institutional – to hedge their risk by diversifying their portfolio investments. "In addition to exposure and hedging, [the index] provides a straightforward opportunity for traditional portfolio management to add investments in these indexes into a conservative portfolio which normally consists of equities and bonds, allowing [the completion of] the asset allocation portfolio," he says.

He feels that in the last two years, the metal markets have exhibited a high correlation with regards to other financial markets. Nonetheless, as the world is so focused on demand and economic growth, commodity markets have not escaped the same pullback. "Depending on one's view, the metal markets in the short term can be characterized by quite a massive reduction in speculative long positions and stock drawdowns, so they probably represent today a very good value proposition. However if they continue to decline, they could become a more interesting asset class to look at from an investment perspective because their long-term fundamentals remain so favorable: on the assumption that economic growth will recover in a year to three years," he explains.

Following reports of a slowdown in its demand for commodities, China - as one of the biggest global commodity purchasers - saw its official Purchasing and Manufacturing Index (PMI), which gathers information from the country's biggest manufacturers, register at 50.4 for October: below the market forecast of 51.6 and even lower than September`s reading of 51.2. This has triggered alarm bells among analysts, many of whom are of the view that China is heading for a downturn.

However, Glower remains unperturbed. Despite the perceived slowdown, he points out that the Chinese economy is still growing at about 9% and is still highly resource-dependent due to its population growth, urbanization and high standards of living. Demand for commodities, he continues, will remain and can be identified for at least the next 20 years.

Glower is of the view that the physical metals indexes series will appeal to all sectors of the Islamic finance industry, by providing a low-cost and simplified method of managing one's exposure. It will also allow smaller-scale investors access to what was previously a difficult market to enter, he explains, because it has up till now primarily involved "trading futures accounts... which may or may not be suitable to hedge the risk one has identified, which then requires constantly active management that can be costly, with margin calls and other issues".

He identifies Shariah compliant exchange traded funds (ETFs) as one of the asset classes that has the most growth potential as a result of the launch of these physical commodity indexes. This has already been witnessed in the conventional space, where retail investors can now easily add ETF positions to their investment portfolios: which have typically been focused around precious metals such as gold and silver.

In spite of the prolonged economic uncertainty stemming from the embattled Eurozone and a bruised US economy, Glower is optimistic that commodities will not suffer any further downside following the recent corrections over the past six months. "There is much greater risk for an upside appreciation now than there would be for any further significant downside corrections, which are largely behind us," he concludes. — *RW*

In this issue...

Islamic REITs: Cross-Border Listing of Assets

ABAS ABDUL JALIL provides a brief snapshot of cross-border listings of assets in the Islamic REIT industry in Malaysia, which he asserts is now ready to accept foreign assets.

The Malaysian REITs market has grown since its first listing in 2005, with the country's Islamic REITs already acquiring foreign assets, but we have yet to see a Malaysian REIT — be it Islamic or conventional — which has 100% of its assets listed overseas.

For cross-border REITs, the Securities Commission Malaysia has issued guidelines that include ownership of property – how foreign assets can be owned by a Malaysian REIT, as well as highlighting the laws of ownership in other countries that are acceptable in the Malaysia: covering freehold, leasehold and usufruct.

Usufruct differs from the British Torrents land law system as investors do not own the said property but can have their rights registered for a certain period of time. This applies particularly for properties in the Middle East and CIS countries.

The readiness of the Malaysian market – institutional & retail investors

There is a strong demand for Islamic REITS assuming the appropriate factors meet investor requirements: including assets, yield, sponsors and managers. Another factor is the lack of sufficient Islamic instruments which are liquid and provide good yields.

Since a REIT experiences price fluctuations, if it was more liquid and if it had better dividends compared to other instruments, the demand would be higher. If we issue a new REIT, which is purely Islamic, institutional and retails are willing to take up.

This opinion is based on the feedback AmanahRaya obtained after conducting numerous surveys, discussions and preliminary inquiries with the market and investors of AmanahRaya REIT, as well as based on the other products we have issued before.

Overseas properties provide yields premium to Malaysian REITs, which after net will give about 7.5-8% depending on the price of the properties. However, if you look at overseas assets, investors are expecting to receive about a minimum of 8.5-10% depending on the country, the type of asset and availability of financing: either direct or cross-guaranteed.

Financing for overseas acquisitions can be obtained in Malaysia or in each particular country to acquire the overseas properties. There is no recourse against the REIT because all the borrowing is secured as assets are pledged for the financing. There is also an efficient tax structure in Malaysia to facilitate foreign assets being listed into a Malaysian REIT.

> ***"There is a strong demand for Islamic REITS assuming the appropriate factors meet investor requirements: including assets, yield, sponsors and managers"***

Issues of listing overseas properties in a Malaysian REIT

One of the key issues is the land ownership law in relation to security, recoverability and bankability. Because of these issues, several countries in the Middle East do not allow actual ownership of properties: only a lease of a certain period of time. This lease is unlike the situation in Malaysia where it can be registered for up to 99 years.

Instead, in these countries it only extends between 25-40 years and with usufruct, some of the land can never be transferred – although it is still possible to obtain the right to use the land. Such a concept is new to Malaysian investors, both institutional and retail, who are unsurprisingly concerned as to how these assets will be secured if they are placed in the REIT.

Malaysian REIT guidelines are silent on the period when the capital is recovered, because they assume that the property will be owned for 99 years or is a freehold. Therefore instead the guidelines look at the existing yield.

However if you look at some other countries, such as Vietnam, they do not have 99 year leases for foreign ownership of assets. But this does not mean that such assets do not provide attractive yields. For example, AmanahRaya transacted one property deal in the city of Mekkah for a private fund which had a remaining lease of about 19 years. Based on the yield and income, investors were able to get a return of their capital amortized over seven years, plus a dividend of between 8–9%.

Discrepancy of asset valuation is another issue, especially when dealing with Middle East assets. Although there are no guidelines issued in the Middle East, the markets are very developed and with a high concentration in real estate - as witnessed by the numerous private equity real estate funds in existence.

If you look at the valuations, the terminal value is very high because the exit value is looked at. If the fund tenure is seven years, the valuation would be based on the seventh year value, so a property that is currently estimated at US$100 million can be valued at US$300 million prior to a calculated discount.

REIT valuation, however, is based on the yield at inception. The problem arises when Middle East companies want to list their assets at a low price. For a REIT, what investors will be concerned about is the valuation at inception, and huge discrepancies will be noticed.

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Assets that have 100% foreign ownership must have a reputable partner: either a Malaysian institution or a company that jointly manages the properties - with the REIT manager based in Malaysia, the REIT listed on Bursa Malaysia and the company incorporated in Malaysia.

The investors' perception of the partners and their experience is fundamental to the success of the REIT. Indeed, the sponsors and the owners of the foreign assets are very familiar with their own markets and they can grow the portfolio. But what about the management? It is vital that foreign assets listed in Malaysia have a good Malaysian partner to act as an anchor. At the very least there must be some collaboration or partnership at the REIT management level.

A further issue is whether to focus on a particular country or invest in multiple countries. For example a target country might have a thriving economy but only have a population of two million. If you focus on assets from such a country, these are likely to be limited. What is the growth opportunity here? If you were to take on the entire region however, it would be too large and there would be the possibility of political risk.

These issues can be resolved if the sponsor is strong and experienced, and has a good partnership with a Malaysian company.

The size of listing also plays an important role in the success of take-up of the REIT. My reference is to assets particularly in the Middle East.

There may be instances where even if a single asset is listed, it may be too big. When a listing of foreign assets is in process, the asset must be sizeable so that it is adequately liquid to allow investors to trade the REIT. A combination of good assets – for example five to 10 assets with a pricing ranging from RM1 billion (US$317.33 million) to RM1.5 billion (US$475.97 million) based on the first listing - is very important based on the feedback we have obtained from investors.

If we want to do a listing, we do not only take the Malaysian investor's perspective but must also cater to foreign investors and sponsors, who normally deal in US dollars, so the size must be right.
The other concern for investors is whether the sponsors treat their assets as a long-term investment. The profile of the sponsors must be considered, including the number of assets and the pipeline. Investors do not want to see a REIT being used just as a means to dispose of assets, obtain the proceeds and continue with other business activities.

The REIT manager must therefore function as manager of the day-to-day operations of the REIT for a long time. If there is no operation, the assets will be stagnant for the next five years before they either sell or enhance the rental. So from the investors' perspective, the listing of foreign assets must be portrayed as a vehicle to provide liquidity.

It is the job of the company or sponsor to enhance its operation by obtaining cash flow from the injection of assets, building new assets, and putting them together in order to ensure continued development of the portfolio.

> ***"The other concern for investors is whether the sponsors treat their assets as a long-term investment"***

The challenges

Assets are limited to hotels, office buildings, industrial, institutional properties as these are most suitable to be listed in Malaysian REITs and are most acceptable to investors. In the Middle East, there are also residential properties which are only for rent and not for sale. However, there are no residential assets in Malaysian REITs and the Malaysian market is also unfamiliar with investments in multi-family assets.

Investors who invest in foreign assets are also exposed to political risk.
Some investors do not understand the geopolitics of a region so they tend to look at the Middle East as a whole. They relate what happened in Egypt, Libya and Bahrain to the Qatar or UAE markets, which are politically stable.

The understandability of the geopolitics of one particular country may affect investor perspective. This is a challenge when wanting to do a cross-border listing, particularly in the context of Middle East assets that are listed in Kuala Lumpur. Investors have to be educated and be provided with more data on the political situation in the Middle East.

The difference of Shariah compliance tolerance is also a challenge. According to Malaysia's REIT guidelines, the country allows 20% or below of non-Shariah compliant components in terms of the rental.

However, there are certain Middle Eastern investors that will not tolerate non-Shariah compliant components. These are the discrepancies that need to be addressed. However, one good thing about Shariah compliant REITs is that they also allow conventional investors to invest.

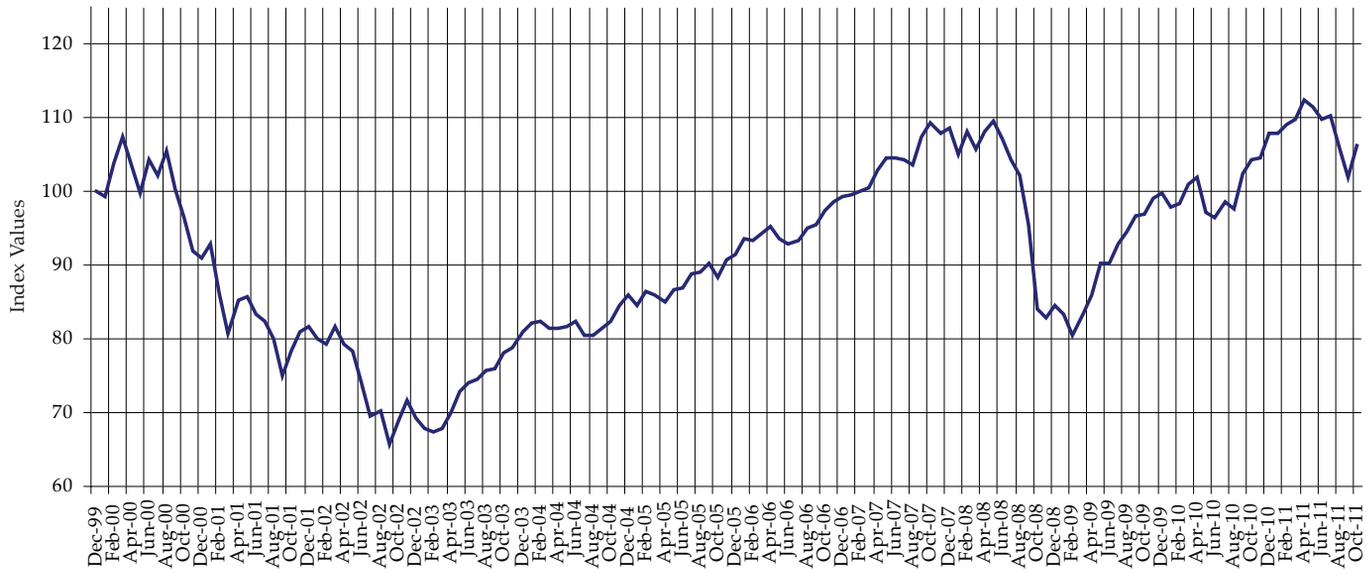
Coordination is the most challenging part of getting an asset listed. Listing a Malaysian property alone takes about nine months, but this can extend up to a maximum of two years. In the case of foreign assets, where the sponsors are foreign and the investors are both Malaysian and foreign, this certainly requires endurance. The process undertaken to list assets in Malaysia is the most challenging part of the listing of foreign assets in the due diligence working group.

The Malaysian Islamic REIT market is ready to accept foreign assets. Managers of real estate or real estate funds can explore the opportunities of exiting their assets or private equity into the Malaysian market as a REIT.

Abas Abdul Jalil is the chief operating officer of international business at AmanahRaya Capital Group. He can be contacted at abas@arb.com.my.

This article is an excerpt taken from his presentation during the IFN Issuers & Investors Asia Forum 2011.

Eurekahedge Global Islamic Fund Index



Top 10 Monthly Returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Azzad Ethical Mid Cap	Azzad Asset Management	14.07	US
2	JPM Islamic Global Dynamic Equity (USD) A	J.P. Morgan International Bank	14.05	Luxembourg
3	Al-Mubarak Global Equity	Arab National Bank	13.15	Saudi Arabia
4	Islamic Emerging Markets Equity Certificate	ABN AMRO Bank	12.29	Not disclosed
5	The Iman	Allied Asset Advisors	12.24	US
6	SUT Ethical Growth	Singapore Unit Trusts	11.87	Singapore
7	Russell Jadwa World Equity	Jadwa Investment	11.19	Saudi Arabia
8	Russell Jadwa Emerging Markets Equity	Jadwa Investment	11.18	Saudi Arabia
9	Public China Ittikal	Public Mutual	10.64	Malaysia
10	Global Equity - Musharaka	Riyad Bank	10.48	Saudi Arabia
	***All Islamic Funds**		**3.46**	

** Based on 52.33% of funds which have reported October 2011 returns as at 8th November 2011*

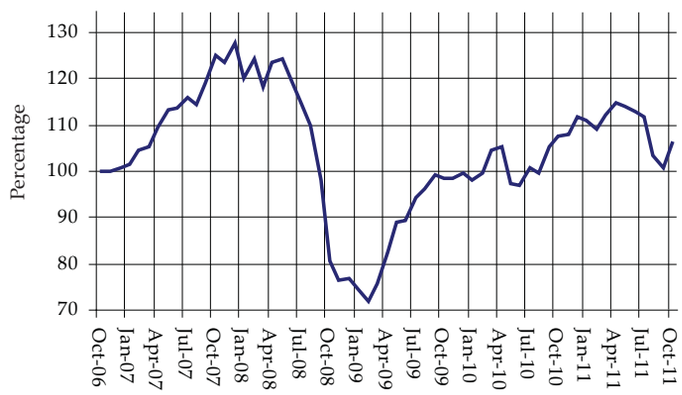
Top 10 Monthly returns for Global funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	JPM Islamic Global Dynamic Equity (USD) A	J.P. Morgan International Bank	14.05	Luxembourg
2	Al-Mubarak Global Equity	Arab National Bank	13.15	Saudi Arabia
3	SUT Ethical Growth	Singapore Unit Trusts	11.87	Singapore
4	Russell Jadwa World Equity	Jadwa Investment	11.19	Saudi Arabia
5	Global Equity - Musharaka	Riyad Bank	10.48	Saudi Arabia
6	iShares MSCI World Islamic	Barclays Global Investors Ireland	10.01	Germany
7	Al Rajhi International Small Capitalisation	Merrill Lynch Investment Managers	9.42	Saudi Arabia
8	Al Rajhi Global Equity	UBS	9.03	Saudi Arabia
9	SUT Ethical Value	Singapore Unit Trusts	8.73	Singapore
10	SWIP Islamic Global Equity - Class A	Scottish Widows Investment Partnership	8.53	UK

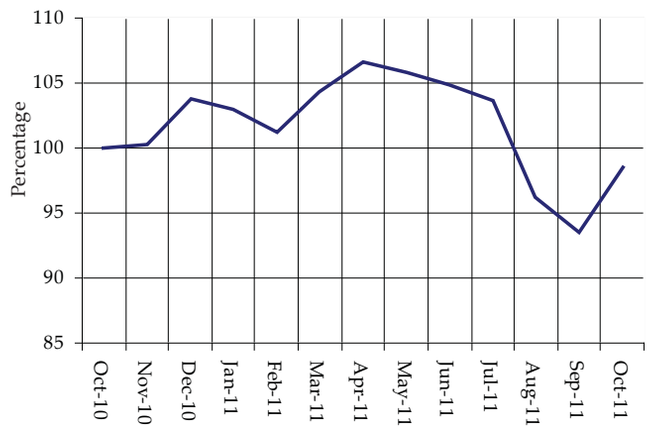
** Based on 50.68% of funds which have reported October 2011 returns as at 8th November 2011*

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.

Eurekahedge Islamic Fund Equity Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Returns for Islamic Equity Funds by 3 Month

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Atlas Islamic Stock	Atlas Asset Management	7.33	Pakistan
2	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	6.59	Pakistan
3	Meezan Islamic	Al Meezan Investment Management	4.06	Pakistan
4	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	2.16	Pakistan
5	Atlas Islamic Income	Atlas Asset Management	0.78	Pakistan
6	Islamic Certificate on the LLB Top 20 Middle East TR Index (EUR)	ABN AMRO Bank	0.69	Netherlands
7	Islamic Al Yusr Certificate on the ABN AMRO US Opportunities A	ABN AMRO Bank	0.00	Not disclosed
8	Markaz Islamic	Kuwait Financial Centre	-0.32	Kuwait
9	Noor GCC Islamic	Noor Financial Investment Company	-1.24	Kuwait
10	Al Rajhi GCC Equity	Al Rajhi Bank	-1.74	Saudi Arabia
	***Eurekahedge Islamic Fund Equity Index**		**-5.02**	

** Based on 52.51% of funds which have reported October 2011 returns as at 8th November2011*

Top 10 Returns for Islamic Globally Investing Funds by 3 Month

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	1.31	Malaysia
2	Jadwa Global Sukuk	Jadwa Investment	0.35	Saudi Arabia
3	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	0.30	Saudi Arabia
4	Watani KD Money Market	National Bank of Kuwait	0.25	Cayman Islands
5	Al Rajhi Commodity Mudarabah - SAR	Al Rajhi Bank	0.24	Saudi Arabia
6	Watani USD Money Market	National Bank of Kuwait	0.20	Cayman Islands
7	BLME Umbrella Sicav - SIF - USD Income - Class B	Bank of London and The Middle East	0.17	Luxembourg
8	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.17	Saudi Arabia
9	Commodity Trading - SAR	Riyad Bank	0.16	Saudi Arabia
10	Jadwa Saudi Riyal Murabaha	Jadwa Investment	0.05	Saudi Arabia
	***Eurekahedge Global Islamic Fund Index**		**-3.63**	

** Based on 50.68% of funds which have reported October 2011 returns as at 8th November2011*

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

EUREKAHEDGE

Takaful news

Brought to you by Takaful IKHLAS

9th November 2011

Insurance and Takaful in Egypt after the financial crisis

Cover story

Egypt is one of the few countries globally which has the lowest per capita expenditure on insurance. However, its insurance market has witnessed growth in premiums, as a consequence of the improved productivity of the sector as well as strong economic growth.

Political, economic, social and demographic developments are making the insurance markets in the MENA region more attractive. The five MENA markets covered in this collection will represent a combined GDP of US$2.3 trillion in 2015, led by Turkey and Saudi Arabia. In demographic terms, the population in these five MENA markets is still young and is expected to reach US$240.4 million in 2015, headed by Egypt and Turkey. Nevertheless, there is a sizeable elderly population which will demand more pension benefits and life and health insurance services.

In Egypt, government reforms and legislation have also supported the insurance sector and made it lucrative for both domestic and foreign private players, resulting in an expansion of customer base. An expanding national economy, growing demand for automobiles, new employment opportunities and increased household consumption and investment have also boosted the growth of the industry.

Despite huge opportunities, Egypt's insurance market remains under-developed, because of low awareness, particularly among the poor and middle-class population of the country. The non-life insurance segment of the market holds a stronger position as compared to the life segment, due to an increase in demand for motor, accident and health products. Nevertheless, over the last two years life insurance premiums have recorded a double-digit growth over the non-life segment. This segment, along with government tax incentives and stimulus measures, is expected to record growth, as these products are generally similar to bank savings products. However, the coming years appear promising for the non-life segment, particularly the motor, accident and health insurance segments. Takaful companies have developed extensive facilities to transact all classes of general insurance including life, marine, fire, motor, accident, aviation and engineering.

Health insurance and pharmaceuticals

Healthcare development in Egypt and other MENA countries clearly is in favor of increased privatization; mainly due to lack of public funds and pressure from the industry. The population has different levels of expectations in the national healthcare system. The healthcare system in Egypt, for instance, is in a transitory phase, characterized by progress towards privatization. While access to free healthcare theoretically exists, in practice more private services are appearing as a result of the decline in the standard of public sector care. There is a need for considerable investment in order to continue with the modernization of programs and to maintain the existing facilities. Actually, there are two main areas of reform: primary healthcare and the provision of a national health insurance scheme.

> *"Despite huge opportunities, Egypt's insurance market remains under-developed, particularly among the poor and middle-class population"*

Egypt's healthcare sector is expecting growth rates of 10% annually for the next five years. According to a statement by the US Department of State, a new study will focus on data collection, inventory management and process standardization, and is "an integral part of the ministry's health reform effort to provide cost-effective and improved

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services to the public". Expanding the capabilities of the current supply chain will lead to lower costs and a greater variety of pharmaceuticals available to patients, according to the statement. The project will fund two pilot projects in two governorates to test key findings of the study.

Pharmaceutical prices in Egypt are lower than other countries, but still relatively high and often unaffordable compared to the wages of Egyptian citizens. There are also problems with the quality of products and research and development by Egyptian firms producing generic products.

Family Takaful

Family Takaful allows anyone who is covered by the scheme to receive medical treatment in another state for free or at a reduced cost. It covers treatment during travels abroad (available in all countries, 24 hours a day), due to illness or an accident, or if they have a chronic pre-existing condition which requires hospital care such as kidney dialysis.

The intention of the scheme is to allow people to continue their stay in a country without having to return home for medical care. As such, it does not cover people who have visited a country for the purpose of obtaining medical care, nor does it cover care, such as many types of dental treatment, which can be delayed until the visitor returns home. Major Egyptian insurance companies like the IHC group (Misr Insurance Company and National Insurance Company of Egypt), Arab Orient Takaful Insurance and Nile Family Takaful have come up with schemes to support a government requirement that all haj and umrah pilgrims must have Takaful coverage.

Egypt's regulators

Egypt's regulators and financial institutions have been less active in promoting Islamic banking and Takaful than their counterparts in Bahrain and Malaysia. Nevertheless, Takaful may play a substantially greater part in the overall development of Egypt's insurance sector than it has to date. Takaful is similar to mutual insurance but with a clear segregation of the assets owned by policyholders and those owned by the insurer.

International rating agencies like AM Best are watching capital equipment, debts and solvency of insurers. AM Best has removed Egypt's largest insurer Misr Insurance Company from "under review with negative implications" and affirmed the financial strength rating of 'B++'(Good).

The rating reflects uncertainty regarding the prospective capital position and operating performance (particularly dictated by compulsory motor insurance) of Misr, which is likely to remain under pressure. Currently, Misr (and related group insurance entities) is undergoing a significant restructure, following the regulatory requirement of Egyptian Insurance Law, which obliged companies to separate their life and non-life portfolios effective from the 1st January 2011.

> ***"Egypt's regulators and financial institutions have been less active in promoting Islamic banking and Takaful than their counterparts in Bahrain and Malaysia"***

History of modern Islamic banking and insurance in Egypt and Sudan

The first modern experiment with Islamic banking was undertaken in the Nile delta in Northern Egypt. The pioneering effort, led by Professor Ahmad Elnaggar, took the form of a savings bank in the town of Mit-Ghamr, based on Islamic principles. The first modern commercial Islamic bank, Faisal Islamic Bank of Egypt, opened its doors in 1975. Islamic banking in Egypt is growing at a rate of 10-15% per year and with signs of consistent future growth. The Islamic Insurance Company in Sudan was the first ever insurance company established in the world to transact business according to Shariah principles.

Actually, there are eight Islamic insurers in Egypt. From the mid-1980s the idea spread to Asia, before gaining momentum among other Arab countries in the last five years. Abdul Raouf Qutb, the chairman and managing director of the Union of Egyptian Insurance Companies, expects the growth of the Takaful insurance sector in Egypt to reach "between 15% and 20% by the end of 2013". Internationally, total Takaful premiums are estimated to reach US$7 billion by 2015.

For Takaful companies, the issue of halal and haram is a constant one, to the point of whether it is even consistent with the fatalistic religion to insure your life.

"We're not preachers, we're doing business" says Saleh Eid, the CEO of Egyptians for Takaful Life Insurance Company. "We don't care who says this is improper as we have our Shariah board that says what's OK and what's not." The company has seen its revenue surge in recent years, especially after the financial crisis. Avoiding speculation and derivatives, Islamic finance gained a new reputation for stability, with the credit crunch and subsequent global recession seeing many lose faith in the capitalist system and its vulnerable financial institutions.

In Islamic finance, derivatives, hedge funds, short-selling and speculation are illicit: haram. Furthermore, the risk-sharing concept of Murabahah, where entrepreneurs are granted capital and share the profits with the bank, brings Islamic companies closer in step with the real economy. Advocates say that Islamic banks are untouched by the current crisis due to the nature of Islamic banking, especially its avoidance of the debt trading and market speculation that takes place in European and American banks. The less risky and more stable practices of Takaful companies might go some way to changing Egyptians' suspicion of religious institutions.

Islamic reinsurers

Islamic reinsurers like Takaful Re provide a complete range of re-Takaful services

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and products to Takaful and Islamic companies in order to meet their business requirements. Takaful Re possesses the required expertise within the reinsurance business, underwriting and product development to ensure smooth business operations in a professional business environment. The management acts as trustees with a well-defined corporate governance framework in order to safeguard the interests of customers and stakeholders.

International insurers' investments in Egypt

The largest Japanese insurance group, Tokio Marine, sees an opportunity to expand its business in Egypt following the recent political turmoil. President Shuzo Sumi recently announced a 40% investment in two Egypt-based Takaful companies, which launched operations in January 2010, through TM's wholly owned subsidiary, Tokio Marine & Nichido Fire Insurance Co.

"The awareness for insurance, especially personal insurance, is generally low in regional markets including Egypt," said Mahmoud Bhatty from Tokio Marine Middle East. "Events such as the Arab spring that led to the ousting of president Hosni Mubarak after a 30-year reign will result in increasing the awareness in people that they need to do more about protection of their livelihood and assets." Mahmoud said that the industry expects to pay claims resulting from the turmoil.

> ***"The awareness for insurance, especially personal insurance, is generally low in regional markets including Egypt"***

The Japanese insurer said last year that it expected its two Shariah compliant units to generate about US$3.5 million in annual premium income in the first financial year, which closes in June. That should increase to US$136.4 million within 10 years, giving the Egyptian operations more than a one-fifth share of the Takaful market in the country. The industry is expected to be a clear growth driver within the nearly US$1 trillion Islamic finance industry over the next five years. Tokio Marine is also considering launching micro-Takaful operations in Egypt to complement microfinance programs already available.

Micro-Takaful is an Islamic insurance scheme for people of low income who cannot afford regular insurance premiums. As part of a microcredit scheme, a small amount goes to cover areas such as life, disability and accident insurance, as well as livestock cover or crop insurance against hazards of severe weather or flooding.

The idea is to get sub-marginal clients used to the institution of insurance, and to understand the usefulness of insurance and security. Once they develop to middle-class or higher income earners, they will remain the company's clients and generate real business. Mahmoud said that the company has already successfully provided conventional micro-insurance in India through a joint venture with a Japanese fertiliser company. "We would like to explore micro-Takaful possibilities for Egypt as the economically weaker stratas of society would benefit from it".

Dr Gerd Guenter Kloewer is an international financial regulation and rating consultant who has worked for the German Government and for EU projects in 25 countries in the Middle-East, Asia and Eastern Europe. He can be contacted at Gerd@Kloewer.de.

Enhancing UAE insurance

UAE: Ghassan Marrouche, the general manager of Takaful Emarat, said that Takaful companies in the UAE are positively contributing to the overall growth of the country's insurance industry.

Ghassan added that the compound annual growth rate of the Takaful market in the UAE was 135% between 2005 and 2008, and that this figure is set to increase.

Mandatory offer not required

MALAYSIA: The Securities Commission Malaysia has exempted ING Insurance Asia from making a mandatory offer for the remaining equity stakes in ING Public Takaful Ehsan and ING Funds.

In a statement, ING Insurance Asia said that the obligation for a mandatory offer arose in connection with a proposed internal corporate restructuring and streamlining of ING Group's insurance operations in Asia, Europe and the US.

Under the restructuring exercise, ING Insurance International proposes to transfer its 100% equity interest in ING Management Holdings (Malaysia) to ING Insurance Asia. Following this, ING Insurance Asia will hold an indirect equity interest of 60% and 70% in ING Public Takaful and ING Funds, respectively.

The remaining shareholders of ING Public Takaful, namely Public Islamic Bank and Public Bank, and of ING Funds, TAB Inter-Asia Services, have provided an undertaking that they will not accept any takeover offers, if such an offer is made.

New Takaful product

INDONESIA: AIA Financial and CIMB Niaga have launched Fortuna X-tra Plus Syariah, a Life Takaful product providing investment opportunities and protection to customers.

Rudi Kamdani, the director general counsel of AIA Financial, said that Shariah-based products contributed to 28% of the firm's total premiums last year, adding that this figure is expected to increase every year.

UKM receives profit share

MALAYSIA: Syarikat Takaful Malaysia has paid RM578,000 (US$184,222) of its Mudarabah profit share to Universiti Kebangsaan Malaysia (UKM) for their group Takaful scheme.

The profit was given under the group Medical Takaful and group term Family Takaful packages subscribed by UKM.

Since 1984, Takaful Malaysia has paid out an average of 15% in no-claim cash rebates.

Focusing on profit

UAE: Abu Dhabi National Takaful Company posted its third quarter financial results showing a 31% increase in net profit and gross contributions.

The company made a net profit of AED21 million (US$5.72 million) for the period ended the 30th September 2011, up from AED16 million (US$4.36 million) for the same period last year.

The company's also exceeded its total Takaful contributions over the same period.

Abdul Jalil Abdul Rasheed, CEO, Aberdeen Islamic Asset Management

Abdul Jalil Abdul Rasheed was appointed as the director of Aberdeen Islamic Asset Management in 2009. He was involved in drafting the business plan, setting up the entity and establishing the standard operating procedures. Now Aberdeen Islamic Asset Management has US$500 million assets under management.

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

I graduated in 2003 with a degree in finance from the London School of Economics, UK. Then I joined Axis REIT as an investment analyst as they were then preparing to launch what would be Malaysia's first real estate investment trust (REIT).

After a year at Axis REIT, I joined Aberdeen Asset Management as an investment analyst. I was hired to be based in the soon-to-be-opened KL office but spent my initial one year in Singapore learning the ropes of the investment management business. After four years at Aberdeen, I was appointed as the head of equities, a role that was created to cater for the expanding assets under management and larger size of the team, in 2007. In 2009, we decided to apply for an Islamic fund management license and I was appointed as the director of Aberdeen Islamic Asset Management. I was made the CEO of Aberdeen Islamic in 2011 after the initial set-up phase was completed.

What does your role involve?

My role involves running the day-to-day functions of Aberdeen Islamic as well as heading up the equities desk in KL. It involves ensuring that the investment process workflow is adhered to, visiting companies, assigning tasks, monitoring portfolios and meeting clients. I am also responsible for building Aberdeen's Shariah business globally.

What is your greatest achievement to date?

The trust vested in me to lead an equities desk and the Islamic business. I joined Aberdeen as a pioneer member in KL and as the business grew I played a part in it. Another great achievement was establishing the Islamic business from what was a piece of blank paper to what it is now.

Which of your products/ services deliver the best results?

Aberdeen's products are carefully planned before they are launched. Aberdeen's strength lies in equities, Sukuk and properties where we can structure Shariah compliant property funds. One of our key differentiators is that we have 30 offices in 24 countries which means that we have on-the-ground presence to service our clients.

What are the strengths of your business?

Aberdeen has employed the same consistent investment process globally for the past 30 years. We have been disciplined and have always done the hard work of visiting every company before investing, writing a detailed research report on every company and never being influenced by market noises. As with all investment firms, people are our biggest asset and we are fortunate to have a solid group of professionals. Aberdeen also has a very low turnover rate among employees, and this a testament to the culture of the company that has emphasized on hiring young graduates, training them and giving them an opportunity to take up leadership roles within the company.

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

We are patient business builders, the same way that we are also patient investors. We had realistic expectations of the business when we opened the Shariah business in KL. We waited for the right time to accumulate assets, then built the team and currently we are working on an exciting project which will be unveiled next year. Keeping the people happy is very important as they are the real assets of the company.

What are the obstacles faced in running your business today?

Finding the right people is a problem. We started with a team of six and we will have 16 by the end of 2012. Besides that the challenge is growing the business consistently every year. There is bound to be a period of saturation at some stage. Building a diversified pool of investors is also vital but challenging.

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

The Islamic finance industry is growing rapidly and Malaysia is taking the lead. There should be more awareness of the industry and more countries participating in Islamic finance transactions.

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

I would like to see more simple products being introduced and an increase in investor education. The industry is nascent and is still growing. In any market, the growth catalyst is the mass market, and if we can get buy-ins from retail customers on Shariah compliant products, the foundation of the industry stays strong.

ISSUER	SIZE	DATE ANNOUNCED
DRB Hicom	RM1.8 billion	1st November 2011
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

IFN Correspondents

AFGHANISTAN: Dr Alam Khan Hamdard
chief of Islamic banking, Kabul Bank

AUSTRALIA: David Wood
partner, Mallesons Stephen Jaques

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

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

CANADA: Jeffrey S. Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

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

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

IRAQ: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LEBANON: Mohamad Bakkar
managing partner, Bakkar Advocates & Legal Consultants

LUXEMBOURG: Marc Theisen
partner, Theisen Law

MALAYSIA: Nik Norishky Thani
head special projects (Islamic), PNB

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

NEW ZEALAND: Dr Mustafa Farouk
counsel member for Islamic financial institutions, FIANZ

OMAN: Anthony Watson
senior associate, Al Busaidy Mansoor Jamal & Co

PAKISTAN: Bilal Rasul
director (enforcement), SEC of Pakistan

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

RUSSIA: Dr Adalet Djabiev
CEO, Al Shams Capital

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

SINGAPORE: Andrew White
associate professor, Singapore Management University

SRI LANKA: Roshan Madewala
director/CEO, Research Intelligence Unit

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

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

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

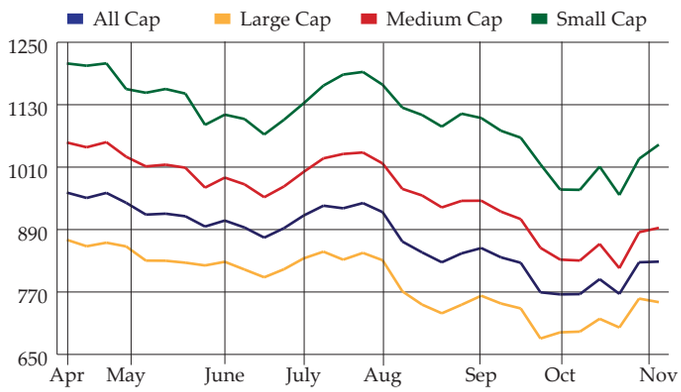
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

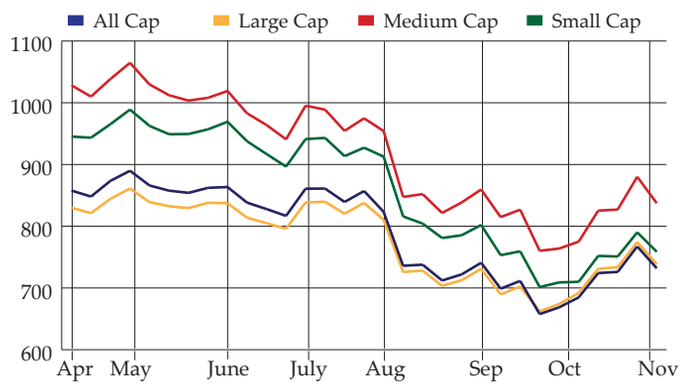
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

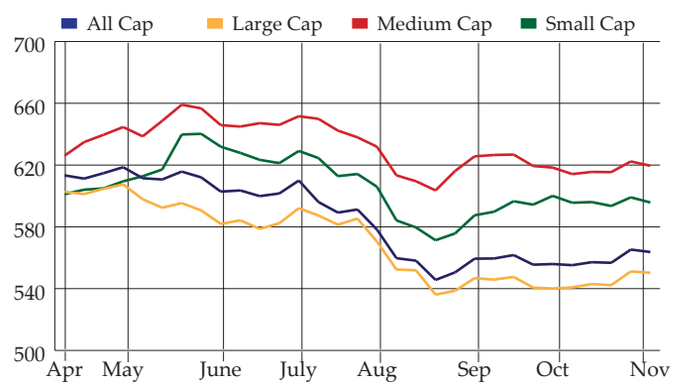
REDmoney Asia ex. Japan *6 Months*



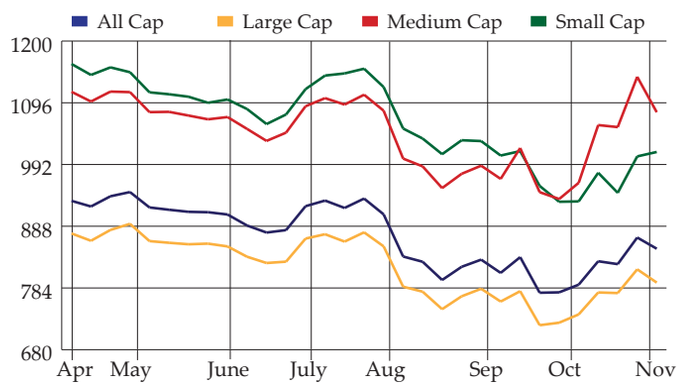
REDmoney Europe *6 Months*



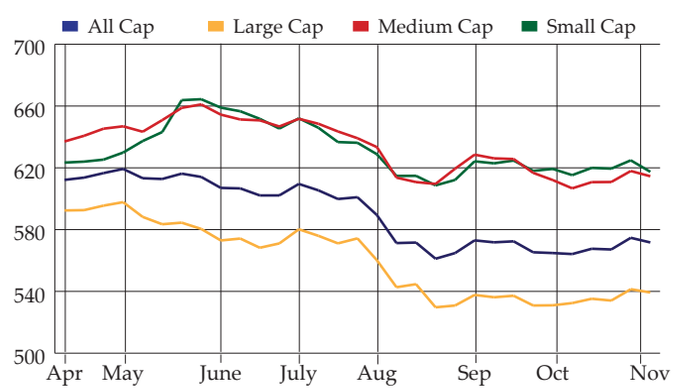
REDmoney GCC *6 Months*



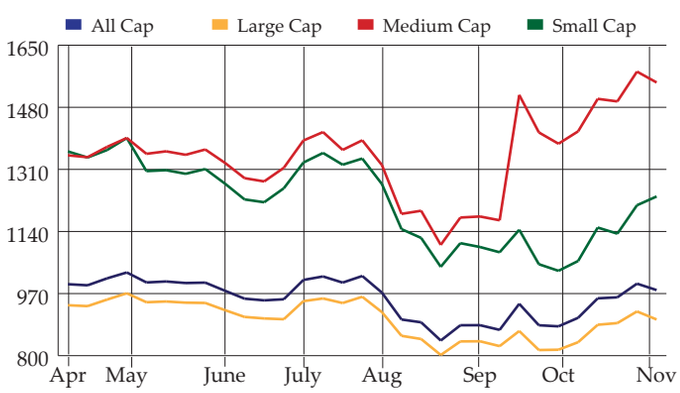
REDmoney Global *6 Months*



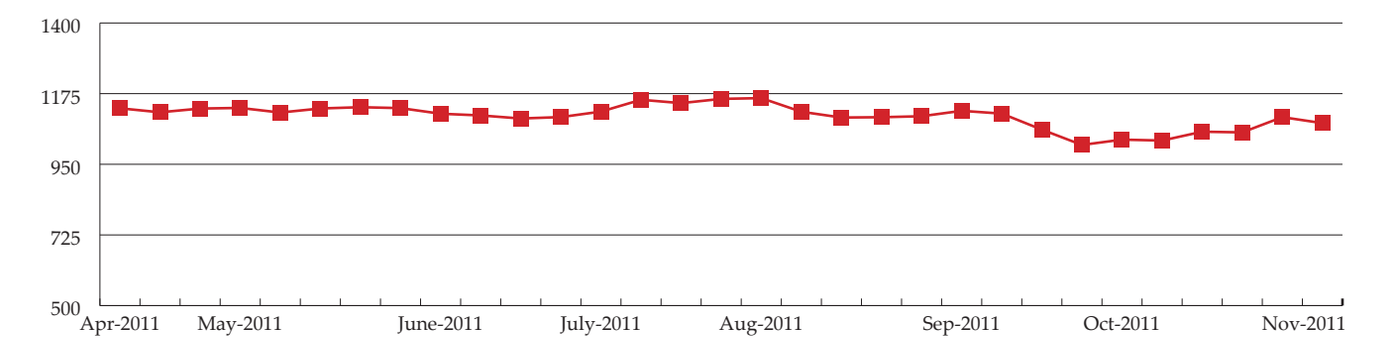
REDmoney MENA *6 Months*



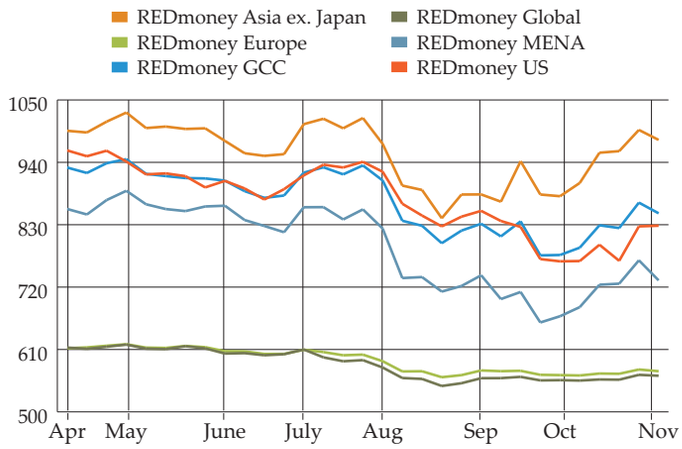
REDmoney US *6 Months*



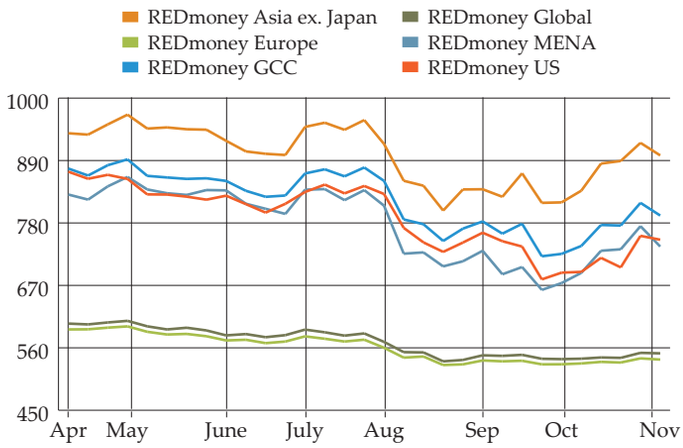
SAMI Halal Food Participation (All Cap) *6 months*



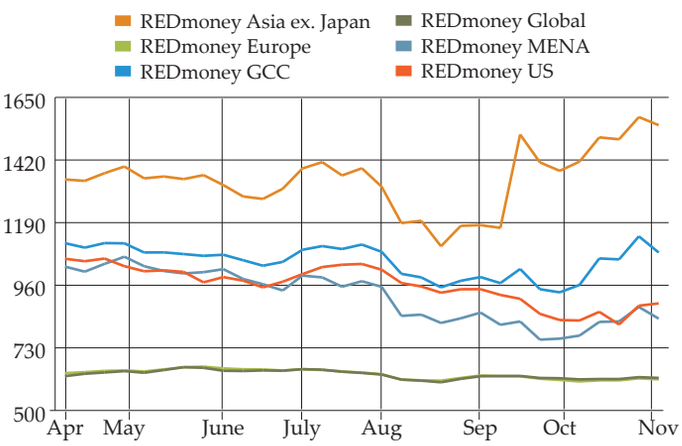
REDmoney Global Shariah Index Series (All Cap) *6 Months*



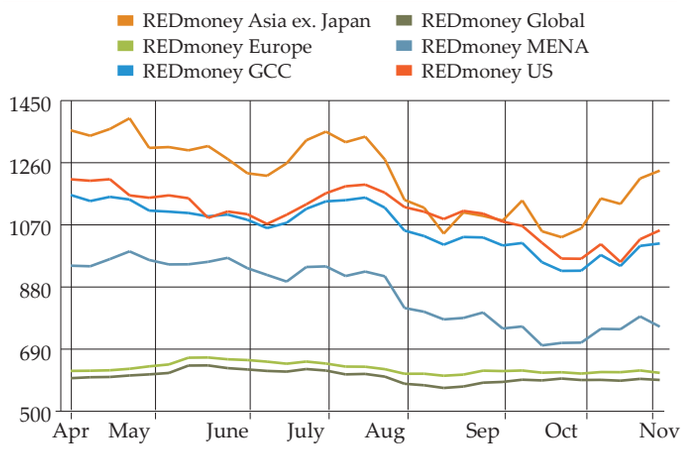
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



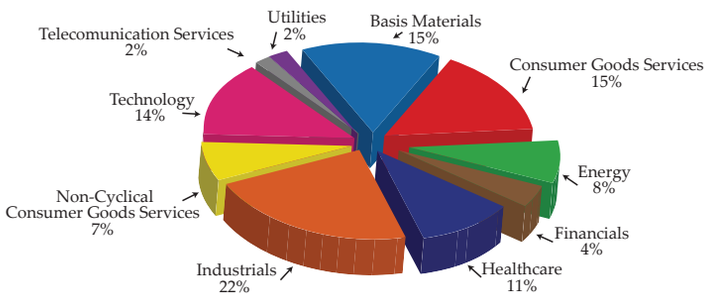
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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Managing Director, REDmoney Group

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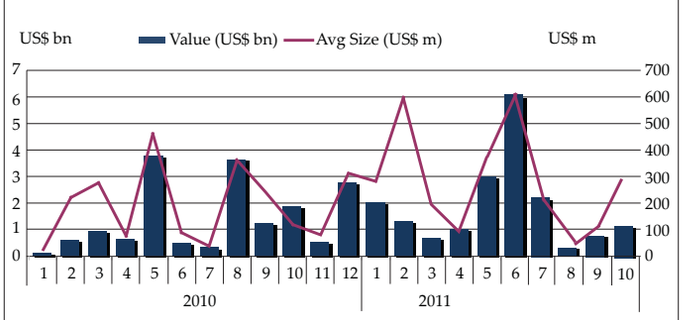
Tel +603 2162 7800

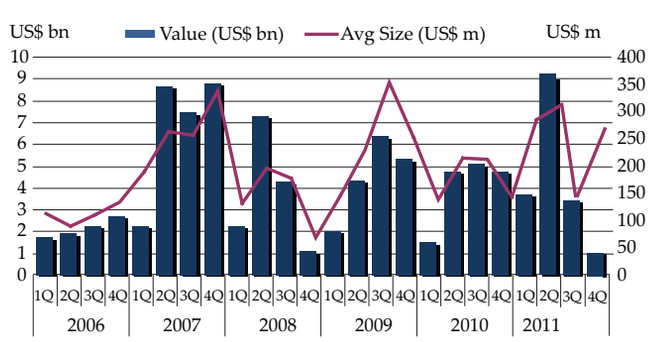
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	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	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	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
11	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
11	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
13	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
14	Malaysia Airports Capital	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1	CIMB Group, Citigroup
15	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
16	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
17	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	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	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	193	3	OCBC, Public Bank, Affin Investment Bank
29	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	190	1	Public Bank, AmInvestment Bank
30	Kencana Petroleum	Malaysia	Sukuk Mudarabah	Domestic market private placement	167	1	AmInvestment Bank
	Total				**19,895**	**86**	

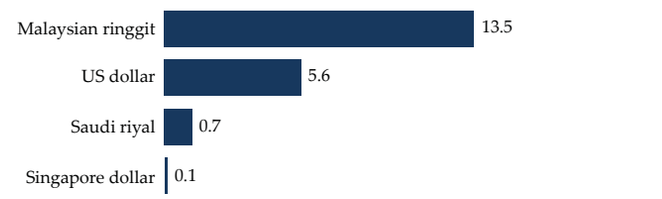
Top Managers of Sukuk *12 Months*

	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	**19,895**	**86**	**100.0**

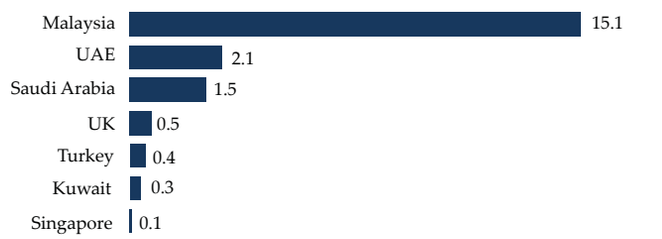
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	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

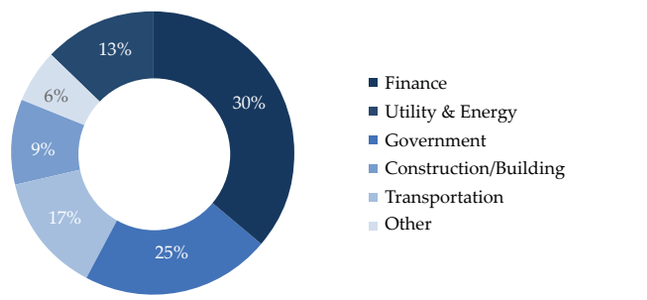
Sukuk Volume by Currency US$ (billion) *12 Months*



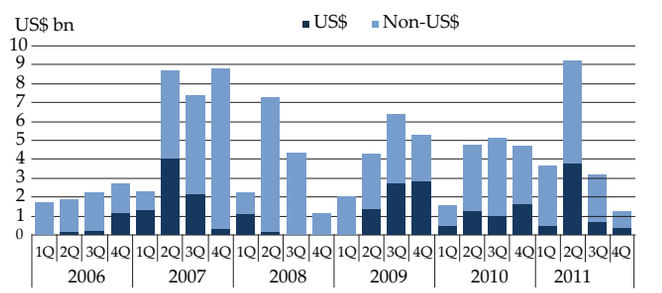
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	960	5	11.9
2	Maybank Investment Bank	709	4	8.8
3	Samba Capital	660	4	8.2
4	AmInvestment Bank	471	3	5.9
5	Saudi National Commercial Bank	462	2	5.8
5	Banque Saudi Fransi	462	2	5.8
7	Citigroup	425	6	5.3
8	Abu Dhabi Islamic Bank	398	3	5.0
9	Standard Chartered Bank	354	7	4.4
10	RBS	233	1	2.9
11	CIMB Group	232	3	2.9
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	1.9
17	Noor Islamic Bank	147	2	1.8
18	Riyad Bank	129	1	1.6
18	Bank Al-Jazira	129	1	1.6
20	Bank of China	93	1	1.2
21	BNP Paribas	89	2	1.1
22	Saudi Hollandi Bank	74	1	0.9
22	Export Development Canada	74	1	0.9
22	Arab Petroleum Investments	74	1	0.9
22	Arab National Bank	74	1	0.9
22	Alinma Bank	74	1	0.9
22	Al-Rajhi Banking & Investment	74	1	0.9
28	Bank of America Merrill Lynch	73	2	0.9
29	WestLB	70	2	0.9
30	National Bank of Abu Dhabi	61	1	0.8

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	19.5
2	Citigroup	524	6	6.5
3	Abu Dhabi Islamic Bank	428	3	5.3
4	Maybank Investment Bank	237	1	3.0
5	RBS	233	1	2.9
5	HSBC	233	1	2.9
7	Standard Chartered	165	3	2.1
8	Bank of China	93	1	1.2
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

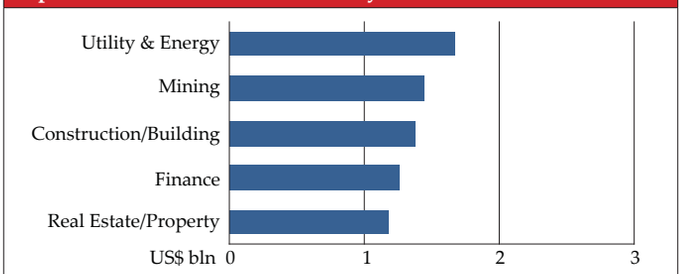
Top Islamic Finance Related Loans by Country

12 Months

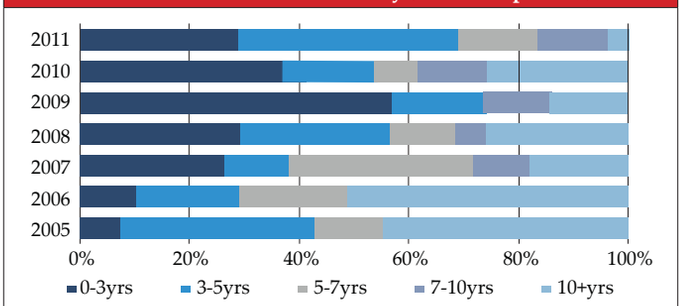
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,924	3	36.4
2	Malaysia	1,777	5	22.1
3	UAE	1,479	7	18.4
4	Turkey	988	5	12.3
5	Indonesia	450	1	5.6
6	China	93	1	1.2
7	Kuwait	87	1	1.1
8	Singapore	77	1	1.0
9	Pakistan	60	2	0.8

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

15th November 2011
Islamic Financial Intelligence Summit 2011
Kuala Lumpur (*The Banker*)

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 December 2011
IFN Country Briefings Indonesia
Jakarta (*REDmoney Events*)

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

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

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*)

23rd — 24th January 2012
Oman First Islamic Finance Conference
Oman (*Iktissad Events*)

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

15th — 16th February 2012
Credit Risk Asia
Singapore (*Fleming Gulf*)

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

Next Forum Question:

"What visible and viable role can technology play in the development of Islamic finance?"

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan,

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