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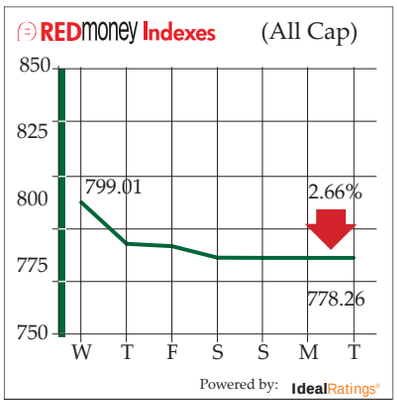

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Shariah screening: Not that simple

Cover Story

The Shariah compliant asset management universe is growing, as institutional investors join the traditional high net worth clients to invest in an increasing range of Shariah compliant funds. But what really constitutes an Islamic investment? There has been some controversy over the importance of Shariah screening, and some disagreement over what is really necessary to make an investment Shariah compliant. Is there a difference between Shariah compliant and Shariah acceptable? How are companies adhering to compliance criteria, and does this differ between asset management firms?

The growth of the Islamic finance industry, coupled with large Sukuk issues and growing funds in the Islamic space, have meant that increasing numbers of investors (both Muslim and non-Muslim) are looking to Islamic finance for their investment needs. While traditionally Islamic funds have been the playground predominantly for high net worth investors and private clients wealthy enough to afford their own Islamic advisors, there is a growing trend towards institutional investors (supported by the gradual entry of pension funds, sovereign wealth funds, and the growth of the Takaful industry) as well as increasing retail interest from smaller and less knowledgeable customers. The growing interest is presenting exciting opportunities for Islamic asset management, but the industry is struggling with its relative immaturity. While any asset can theoretically be Shariah compliant as long as it avoids the basic haram criteria, the absence of a sophisticated and universally accepted screening mechanism along with inadequate valuation modelling techniques and some confusion over what constitutes acceptable investment techniques and screening criteria have caused some to question the stability, viability and acceptability of the industry's rapid development.

At the 2010 World Islamic Banking Conference in Bahrain Shebab Marzban, a product development officer at Ideal Ratings, warned that many Shariah compliant products did not actually comply with strict Shariah teachings, especially in Europe: and that many western fund managers were failing to carry out correct due diligence on Islamic products. Many funds that claim to be Shariah compliant still make a profit from non-Shariah sources, such as firms which use interest or sell haram products; and many funds that do so are also failing to meet the rule of less than 5% wealth from non-permissible sources. However, Shebab explained that the problem was not necessarily deliberate disregard for the Shariah, but instead was a general ignorance about the rules of Shariah investing. "There is a lack of awareness on what is truly a Shariah compliant product.

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Looking at the flipside

Editor's Note

As we enter the final month of 2011, it seems the usual cheer associated with the end of the year has been dampened by continuing volatility and an increasingly bleak outlook for the global markets and economies.

With choices becoming more difficult to make in the context of current conditions...

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NEWS

Senegal plans investor meetings by the end of the year for debut sovereign Sukuk sale

Hong Leong Bank extends voluntary separation scheme to **Hong Leong Islamic Bank** employees

Malaysia's endowment, zakat and haj department plans to set up **World Zakat Organization** fund

Senai Airport Terminal Services sets up US$104 million Islamic medium-term notes program

National Australia Bank and **Citilink Finance Australia** ready to tap global Sukuk market

Bank Muamalat Indonesia may sell up to 40% of shares in IPO next year

Bank Muamalat Malaysia goes on expansion drive

Global Islamic finance industry continues growth momentum

Hwang-DBS (Malaysia) dismisses media reports on merger plan with **Alliance Financial Group**

Malaysian toll operator **ANIH** launches US$785 million-worth of Islamic medium-term notes program

Malaysia expects to issue up to US$9.4 billion-worth of Sukuk next year

Indonesian finance ministry plans to issue retail Sukuk in March 2012

Securities and Exchange Commission of Pakistan develops equity and debt capital market databases

Sri Lanka's **Wealth Lanka Management** and Malaysia's **Al Tayseer Advisory Services** team up to provide Islamic banking and Sukuk instruments

India's **Al Barakah Financial Services** hopes to start operations in 2012

Further amendments needed to Kuwait's Sukuk laws?

Securities Commission Malaysia updates Shariah compliant securities list

Singapore and Malaysian central banks ink MoU to form cross-border collateral arrangement

Islamic banking industry grows to 7% of Pakistani banking system

Indian government is to blame for myopic approach to Islamic banking

Prospect of Malaysian high bond yields should help to develop attractive global capital market, says **CIMB Islamic**

UAE bankruptcy law to provide respite for struggling firms

UK still an Islamic finance hub, says British ambassador to Bahrain

Paris Europlace issues **AAOIFI** Shariah standards in French

Fitch unveils Islamic finance portal

IDB Group to continue to assist in building sustainable Islamic financial system

Financial crisis provides opportunity for Islamic finance industry

Global Islamic finance industry expected to show more development, says **PwC** Bermuda

Bank Asya's planned Sukuk put off by negative global markets

S&P acquires 4.9% stake in Malaysia's **RAM**

IIFM to set further standards in 2012

Fitch welcomes **Gulf Bond and Sukuk Association's** investor relations standards

Doha Bank considers options to sell Doha Islamic division

Bahrain's Islamic finance industry in consolidation phase

Abu Dhabi Islamic Bank receives more than US$2 billion in orders for US$500 million Sukuk

Jafz Sukuk announces periodic distribution for US$2.04 billion Sukuk trust certificates

Oman's **Bank Sohar** takes wait-and-see approach to Islamic banking

INVESTOR

Solum Asset Management plans to issue UK student accommodation Sukuk in the first quarter of 2012

Maybank Islamic teams up with **Maybank MEACP** to launch US$500 million clean energy fund

CIMB-Principal Islamic Asset Management in final stages of setting up Shariah compliant fund for European market

Emirates Islamic Money Market Fund receives more than US$100 million from investors

UK entrepreneur James Caan's independent advisory targets Gulf investors for Shariah compliant fund

TAKAFUL

Takaful Emarat launches individual health insurance plans

Bahrain's **Legal & General Gulf Takaful** may set up business operations in Malaysia

Takaful Ikhlas, MAA Takaful and **FOSMEC** sign MoU to offer Takaful coverage for foreign students in the country

MRNB Holdings reports pre-tax loss in the second quarter ended the 30th September

Prudential BSN Takaful posts 57% growth in new business sales in the third quarter

Great Eastern Takaful seeks to become one of Indonesia's top three Takaful players in three to five years

Syarikat Takaful Malaysia posts 81% increase in profit before zakat and tax for the nine months ended the 30th September 2011

RATINGS

MARC places **MRCB Southern Link**'s senior and junior Sukuk on Rating Watch with negative outlook

S&P assigns 'BB' issue rating on **Albaraka Türk Katılım Bankası**'s proposed Sukuk certificates

MARC assigns final rating of 'AA-IS' with a stable outlook to **DRB-HICOM**'s US$571 million Islamic medium-term notes program

MOVES

Coutts names **Amir Sadr** as head of the UAE market and private office in the Middle East

Credit Guarantee Corporation Malaysia names **Abdul Hamidy Abdul Hafiz** as chairman

Nadeem Masud is **Deutsche Bank**'s new chief country officer for the UAE

Standard Chartered said to be hiring **Haithem Katerji** to head Middle East and North Africa financial institutions group

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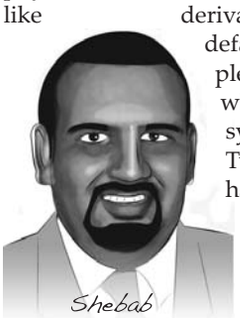
Many funds have got a stamp on them that they comply with the principles from a Shariah body, but then they do not follow through with the correct screening."

Fund managers have been jumping on the bandwagon in recent years, without performing the necessary research or hiring experienced talent to develop their offerings, with the result that Islamic finance is now facing a very real danger of being overpopulated by what are essentially conventional funds paying lip service to the concept of Shariah compliance in order to attract customers. "The problem is that most fund managers outsource due diligence to index providers, and they rely on that information to be correct and up to date," explains Shebab. "The problem comes when you look on a firm's financial sheet and it may say they invest in food, but won't necessarily say pork.

"You also get some firms that just jump on the bandwagon and sell so-called Shariah products without doing the relevant checks."

Shariah 'acceptable'

There has been a worrying development in the industry recently for funds that differentiate themselves as 'Shariah acceptable' as opposed to Shariah compliant. This cannot and should not be possible, and funds which set themselves up as 'Shariah acceptable' without guaranteeing full compliance are simply tricking unwary investors into potentially non-permissible investments. Mohamed Donia, CEO of Ideal Ratings, explains that: "Islamic finance and Shariah compliant asset management are based on two simple facts: one that money has to represent value – which cannot be invented from a vaccum. It must be a physical value like mass and energy, not like derivatives and credit default swaps and the plethora of acronyms which represent synthetic values. Two, that business has to operate according to moral codes, not just economic ones."



Many firms use the argument that Islamic finance must evolve and emulate the conventional system in terms of range and variety in order to survive and develop. Mohamed agrees that: "For Islamic finance to become the globally accepted system of choice it will have to evolve and innovate more structures," but he warns that "the basic concepts must remain the same". Shariah compliance is an immutable concept, without which the industry has no place in the world and no reason to exist. "Shariah acceptable", Mohamed explains, is simply "someone's attempt to help Islamic finance evolve… but in the synthetic value creation direction." He warns that synthetic value is not Islamic, and that eventually these false creations will inevitably fail. "Darwin's laws of evolution will be applied to these structures when they fail the test of reality. Shariah compliant structures have shown the resilience that will make them the preferred choice in the coming decade, and we should all help in facilitating that transition by innovating while remaining true to our values."

Deceptively simple

Youssri Helmi, the chairman of Ideal Ratings, explains that in 2009 when the group first looked at a screening service it appeared to be "a relatively simple problem that could be solved using mostly software and algorithms," because "the definition of a compliant company appeared relatively straightforward". However, it turned out that ensuring a thorough and rigorous Shariah compliant screening system was not that simple after all.

To begin with, Ideal Ratings used a simple process: "We licensed the best data feeds in the world, which included business activity classification in several standardized formats, and running the financial ratios was a breeze, we in fact used Excel to prototype the first working models, and it was all running very smoothly. We gave the output to a small number of friends who worked as analysts in reviewing Shariah compliant

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CLOSING BELL

Surge in growth

MALAYSIA: BIMB Holdings, which owns Bank Islam Malaysia and Syarikat Takaful Malaysia, has reported a 47% year-on-year growth in its profit before tax and zakat to RM399.8 million (US$125.72 million) in the nine months ended the 30th September.

Bank Islam recorded a profit before tax and zakat of RM342 million (US$107.54 million), an increase of 42% from the previous corresponding period, on the back of RM1.2 billion (US$377.35 million) in revenue.

Entering new markets

QATAR: Doha Bank, which will have to shut down its Islamic banking window by the end of this year in line with the Qatar Central Bank's directive on Islamic banking windows, expects to receive approval for its application of a banking license in India soon.

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equites in various markets. We felt this was an overly easy task, in fact we felt it was too good to be true. We were right, it was in fact too good to be true because it wasn't true."

Ideal Ratings began to do its own exploration of the companies which passed the initial screening, and found some worrying examples of companies that got through the screening criteria but were obviously not Shariah compliant: such as GM and GE, US conglomerates which were well-known to derive substantial portions of their revenues from interest-based financial activities yet were slipping through the net somehow. "We had to pause and rethink our approach: with all the mergers and acquisitions and diversification strategies that public companies are pursuing, a large number of companies were involved in various lines of business, but since the legacy classification code had only one pigeon hole to put a company in, we realized that relying on these classification codes was an oversimplification of the problem we were trying to solve."

The group had to go back to the drawing board, and refine its processes to come up with a more comprehensive and complex strategy for Shariah screening, which also accounted for Sukuk and other Shariah compliant structures. The hybrid model that resulted from the new research has now developed into one of the moset widely used and accurate research platforms in the industry, offering the largest accurate investable Shariah compliant universe with over 42,000 securities in over 100 countries, covering over 95% of the global market capital.

"After this experience," said Youssri, "we've learned that in addressing a complex problem one has to anticipate unexpected complexities as few things are in fact what they appear to be."

When in doubt, track it

However, many asset managers in the current investment landscape have failed to recognize the importance and complexity of Shariah screening, and have not adopted such a rigorous system. This is a mistake, as it affects both the reputation of the asset manager and ultimately, the performance of the fund itself. Many managers seem to think that only an initial screening process is necessary, to make sure on a basic level that a security or asset is permissible – that the company does not produce alcohol, sell pork, derive income from interest-based activities, invest in gambling, etc. However, it is not always possible in today's business universe to ensure consistent transparency, and companies may change their activities and investments all the time. To ensure full Shariah compliance, screening must be undertaken at regular intervals, and the revenue streams of all securities must be tracked at all times, in order to keep an eye on the developments, trends, and expectations of changes. It is not enough to make sure that a company is not investing in haram products. Where do its loans come from? Are its loans compliant or from compliant sources? Is it paying interest on its liabilities? Where are all its revenue sources coming from? Youssri comments that Ideal Ratings looks at details such as Yahoo's revenue from online services such as music, videos and gaming. Can income from online gaming really be Shariah compliant, and how do you determine this?

There will always be shades of grey in a world that is developing so rapidly, and the only way to maintain strict compliance is by ensuring as much information as possible. But there are many different companies that offer different screening processes, and all of these use different techniques. It is understandably confusing not only for investors trying to choose a fund or a manager, but for asset managers themselves, especially those not necessarily experienced in Islamic finance. With so many variables and so many possible methodologies, it is inevitable that there are differences in interpretation. Is it acceptable for an airline to earn 2% of its profits from selling duty-free alcohol to passengers? 0%? 5%? How subjective is the decision – should it be taken at an investor level, or a manager level? There are endless permutations to consider.

The process

Quantitative methods are usually used to analyze a range of business and financial variables, ranging from the company's issuance of preference shares to its holdings of derivatives. A second stage subsequently involves the manual analysis of a firm's accounts and reports, in cases where the financial data providers have provided insufficient information.

Shariah Capital, a US-based company that creates Shariah compliant financial products and platforms and is recognized as a pioneeer in Shariah compliant hedge funds, has developed a comprehensive and straightforward screening process for determining Shariah compliance for publicly-listed companies that is a good example of the process. Before a security can be classified Shariah compliant it has to pass two levels of screening. Each level consists of proprietary formulas and associated tests based on criteria established by prominent Shariah scholars. The first 'industry' test screens the core businesses of companies for compliance. The second 'financial' test comprises three tests to check the levels of interest income or interest expense incurred by each security. Companies that generate interest income or incur interest expense below certain benchmarks are classified as compliant.

The tests incorporate and refine the screens introduced by the Dow Jones Islamic Market Index's Shariah Board in 1998 and later by FTSE, and have been approved by the five Shariah scholars who currently comprise the Dow Jones Islamic Market Index Shariah Board. Companies that pass both tests are included in the Shariah compliant universe provided to clients, while companies that do not pass are reviewed again before being rejected. Where there is any doubt or any unavailable date during the automatic screening process, the companies are reviewed manually. This can often be because financial date is missing or incomplete, in which case research is done to obtain the missing data in order to re-screen

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> ***What is now needed is the creation of a global, automated, standardized Shariah screening system***

the company. Another situation can be when two companies merge, one of which is not Shariah compliant. In this case, a subjective decision must be made based on research into the goals and objectives of the new merged company. A third event can occur when a company previously compliant experiences a temporary inflow of cash that generates unacceptable levels of interest income, and thereby has to be temporarily removed from the approved list.

A global system

The Shariah compliant universe is a broad one. Over 4,500 companies traded on major US exchanges are classified Shariah compliant, as are more than two thirds of all publicly traded companies worldwide. It must be remembered that the vast majority of securities are in segments which are perfectly permissible, such as manufacturing, mining and technology. Non-compliant industries such as conventional finance represent only a tiny portion of the overall screening universe. However, of the securities that do represent a danger, it is vital that a thorough and constant screening process be enacted for all investments to ensure rigorous Shariah compliance. The challenge for the industry is to make this process systematic so that mistakes are avoided and so that the process is cost-effective enough to make it universally accepted and acceptable. Screening processes must be not only rigorous, but transparent and auditable, if they are ever to be accepted as a benchmark standard for compliance.

With so many variables and so many potential methodologies for assessment, there is currently a level of confusion in the industry that is restricting its development. What is now needed is the creation of a global, automated, standardized Shariah screening system that is accepted by the industry as a whole, and regulated by an independed body. Until this happens, the Islamic asset management industry is just groping in the dark. — *LM*

Looking at the flipside

Editor's Note

As we enter the final month of 2011, it seems the usual cheer associated with the end of the year has been dampened by continuing volatility and an increasingly bleak outlook for the global markets and economies.

With choices becoming more difficult to make in the context of current conditions, it has become more important to be mindful of all possibilities and this week, Islamic Finance *news* looks at the flipside to existing issues as the availability of information plays a crucial role in helping with decision-making.

Our cover story this week scrutinizes the Shariah screening of assets, while Islamic finance expert Mohammed Khnifer also brings up the vital issue of compliance, putting Goldman Sachs' impending US$2 billion Sukuk under the microscope and highlighting concerns regarding the structure's Shariah compliance.

Edib Smolo from the International Shariah Research Academy for Islamic Finance presents his independent thoughts on the negative effects the domination of the Malaysian Sukuk market may have on the global market as a whole, while Salman Ahmed Shaikh, a researcher of Islamic economics, questions the limited use of equity financing, despite it being noted by scholars and experts as a preferable mode of financing compared to debt-based structures.

Meanwhile, we also have a contribution from Ivana Hrdlickova, a judge in the Apellate Court Pardubice and legal expert of the Council of Europe at the International Association of Women Judges, who writes on the opportunities for Islamic finance in the Czech Republic.

In Bahrain, Yahya Abdulla of Cushman & Wakefield writes on the return to investor confidence of the kingdom's real estate market and construction industry.

Our Islamic Investor feature covers an excerpt from a presentation by Simon Glover of Merit Commodity Partners at the IFN Issuers & Investors Asia Forum 2011, and Insider takes a look at Abu Dhabi Commercial Bank's Islamic business.

This week, our IFN reports highlight the potential for bank mergers in Bahrain; developments in the Islamic interbank money market; and the outlook for the UAE's property market.

IFN Correspondents write on developments in the industry in Egypt, Saudi Arabia, Switzerland and the UK; while Shan Saeed, our columnist, writes on Shariah compliant investing in shale gas for wealth protection.

Meet The Head features Emad Mansour, CEO of Qatar First Investment Bank, while our Case Study looks at Bahrain's US$750 million sovereign Sukuk.

AFRICA

Roadshow for Senegal's debut Sukuk

SENEGAL: The country plans to meet with investors before the end of 2011 prior to the issuance of its maiden potential sovereign Sukuk, according to Khaled M Al-Aboodi, the CEO and general manager of the Islamic Corporation for the Development of the Private Sector, which is arranging the sale.

Khaled added that the Sukuk will be a dual-currency offering comprising Senegalese francs and possibly the euro.

ASIA

VSS for HLISB staff

MALAYSIA: Hong Leong Bank has extended the group's voluntary separation scheme (VSS) to employees of its subsidiary, Hong Leong Islamic Bank (HLISB), following the completion of its merger with EONCAP Islamic Bank on the 1st November.

"Like in any merger, there will be streamlining of operations, support services, and infrastructure for synergies of productivity and efficiency," said Raja Teh Maimunah Raja Abdul Aziz, the CEO of HLISB.

New Zakat fund on the cards

MALAYSIA: The endowment, zakat and haj department is planning to establish a global zakat fund, the World Zakat Organization Fund, and is seeking sponsorship from Islamic banks, said Jamil Khir Baharom, a minister in the prime minister's department. According to Jamil, the fund is aimed at helping poor Muslims globally and to assist the people in conflict-stricken countries.

Sukuk in the pipeline

MALAYSIA: Senai Airport Terminal Services, a local airport operator, has established an Islamic medium-term notes program worth RM330 million (US$104 million).

Proceeds from the Islamic bond will be used to finance the development of the Sultan Ismail International Airport in the state of Johor and the construction of Senai Airport City.

All set to venture into Sukuk market

AUSTRALIA: National Australia Bank and Citilink Finance Australia (Citilink) are reportedly prepared to tap the global Sukuk markets as the country's parliament considers amendments to tax laws to avoid double taxation of Islamic bonds.

Melbourne-based National Australia Bank is said to be "particularly interested" in exploring opportunities in the Sukuk market, while Iftikhar Rana, a director at Citilink, said that the bank plans to sell US$200 million-worth of Sukuk and start a Shariah compliant fund in March 2012.

The National Taxation Board submitted a report to the government in June 2011 on tax treatment for Islamic finance and is awaiting parliamentary approval for the amendments.

IPO still on the cards

INDONESIA: Bank Muamalat Indonesia (BMI) is still considering the sale of between 20-40% of its shares in an initial public offering (IPO) on the Indonesia Stock Exchange next year.

Arviyan Arifin, its president director, said that the bank will proceed with the sale upon receiving approval from its shareholders, which includes the IDB, adding that the plan will be brought up during BMI's annual general meeting in June next year.

The bank is also planning to issue a subordinated Sukuk worth IDR1 trillion (US$111 million) next year to boost its capital.

Expanding presence

MALAYSIA: Bank Muamalat Malaysia has embarked on an expansion drive and will be opening at least five new branches in the first half of 2012.

Mohd Redza Shah Abdul Wahid, its CEO, also said that Bank Muamalat's negotiations with local postal service provider, Pos Malaysia, are progressing well, with the bank to install 10-30 of its kiosks at post offices nationwide.

He explained that the installation will probably start before the end of March 2012, adding that the endeavor would help the bank reach potential customers, especially in the rural areas.

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Islamic finance continues growth momentum

GLOBAL: The Islamic finance industry has grabbed the spotlight with the successful issuance of sovereign Sukuk from Indonesia and Bahrain in November, with its growth momentum set to be sustained on expectations that global Islamic commercial banking assets will surpass the US$1 trillion mark next year.

According to Ernst & Young's (E&Y) World Islamic Banking Competitiveness Report 2011, Islamic banking assets with commercial banks globally will surge 33% to US$1.1 trillion in 2012, with especially strong growth from the MENA region.

E&Y said that this follows a shift in the region towards comprehensive Islamic financial systems following the Arab spring. Islamic banking assets in the region are expected to reach US$990 billion by 2015 from US$416 billion in 2010, it said.

It also said that Islamic banks' market share of total MENA banking assets reached 14% this year, while Islamic banking assets in the GCC have surpassed 25% of the region's banking assets.

However, Ashar Nazim, the MENA Islamic financial services leader of E&Y, said that the challenge and opportunity now facing leading industry players is how to sustain the historical growth curve of Islamic banks.

Meanwhile, the Sukuk market has also been riding high recently, off the back of Indonesia and Bahrain's sovereign Sukuk, while Senegal is expected to commence roadshows for its debut sovereign Sukuk by the end of this year.

The market has also seen successful issuances from Abu Dhabi Commercial Bank and Abu Dhabi Islamic Bank, sold at 275 basis points (bps) and 245 bps over midswaps, respectively, with a further flood of issuances from the UAE and Malaysia expected going into next year. Bankers noted that issuers are raising funds more cheaply via Sukuk than through conventional means, while Europe's debt woes have also contributed to the recent activity in the market.

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The bank will also extend its Islamic pawn-broking service to 10 other branches in the first quarter of next year, from three currently.

No merger plans

MALAYSIA: Hwang-DBS (Malaysia) has dismissed media reports on a merger plan with Alliance Financial Group (AFG).

"So far the board has not deliberated on the possibility of any merger and we will take market conditions as a cue," said Eric Ang Teik Siew, the director of Hwang DBS.

However, Ang did not elaborate on the reports that Singapore's DBS Group Holdings was a key player in any merger talks.

The statement follows a news report on the 23th November regarding a possible merger between the two companies.

DBS Group Holdings' subsidiary, DBS Bank, owns the Islamic Bank of Asia and a 28% stake in Hwang-DBS (Malaysia), which is involved in Islamic banking, stockbroking, wholesale banking and consumer finance. Alliance Financial Group owns Alliance Islamic Bank.

Sukuk to make its debut soon

MALAYSIA: Toll operator ANIH has set up a RM2.5 billion (US$784 million) worth of Islamic medium-term notes program to back an acquisition of toll-road assets from MTD Prime and Metramac Corporation.

The Sukuk will be settled at par on a bought-deal basis with ANIH's joint lead arrangers, CIMB Investment Bank and Maybank Investment Bank, subscribing to the total size on an equal basis.

Sukuk to continue momentum

MALAYSIA: Up to RM30 billion (US$9.4 billion)-worth of Sukuk is expected to be issued from Malaysia next year.

According to Badlisyah Abdul Ghani, the CEO and executive director of CIMB Islamic, Sukuk currently accounts for 38.2% of the total bonds outstanding in the country.

For the first half of 2011, the Securities Commission Malaysia approved a total of 19 Sukuk issuances amounting to RM32 billion (US$10.23 billion), of which RM24.6 billion (US$7.7 billion) has been issued.

Going for another retail Sukuk issuance

INDONESIA: The finance ministry is planning to issue a retail Sukuk in March 2012 according to Rahmat Waluyanto, the director general of the finance ministry's debt management office.

The ministry sold a similar Sukuk worth IDR7.3 trillion (US$811 million) in February 2011, maturing in three years and priced at 8.15%.

SECP introduces new databases

PAKISTAN: The Securities and Exchange Commission of Pakistan (SECP) has developed new databases providing information relating to the country's equity and corporate debt markets, including data on Sukuk.

The databases were set up with the aim of increasing the awareness of market participants and general investors regarding Pakistan's capital market activity as well as to assist in conducting academic and empirical research.

Boost for Islamic finance

SRI LANKA: Local investment house Wealth Lanka Management and Malaysia's Al Tayseer Advisory Services have partnered up to provide Islamic banking and Sukuk instruments to help create an Islamic interbank market in Sri Lanka.

The alliance will also provide advice on setting up Islamic banking units for banks, finance companies and leasing firms.

Islamic finance for Kerala

INDIA: The Kerala government-promoted Shariah compliant Al Barakah Financial Services hopes to start operations from next year, pending its non-bank finance company license from the central bank, Reserve Bank of India.

The company will start with leasing and hire purchase services using its own funds, before offering deposit-taking and providing financing facilities.

Al Barakah is also seeking approval

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Further amendments needed to Kuwait's Sukuk laws?

KUWAIT: Following the recent successful issuances of Kuwait's Gulf Investment Corporation (GIC) and Kuveyt Türk's Sukuk, speculation is rife that the authorities may develop a more robust legal framework for the issuance of Sukuk in the country, which has yet to see a domestic issuance of Sukuk.

While the issuance of Sukuk in the country is allowed following the introduction of a ministerial decree in 2007, industry players believe that further legal amendments are necessary to encourage further growth of the local Islamic bond market, according to a report by the Oxford Business Group.

The government's move to set up a Capital Markets Authority this year has been seen as part of its effort to pave the way for the amendment of Sukuk laws and further strengthen existing laws. However, the lack of domestic Sukuk sales appears to suggest that more needs to be done, with issuers from Kuwait turning to markets such as Malaysia and Turkey to sell their Sukuk.

While Malaysia has established itself as a leading global Sukuk market, Turkey has also proven particularly successful in launching its Islamic bond market. Sukuk has been allowed in Turkey since April last year, after the release of a new law on Sukuk Ijarah. This was further bolstered early this year with the exemption of Sukuk Ijarah from certain taxes in order to create a level playing field between Sukuk and conventional debt.

Kuveyt Türk Katilim Bankasi, the Turkish arm of Kuwait Finance House, made waves in October with its US$350 million Sukuk, garnering US$2 billion-worth of orders from investors, underscoring the demand for GCC issuers; while GIC sold the second installment of its US$1.1 billion Sukuk in Malaysia in August.

With robust demand from investors for Kuwaiti Sukuk issuers and a thriving pipeline from domestic firms to issue Sukuk, the time appears ripe for the Kuwait government to boost its existing Islamic bond laws to encourage the market's further growth.

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from the Security Exchange Board of India to launch Shariah compliant private equity and venture capital funds as well as to provide portfolio management services.

State-owned Kerala State Industrial Development Corporation owns an 11% stake in Al Barakah, while the rest is owned by several Gulf-based businessmen from Kerala.

Latest Islamic securities list

MALAYSIA: The Securities Commission Malaysia has issued an updated list of 839 Shariah compliant securities approved by its Shariah advisory council. The list constitutes 89% of the total 946 listed securities on Bursa Malaysia, the local stock exchange.

The updated list includes 15 newly classified Islamic securities and excludes three from the previous list issued in May 2011.

The new stocks are: AEON Co (M), Asia Pacific Land, Bumi Armada, Eversendai Corporation, GSB Group, I-Berhad, iDimension Consolidated, Inari, MSM Malaysia Holdings, Prestariang, PW Consolidated, Sindora, Sunway, UOA Development and XOX.

The dropped securities are: Borneo Oil, Hap Seng Consolidated and TAHPS Group.

Liquidity boost

SINGAPORE: The Monetary Authority of Singapore (MAS) and Malaysia's central bank, Bank Negara Malaysia, have signed a MoU to establish a cross-border collateral arrangement aimed at enhancing liquidity facilities to banks in both countries.

Under the arrangement, eligible financial institutions operating in Singapore may obtain Singapore dollar liquidity from MAS using ringgit-denominated sovereign and central bank securities as collateral.

Similarly, banks in Malaysia can access Malaysian ringgit funds from Bank Negara Malaysia by pledging securities denominated in Singapore dollars.

Strong growth

PAKISTAN: The Islamic banking industry has grown to constitute about 7.3% of the overall banking system in Pakistan, said Muhammad Kamran Shehzad, the deputy governor of the central bank, State Bank of Pakistan.

Muhammad said that there are five fully-fledged Islamic banks and 12 conventional banks with Islamic banking branches in more than 70 districts across the country.

He added that the Islamic banking industry has maintained a strong growth momentum with over 30% average annual growth during the last six to seven years.

Muhammad also noted that the growth trend in the local Islamic banking industry is likely to gather further momentum with the expansion of Islamic banking networks in second and third tier cities of Pakistan.

Obstacle in Islamic banking

INDIA: The government and officials at the central bank, Reserve Bank of India, are to be blamed for its narrow-minded approach for introducing Islamic banking in India, according to K Rahman Khan, the deputy chairman of Rajya Sabha, the Council of States of India.

K Rahman added that if the authorities were more open to the Islamic banking model, they would find that the model is better and more stable than the interest-driven banking system in India.

Benefit for capital market

MALAYSIA: The prospect of Malaysian high yield bonds will build a more attractive capital market globally, said Badlisyah Abdul Ghani, the executive director and CEO of CIMB Islamic.

Badlisyah added that presently Malaysia's debt papers are tightly priced because of the high quality of the issues.

He also said that the acceptance of ringgit-denominated Sukuk among foreign investors has grown compared with 10 or 15 years ago and will grow further over time.

Meanwhile, Yeoh Keat Seng, a senior fund manager at Kumpulan Sentiasa Cemerlang, said that Malaysia urgently needs to boost its competitiveness to attract more foreign funds, or risk seeing its share of regional fund inflows decline.

UAE bankruptcy law to provide respite for struggling firms

UAE: In a country rocked by high profile restructurings from the likes of Nakheel, Dubai Group and Dubai World, the market is breathing a sigh of relief over the impending introduction of its bankruptcy law. After being in the works for almost two years, the UAE finally appears set to implement the bankruptcy law, of which a draft has been sent to the ministry of justice.

Features incorporated in the law, which was drafted by the ministry of finance, the ministry of economy and the Central Bank of the UAE, will promote growth in the emirates' economy, as it will allow for firms facing financial difficulties to work on restructuring frameworks and repay debt without decreasing productivity.

Provided that it is approved by the ministry of justice, the draft law will then move on to the Cabinet, the Federal National Council and finally Sheikh Khalifa Zayed Al Nahyan, the president of the UAE, before the law is enacted - expected next year.

The UAE has had to contend with a number of debt restructurings following the 2008 financial crisis, including Nakheel's US$16 billion plan, after it almost defaulted on its Sukuk in 2009, and on Dubai Group's US$10 billion debt pile.

Those high profile transactions put the absence of a bankruptcy law in the UAE under the spotlight, with Hamad Buamim, the director general of the Dubai Chamber of Commerce and Industry, recently noting that: "Three years ago, if I was the owner of a business and in a very bad situation, I would have packed my bags and left, because I couldn't restructure my business. This (the bankruptcy law) is a major step going forward."

The law has been modeled after bankruptcy laws in the UK and the US and is expected to cover the restructuring of commercial and non-commercial debt as well as debtor obligations. It will also outline rules to give struggling companies access to bank loans, while protecting the rights of debtors and creditors.

EUROPE

Staying on top of the game

UK: The UK and London will remain the world's leading international and Islamic financial center, according to Iain Lindsay, the British ambassador to Bahrain.

"Islamic finance, like every other type of financial activity, benefits from the UK's combination of experience, variety of skills, geographic location, infrastructure, transparency and openness," said Lindsay.

He added that the UK is keen to further establish partnerships with the other centers of Islamic finance, as it seeks to become the global partner of choice for Islamic financial services.

AAOIFI standards in French

FRANCE: Paris Europlace has released a French translation of AAOIFI's Shariah standards with the aim of promoting and fostering Islamic finance in French-speaking financial centers in Europe, the Maghreb region and Sub-Saharan Africa.

The translation focuses on the 20 main Shariah standards out of 44 and has been validated by AAOIFI.

The translation exercise was carried out by Paris Europlace's Islamic finance law committee, comprising lawyers, bankers and Islamic finance experts including Shariah consultancies Conseil Français de Finance Islamique and Comité Indépendant de la Finance Islamique en Europe.

It follows the signing of an MoU between Paris Europlace and AAOIFI in January 2009 to translate the AAOIFI standards from Arabic to French.

GLOBAL

New portal for Islamic finance

GLOBAL: Fitch has announced the launch of its Islamic finance portal.

The portal features Fitch's Islamic ratings coverage and research content on issuers and issuances.

IDB staying strong

GLOBAL: The IDB Group will continue to assist in developing a sustainable Islamic financial system and sound regulatory framework in Bahrain and Malaysia, said Khalid Mohammed Al-Aboodi, the CEO and general manager of the Islamic Corporation for Development of the Private Sector.

IDB is actively involved in the establishment of the General Council of Islamic Banks and Financial Institutions in Bahrain, the International Islamic Rating Agency, the development of prudential regulatory standards and a Shariah compliant avenue for investing in a short-term inter-bank market with the Islamic Financial Services Board.

Door of opportunity for Islamic finance

GLOBAL: The global financial crisis has given the Islamic finance industry an opportunity as the flaws in conventional finance have created interest in the Islamic financial model, according to Rasheed Mohammed Al Maraj, the governor of the Central Bank of Bahrain.

Rasheed said that this should provide the foundation for the industry to maintain a period of strong growth for the entire decade. He added that growth opportunities are strong as Islamic finance has its largest presence in rapidly developing economies that have been least affected by the global financial turmoil.

However, he warned that Islamic finance still needs to learn from the mistakes of the conventional financial system, if it wants to make the most of these opportunities.

More growth expected

GLOBAL: There is more growth to be seen in the global Islamic finance industry, as it is still in a nascent stage, according to Belaid Jheengoor, the director of asset management for PwC in Bermuda.

"Global Islamic finance is fairly new, only having been in existence for the last 25 years and the market currently stands at about US$1 trillion," he said, adding that studies by global industry leaders show that the industry could grow to US$3-6 trillion within the next three to five years.

Jhengoor, who is also the chairman of Bermuda's Islamic finance task force, noted that Bermuda represents an ideal

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Bank Asya's planned Sukuk put off by negative global markets

GLOBAL: Bank Asya has shelved its planned Sukuk issuance due to negative developments in the international market, in a possible sign that the flood of Sukuk sales seen since October this year is tailing off.

The bank revealed on the 20th October that it has mandated Citigroup Global Markets and UBS for a five-year Sukuk with a volume of up to US$300 million, but announced on the 25th November that it has postponed the issuance, just two days after Abu Dhabi Islamic Bank priced its five-year US$500 million Sukuk at 3.78%.

Bank Asya's letdown comes after the completion of a roadshow for its sale, with expectations that the Sukuk would be issued at the beginning of November, and follows the successful issuance of Kuveyt Türk Katilim Bankasi's US$350 million Sukuk at the end of October.

However, it appears that any issuance in December could be faced with even worse conditions as market volatility grows.

Andrew Dell, the head of debt capital markets for MENA at HSBC, was recently quoted as saying that: "There are a few issuance windows available before the end of the year," adding that with the prevailing high volatility, the aggregate issuance of debt (from the Gulf) for the full year is not expected to reach last year's level.

Nonetheless, industry observers said that appetite for good quality credit remains. Gary Dugan, the chief investment officer of private banking at Emirates NBD, said that the bank continues to recommend investing in, among others, high quality Sukuk amid the uncertain market environment, while Dell noted that going forward, more diversification of issuers is expected with a growing number of corporates accessing the debt market.

As Bank Asya adopts a wait-and-see attitude towards its Sukuk issuance, it remains to be seen whether other issuers will go ahead with their planned sales or if the month of December will bring the debt markets to a grinding halt.

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domicile for Sukuk issuances and as an offshore jurisdiction for Islamic finance transactions.

S&P gets 4.9% stake in RAM

GLOBAL: Standard & Poor's (S&P) has acquired a 4.9% stake in Malaysian rating agency RAM Holdings (RAM) from the Asian Development Bank.

"We look forward to sharing mutual best practices to benefit Malaysia's capital markets while providing a platform for promoting RAM's deep company and sector research to global investors," said Surinder Kathpalia, the managing director and ASEAN head of S&P.

The move by S&P marks the further expansion of its activities in Asia, where it is the majority shareholder of rating agencies CRISIL Ratings in India and Taiwan Ratings Corporation in Taiwan. It also has a mutual cooperation agreement with Pemeringkat Efek Indonesia in Indonesia and a technical services agreement with Shanghai Brilliance in China.

Towards uniformity

GLOBAL: The International Islamic Financial Market (IIFM) is targeting to introduce a template for Shariah compliant profit rate swaps in the first quarter of 2012, according to Ijlal Alvi, its CEO.

The institution is currently finalizing and awaiting Shariah approval for the template, which will standardize the documentation used for profit rate swaps among Islamic institutions.

He also said that the IIFM is looking to establish a standardized Wakalah agreement in 2012 and is currently drawing up the first draft of the document following a consultation with banks, scholars and law firms.

The agreement is aimed at addressing interbank relationships, including concerns over the comingling of funds and limiting the use of commodity Murabahah, he said.

MIDDLE EAST

IR standards lauded

UAE: Fitch has welcomed the Gulf Bond and Sukuk Association's investor relations (IR) standards for conventional bonds and Sukuk issuers from the region.

According to Fitch, the new guidelines will serve as a positive step towards increasing transparency and public disclosure to provide investors a better understanding of risks and symmetric access to consistent information.

However, its effectiveness will depend on the clarity of its details and implementation.

Mulling sale options

QATAR: Doha Bank is looking at options to sell its Islamic banking unit, Doha Islamic, according to Sanjay Jain, its deputy chief financial officer.

He explained that there remains a lack of clarity on the Qatar Central Bank's directive for conventional banks in the country to close their Islamic windows by year-end.

Jain added that Doha Bank will continue to provide services to its existing Islamic banking customers.

Partnering for growth

BAHRAIN: The kingdom's Islamic finance industry is going through a consolidation phase that will see several mergers in the near future, in addition to that of Al Salam Bank-Bahrain and Bahrain Islamic Bank, according to Khalid Hamad, the banking supervision executive director of the Central Bank of Bahrain.

He said that there are also three other major local Islamic investment banks in negotiations to merge, while adding that there could be a merger between an Islamic and a conventional retail bank.

Meanwhile, he said that the kingdom is keen to set up more partnerships with centers of Islamic finance to further develop the industry.

He added that the central bank will continue to actively develop industry standards and the standardization of market practices through the Islamic Financial Services Board, AAOIFI and International Islamic Financial Market.

Successful Sukuk issuance

UAE: Abu Dhabi Islamic Bank, which sold its US$500 million Sukuk at

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3.78% on the 22nd November, reportedly received more than US$2 billion in orders for the facility.

A total of 57% of the Sukuk was distributed to the Middle East investors, 13% to Asia and 29% to Europe. Additionally, 52% of the Sukuk was allotted to banks, 28% to fund managers and 16% to central banks, with a total of 122 bids received.

Periodic distribution

UAE: Jafz Sukuk has announced a periodic distribution of AED128 million (US$35 million) for its AE7.5 billion (US$2.04 billion) Sukuk trust certificates.

The certificates have a profit rate of 3.4% and will mature in 2012.

Waiting for the right time

OMAN: Bank Sohar is planning to take a cautious approach towards Islamic banking and will wait to see how Oman's new Islamic banks fare before launching its own Shariah compliant services, according to Khalfan Rashid Al Tal'ey, its head of retail banking.

Khalfan added that the bank has scaled back its program of opening branches from up to 15 each year to between three and five annually as it seeks to assess the effect Islamic banking might have on the sultanate's banking industry.

Bank Sohar is also currently undertaking studies to assess the viability of Shariah products in the sultanate, he said.

Restructuring deal inked

UAE: Dubai International Capital (DIC), the investment arm of Dubai Holding group, has reportedly signed an agreement with creditor banks on the terms to restructure US$2.4 billion-worth of debt.

The agreement includes 2% interest to be paid on about US$2 billion-worth of credit and the extension of maturities to five years, while the maturities of a further US$400 million in financing will be extended for three years at current rates, with the terms likely to come into effect in mid-December 2011.

A committee of six banks, namely HSBC Holdings, Emirates NBD, Royal Bank of

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RATINGS

Under the spotlight

MALAYSIA: RAM has reviewed and placed the respective 'AA3' and 'A2' ratings of MRCB Southern Link's RM845 million (US$266 million) secured senior Sukuk (2008/2025) and RM199 million (US$63 million) junior Sukuk (2008/2027) on Rating Watch with a negative outlook.

MRCB Southern Link is a wholly-owned subsidiary of MRCB Lingkaran Selatan, the concessionaire for the Eastern Dispersal Link Expressway (EDL), which will impose the toll on the Johor-Singapore Causeway.

Satisfactory start

TURKEY: S&P has assigned a 'BB' issue rating on the proposed Sukuk certificates to be issued by Bereket Varlik Kiralama Anonim Sirketi, a special purpose company of Albaraka Türk Katılım Bankası.

Final grade

MALAYSIA: MARC has assigned a final rating of 'AA-IS' with a stable outlook to DRB-HICOM's RM1.8 billion (US$571 million) Islamic medium-term notes program upon the receipt of the final documentations for its forthcoming notes issuance.

Strong finish

MALAYSIA: RAM has assigned a final enhanced 'AAA(fg)'/'P1' ratings to Poh Kong Holdings' RM150 million (US$47 million) Danajamin-guaranteed Islamic commercial papers/ Islamic medium-term notes program. The long-term rating has a stable outlook.

Mixed ratings

MALAYSIA: RAM has reaffirmed the 'AA3' rating of Malakoff Corporation's RM5.6 billion (US$1.8 billion) Islamic medium-term notes as well as the 'AA3/P1' ratings of its RM600 million (US$188 million) Islamic commercial paper/ medium-term notes (2007/2014).

Improved position

KUWAIT: Moody's has changed the outlook for Ahli United Bank's ratings from negative to stable. The ratings are its 'A3' long-term and 'Prime-1' short-term local and foreign-currency deposit ratings, as well as its 'D+' standalone bank financial strength rating

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Scotland Group, Lloyds Banking Group, Mashreqbank and Noor Islamic Bank, negotiated with DIC on behalf of around 20 financiers.

IIG ordered to pay-up

KUWAIT: The Court of First Instance has issued a judgment to Shariah compliant International Investment Group (IIG) to pay KWD3.9 billion (US$14 billion) to Ossul Investment Company.

In view of this, IIG has made an appeal against the court's verdict. However, it did not furnish details of the case.

Need for more Shariah-friendly laws

UAE: Oliver Agha, the founding partner of law firm Agha & Shamsi, has highlighted the lack of regulatory frameworks that are compatible with Islamic finance as a challenge for the mortgage market in the MENA region.

He also stressed the need for the MENA region to showcase how Islamic home mortgage financing is carried out, as it is home to the largest Islamic mortgage financiers.

However, Oliver said in order to do this, the region needs adequate property laws that are compatible with Islamic finance.

ENBD goes for Sukuk

UAE: Emirates NBD (ENBD) is considering issuing a five-year US dollar-denominated bond or Sukuk, according to Rick Pudner, its CEO.

He said that the bank's final decision on the potential issuance will likely be determined within the first two weeks of December, adding that it will also have to consider the right timing for going to market.

The bank is said to have drawn up a shortlist of seven or eight banks to manage the possible sale. The list includes National Bank of Abu Dhabi, Standard Chartered Bank, HSBC, Citi, The Royal Bank of Scotland and Emirates NBD itself.

Finalizing takeover

UAE: Emirates NBD (ENBD) is continuing to evaluate synergies between Dubai Bank and its other Shariah compliant unit, Emirates Islamic Bank, said Rick Pudner, CEO of ENBD.

He also said that ENBD's takeover of Dubai Bank, which is expected to be completed at the end of this year, will be reflected in ENBD's full-year balance sheet.

Pudner said that the acquisition would have no impact on the group's profit and loss account or on its consolidated balance sheet.

NBAD to provide financing

UAE: National Bank of Abu Dhabi (NBAD), the parent bank of Abu Dhabi Islamic Bank, has joined other Gulf banks in signing an agreement with the Export-Import Bank of Korea to support projects in the region involving South Korean companies.

Officials from the Export-Import Bank of Korea said that the move will promote co-financing for infrastructure developments and other schemes, filling a gap as financing from European banks tightens as a result of the Eurozone financial crisis.

Other Gulf banks involved in the transaction are the National Bank of Kuwait, Al Ahli Bank of Kuwait, the Commercial Bank of Kuwait, Qatar National Bank and Qatar Islamic Bank.

Rush to sell

UAE: Local companies are rushing to sell Sukuk or conventional bonds rather than risk weaker conditions later, despite the prevailing bleak outlook for credit markets as the Eurozone sovereign debt crisis continues and budget cuts in the US take hold, according to Debashis Dey, the head of capital markets (Middle East) at law firm Clifford Chance.

Debashis said that some firms have tried to guess the right timing as to when to enter the market. He added that in some cases, even if they were told that this wasn't the best time to go into the market, they have proven to be wrong.

Opportunities for M&A still available

QATAR: There is still an appetite for M&A transactions in the MENA market, despite the current global economic and political uncertainty in the region, said Shadi Zubeidi, the managing

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MOVES

COUTTS

UAE: Coutts, the wealth management arm of The Royal Bank of Scotland Group, has appointed **Amir Sadr** as its head of the UAE market and private office in the Middle East. He will be based in Dubai.

He was previously the head of the institutional client group and the family office group at Merrill Lynch Wealth Management in London.

CREDIT GUARANTEE CORPORATION MALAYSIA

MALAYSIA: Credit Guarantee Corporation Malaysia has appointed **Abdul Hamidy Abdul Hafiz** as its new chairman.

Abdul Hamidy is currently the chairman of the Corporate Debt Restructuring Committee and Danajamin Nasional and was previously the managing director and CEO of Affin Bank, the parent bank of Affin Islamic Bank.

DEUTSCHE BANK

UAE: Deutsche Bank has appointed **Nadeem Masud** as its chief country officer for the UAE and the general manager of its Dubai International Financial Center branch.

Nadeem, who will also continue to head the bank's corporate and investment banking business for the MENA region, replaces Salman Al Khalifa, who will leave the bank at the end of the year.

STANDARD CHARTERED

UAE: Standard Chartered has reportedly appointed **Haithem Katerji** to head its Middle East and North Africa financial institutions group.

Haithem was previously the director of global banking advisory at HSBC Holdings in the Middle East.

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director and head of corporate finance at Qatar First Investment Bank.

He said this is because the region will witness new opportunities in the coming years following the recent uprisings.

New financing scheme

BAHRAIN: Standard Chartered Saadiq and Tamkeen have introduced an Enterprise Financing Scheme in Bahrain to help the kingdom's small and medium enterprises (SMEs).

Through the scheme, Tamkeen will offer the bank a 50% guarantee of the total financing amount and subsidize 50% of the profit payments due from benefiting SMEs.

Reducing risk

SAUDI ARABIA: Banque Saudi Fransi (BSF) will sell its 27% stake in Bemo Saudi Fransi Syria and its 10% share in Banque Bemo Sal Lebanon.

BSF said that the financial risks in Syria do not permit it to continue as partner to Bemo Saudi Fransi Syria, adding that it is no longer represented on the board of either bank.

Coming up...

Volume 8 Issue 48 – 7th December 2011

Meet the Head
Zati Sankhavanija, president & CEO, Amanah Leasing Public Company

Features
The AK BARS Bank debut Islamic syndication: By Alberto Brugnoni, managing director of Association for the Development of Instruments of Alternatives and Financial Innovations (ASSAIF)

Doubtful and mixed capital of Islamic financial institutions and Takaful operators: By Dr Zaharuddin Abd Rahman, Shariah scholar and lecturer, faculty of economics and management sciences, International Islamic University Malaysia

Benefits and challenges in applying international financial reporting standards for Islamic finance: By Sutan Emir Hidayat, senior lecturer and academic advisor for Islamic finance at University College of Bahrain

Interbank money market still lackluster

Despite liquidity management being the core of any robust financial system, it is ironic that the Islamic finance industry is sorely lacking in this department. "There are no cross-border liquidity products existing today which are truly Shariah compliant. Without liquidity instruments, you cannot have a healthy and systemically safe financial system. Liquidity is indispensable; and it is a significant shackling for the Islamic financial system to not have liquidity instruments that are cross-border in nature. We need cross-border products because financial institutions are globally linked, and the demand for this is enormous," revealed Hooman Sabeti, a partner at Allen & Overy, at this year's Islamic Finance *news* Asia forum.

A typical balance sheet of Islamic financial institutions in the GCC currently shows a higher asset-to-liability ratio, with more short-term instruments compared to long-term issuances such as Ijarah investments and Mudarabah receivables. Most Islamic banks in the Middle East are currently facing an asset-liability gap, with a shortage of long-dated assets that align with the long-term nature of the investments, and vice versa.

An industry player explained: "While the banks' main investments are long-term, such as in Sukuk or project financing, their main funding source is short-term; from customer deposits. The result is a maturity mismatch. With a shortage of longer-dated assets and interbank liquidity, the industry faces the challenge of creating an infrastructure that could support liquidity management strategies and capture the opportunity provided by the Islamic finance sector's large capital pools. There is now a growing focus across the industry to facilitate greater interaction and linkages among Islamic financial institutions to boost cross-border Islamic liquidity management."

There are currently more than 25 liquidity management instruments available globally, but more than 70% are commodity Murabahah-based; except in Sudan and Iran. However, there is definitely demand for liquidity management products, as revealed by a GCC-based industry player: "One of the things we would like to see is an instrument that is flexible and allows customization to be compliant with the Shariah board, as well as deal documents that can accommodate regulatory issues in the jurisdictions that we serve. Our clients are interested in dealing in highly rated, highly qualified, very strong financial institutions," he said.

Recently, the Islamic Interbank Benchmark Rate (IIBR) was launched by Thomson Reuters in a bid to create a 100% Shariah compliant benchmark for pricing Islamic financial transactions. The IIBR uses the contributed rates of 16 Islamic banks and the Islamic sections of conventional banks "to provide a reliable and much-needed alternative for pricing Islamic instruments to the conventional interest-based benchmarks used for mainstream banking sector."

However, given that only two Saudi-based banks are on the list of contributors out of the 16 banks, the main challenge of the IIBR is whether it can effectively facilitate cross-border transactions and funding given the diverse nature of the level of development of the Islamic finance markets across the board. Unless the rate is reflective of all the centers that partake in the initiative, industry players feel that this will still remain a market hurdle. — *NH*

Merge or disappear?

Given the current economic climate and the political instability in Bahrain, industry players are finding it hard to be 100% bullish on its short to medium-term fiscal position. However, the situation has been relatively settled in recent weeks, and in the long-term market players say that a bull market is set to re-emerge; mainly due to the government's commitment to increasing infrastructure financing and projects, as well as the Central Bank of Bahrain (CBB)'s support towards its local entities, in particular its Islamic banks.

In the meantime however, Islamic banks are looking more towards consolidating their balance sheets and merging to create a more robust position in the market, to ride out the global economic woes and prepare themselves for any potential troubles in the Eurozone.

A Bahrain-based investment banker believes that bank mergers are set to be a growing trend amongst Islamic banks in the region, stating: "There really is no place for boutique banks right now. Family businesses are also not suitable in Bahrain anymore, given the difficulty in acquiring funding. It really is not as easy as it used to be."

In terms of deal issuances, Bahrain still ranks below Malaysia, which is currently at the top of the league, but with support from the CBB and an expected rise in infrastructure projects over the next few years, the kingdom is bullish on dominating the league table.

There are currently 439 different financial licenses given out by the CBB in Bahrain; with its 29 Islamic banks possessing different licenses. However, with the support of the CBB industry players are confident that the merger process, which undoubtedly will occur throughout the kingdom in time, will be smooth.

"The current sentiment for banks in Bahrain now is either merge, increase your capital, or downsize, to be able to ride out the economic tidal wave. Different banks can bring in different levels of expertise, and we definitely see this as a positive step," an investment banker revealed. — *NH*

Property market remains a going concern in the UAE

For the UAE's larger property companies, huge levels of debt and underperforming investment property portfolios appear commonplace. The financial troubles at several major developers and the banks' reluctance to expose their balance sheets to this under-regulated and overdeveloped market have continually delayed the arrival of fresh capital.

Property developers such as Tamweel and Amlak were the engines of Dubai's six-year residential property boom, writing the largest number of home loans of any lenders in the emirate. The Shariah compliant lenders relied on short-term borrowing to fund long-term loans. This mismatch between the companies' long-term assets and short-term liabilities was exposed when the red-hot property market fizzled towards the end of 2008, and the credit crunch closed access to new funding.

Authorities are hoping that a swathe of new regulations will stimulate the market. However, identifying new demand sources is crucial to stimulate the sector. It is demand-side issues that are holding the property sector back, and that is dependent on external factors such as the global economic outlook, housing demand and the willingness of lenders to jumpstart the mortgage market.

According to the MENA Mortgage and Affordable Housing Congress, the MENA mortgage market is set for double digit growth. "The MENA population is growing at a rate of 2.1%, which is comparatively higher than overall population growth; and with approximately 60% of the population under 25 years of age, home ownership demand is huge.

Despite this market growth potential, major challenges continue to restrict development. A lack of adequate regulations, underdeveloped capital markets, lack of synergy between pension funds, insurance companies and mortgage providers are all serious challenges to the industry.

The market still awaits clarification of new laws and regulations that it is hoped will lead to greater investor interest. Analysts warn that more clarity on real estate laws and regulations is crucial, especially as the number of residential properties expected to enter the market is only going to increase.

As a result the UAE's banks are preferentially electing to restructure mortgages for defaulting homeowners rather than repossessing in a bid to cut their losses on bad property assets. Dubai introduced a repossession law in 2008, in the wake of a property collapse that saw house prices slump 60% from their peak. But few banks have pursued foreclosure proceedings to recover properties, preferring instead to renegotiate payments terms with owners and avoid writing down further provisions. Options include payment breaks or reductions to monthly installments of home loans. Banks are accommodating and agreeing to the rescheduling of mortgages, and only going to court as a last resort.

> ***"Analysts remain concerned that the estimated 33,000 new homes scheduled to hit Dubai's market by the end of 2012 could cause fresh declines in rental and sale prices"***

Barclays Bank in May 2011 became the first lender to sell a first repossessed property at an auction held by the Dubai Land Department. The lender was also the first to repossess a home in January 2010, clearing the way for lenders holding about US$16 billion of homes loans to attempt to recover their losses. However, the sale failed to prompt the expected flood of repossessed homes onto an already strained housing market.

Mortgage advisory firm Independent Finance said that banks remained reluctant to repossess and auction off properties, in part because of the lengthy foreclosure process and the still sliding value of real estate in Dubai. A number of lenders are also holding back properties in the hope of a recovery in prices.

A lack of clarity over foreclosure proceedings may also deter banks from attempting to offload properties. Banks would rather avoid foreclosure, as the laws and processes are still unclear. Restructuring loans to assist clients in financial difficulty is the preferred option for all banks.

"This region needs to lead the rest of the world in showing how Islamic home finance is done. The largest Islamic mortgage financiers operate in this region and what is really required is an adequate property law and regulations that are compatible with, and develop, Islamic finance," according to Oliver Agha, a partner at Agha & Co.

Some conventional and Islamic banks in the UAE have started filing cases against mortgagors of foreclosed properties in order to recoup their losses. According to Mazen Boustany, the head of banking and finance at Habib Al Mulla & Co, the crisis affecting the real estate sector in the UAE is leading to an increase in mortgage enforcement."Banks, conventional and Islamic, have started to file cases to recover their losses from mortgagors if the losses are huge and they are certain that the mortgagor has assets that can be attached."

But analysts remain concerned that the estimated 33,000 new homes scheduled to hit Dubai's market by the end of 2012 could cause fresh declines in rental and sale prices – a situation that could worsen if a high number of repossessed homes are released to market.

Andrew Goodwin, the director of real estate consultancy DTZ, said the auctioning of repossessed homes could further knock market confidence by revealing the true picture of the industry's price decline. "Traditionally mortgage repossessions are liquidated in auctions and while there have been a few, there is a concern that this is inherently a transparent process and could unsettle the market and have a knock-on effect to the remaining lenders," said Goodwin. This is no different from what we see in more mature international markets, such as the UK, where banks are working with clients to hold assets until the market can sustain a sale. It's a practical approach. — *SW*

Politics to promote the Islamic finance industry

EGYPT

By Dr Walid Hegazy, IFN Correspondent

Over the last few months, the political scene in Egypt has been dominated by the Islamic political movement known as the Muslim Brotherhood Al-Ikhwan, along with Salfist parties such as Al-Nour and Al-Fadial parties. It is expected that the influence of Islamic movements will significantly increase after the upcoming parliamentary elections. This expectation is justified by the popularity of Islamic movements in the Egyptian society and the political vacuum caused by the sudden collapse of the old regime.

It is certain that the rising of Islamic movements will positively affect the Islamic finance sector on both a legal and an economic level. The political change has already encouraged one of the Islamic parties to take the initiative in promoting Islamic finance. The Salfist Islamic party Al-Nour announced that it would establish the first Salfist Islamic bank in Egypt; to be named Al-Nour Islamic Bank. However, the Islamic finance sector currently remains in a state of relative stagnation.

Meanwhile Adnan Ahmed Youssef, the CEO of Al-Baraka Banking Group (Baraka), stated that the sale of 10-year Islamic bonds issued by the bank is expected to yield EGP1 billion (US$168 million). Furthermore, Zeinab Hashim, the head of the treasury and foreign division at the National Bank of Egypt (NBE), stated that the NBE has obtained approval from Egypt's central bank to establish a new bank in Sudan, with founding capital of US$50 million. The bank will be operating solely on Islamic finance methods, as per the Sudanese country ordinance.

Dr Walid Hegazy is the managing partner of law firm Hegazy & Associates in association with Crowell & Moring. He can be contacted at whegazy@hegazylaw.com .

Structuring Sukuk in Saudi Arabia

SAUDI ARABIA

By Nabil Issa, IFN Correspondent

Over the last few years there has been a dramatic increase in the number of issuances of locally-domiciled Sukuk. This is partly due to the large number of mega projects. At the same time the global financial market is retrenching, and borrowers are realizing that Sukuk is an alternative that needs to be considered for large-scale projects in Saudi Arabia. A number of projects, particularly energy projects in the GCC, are now being partially or completely financed through the use of Sukuk. Sukuk holders have undivided beneficial ownership interests in the assets underlying the Sukuk. Sukuk are arguably analogous to US trust certificates, and provide holders regular payments that are often benchmarked to Libor.

It is now possible to obtain rated Sukuk, and a number of Sukuk in the region are redeemable in the event the concerned project company floats its shares within a certain number of years from the issuance of the Sukuk. The assets from which the Sukukholders are generating profits must be Shariah compliant. Sukuk tranches in project financings of energy projects are widely expected to grow in popularity over the next few years in the GCC. There is an issue in using limited liability companies to issue Sukuk, but increasingly companies are joint stock companies, making Sukuk a viable option to raise Shariah compliant debt.

However, structuring a locally-domiciled Sukuk requires bankers and lawyers to have a strong understanding of the local regulations, and that improper structuring may lead to regulatory challenges, unenforceable documentation or negative tax implications.

Regulatory issues

Sukuk offered in Saudi Arabia must be offered through a locally licensed investment bank licensed by the Capital Market Authority (CMA), and such parties are known as CMA authorized persons. Any offering must either be a private placement or a public offering. Any public offering must comply with the listing regulations promulgated by the CMA. If it is a private placement, then the offering documentation must be provided to the CMA. If the CMA does not comment within 10 business days, then the Sukuk may be offered through the designated CMA authorized person. Note that a private placement cannot be offered to more than 60 persons in Saudi Arabia and each such person must invest at least SAR1 million (US$267,000) or the total issuance must not be for more than SAR5 million (US$1.3 million).

Enforcement

Depending on the underlying Sukuk structure, you need to ensure that such structure complies with Saudi Arabian law. We note that documents are often drafted under English law and that various concepts under English law are not applicable or enforceable. A local court or tribunal will normally ignore a foreign governing law clause and apply Saudi Arabian law. As a credit enhancement, we note that parties often utilize a promissory/order note. The Negotiable Instruments Office (NIO) has jurisdiction over actions, matters and disputes involving negotiable instruments (such as promissory notes, which, for reasons relating to Shariah precepts, we typically re-characterize as 'order notes'), and, in the context of such disputes, the NIO has jurisdiction superior to that of the Saudi Arabian Monetary Agency banking disputes committee. Actions before the NIO are normally resolved in less time than those before the banking disputes committee, as order notes are generally enforceable in Saudi Arabia on their face value and lenders often require the borrower to deliver an order note for the full amount of the loan, in addition to an order note evidencing the amount of commission/interest owed. In the event that a financier cannot enforce the interest provisions of the financing for reasons of Shariah interpretation, financiers normally protect themselves by having an order note that is only for the amounts of the principal and, thus, untainted by interest.

Trend for asset-backed Sukuk

We note that there is a growing trend for Sukuk to be asset-backed. Depending on the underlying asset, this may present certain challenges and opportunities. If the Sukuk is backed by real estate

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into a special purpose vehicle (SPV), then the advantage is that unlike other jurisdictions, there are no significant government fees or taxes in relation to the transfer of land.

Taxation

In general, Sukukholders outside of Saudi Arabia will be treated like lenders. The Sukukholders should receive the entire principal back with no withholding taxes, and then incur only a 5% withholding tax on dividends on the profit portion of the Sukuk. The documentation, however, should be carefully drafted to ensure such parties are not deemed permanent establishments in Saudi Arabia, triggering further taxation. Also, the SPV that holds the asset should be carefully structured to reduce tax leakage at that level. If the SPV is foreign-owned, in addition to restrictions on ownership in Mecca or Madina, the SPV will incur taxation of 20% on profits. If the SPV is GCC-owned it will result instead in zakat at 2.5% of wealth of the entity. In both cases, if the SPV is not owned by a party in Saudi Arabia, there is also a 5% withholding tax on dividends owed to the owners of the SPV. Structuring the documentation carefully is critical to reducing potential taxation implications.

SPV

It should be noted that a limited liability company may not issue Sukuk. A limited liability company (LLC) is not permitted under the Saudi companies' law to issue a debt instrument. A closed joint stock company takes longer to form than a LLC: normally approximately four months. Also a closed joint stock company requires a minimum of five shareholders. We have seen a growing use of this product for trade financings and real estate projects.

Conclusion

While structuring a Sukuk in Saudi Arabia presents certain challenges, these are not insurmountable and can be addressed by lawyers and bankers familiar with Shariah and structuring similar projects in Saudi Arabia in a manner that is Shariah compliant, enforceable and tax/zakat efficient.

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Switzerland still playing catch-up

SWITZERLAND

By Khadra Abdullahi, IFN Correspondent

According to estimates, the global Islamic finance industry is worth close to US$1 trillion today — nearly half of which passes through Switzerland. From Dubai to Kampala, the industry has attracted significant investor interest due to Islamic banks' tendency to avoid excessive leverage and risk-taking, which has protected the industry from the fate suffered by their conventional counterparts. France, the UK and Luxembourg are competing to become the financial hub for Islamic finance in Europe.

France is in the process of implementing a series of tax and legislative changes to boost the Islamic finance sector, whereas the UK and Luxembourg have adapted their legislation to incorporate Islamic financial principles and products (e.g. double stamp duty, taxation of capital gains on property, fiscal treatment of foreign beneficiaries, tax relief on yields from Sukuk, etc.)

Despite the US$400 billion of Muslim money that is managed in the Swiss banking system, Switzerland, the world champion in asset management, has yet to take specific steps towards integrating Islamic finance into its legislative system. The nation has yet to adapt its legislation to the practice of Islamic finance. To date, there are only a handful of private banks that operate according to Shariah precepts within the Swiss framework.

However, most of these banks are conventional banks with an Islamic window or division. According to the Swiss Financial Market Supervisory Authority (FINMA), the Swiss financial regulator, only one bank has so far received a banking license and is fully Shariah compliant.

The FINMA does not deliver Islamic banking licenses; it only grants general banking licenses. Several media sources have recently reported that a new entity has requested a banking license and is awaiting approval from the FINMA. If that license is granted, this will increase the number of Islamic banks in Switzerland to two: a very small number in comparison with the 327 banks and securities dealers operating in the country.

Another sector where Switzerland loses its competitive edge to its neighbors is education in Islamic finance. France and the UK are both offering a wide array of certifications and graduate degrees in Islamic finance. If Switzerland wants to maintain its status as a world champion in asset management, it has a lot to do to catch up to other European nations and attract Muslim wealth.

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Autumn in London

UK

By Dr Natalie Schoon, IFN Correspondent

As the days are getting shorter, the Islamic finance industry in London is quietly going about its business. Moody's Investor Services announced that it has assigned a 'Baa' bond fund rating to the US Dollar Income Fund of Bank of London and The Middle East, which is one of the components of its Shariah compliant Umbrella Fund domiciled in Luxembourg.

Earlier this month, the European Islamic Investment Bank announced that as part of its strategic repositioning and restructuring, it has decided to take action to reduce both the bank's headcount and the overall cost base to bring it in line with recurring revenue.

These changes are aimed at reducing annual costs by approximately 40%. This significant reduction is intended to be achieved by a reduction in head count from 35 to 17 and the closure of the Bahrain representative office.

Two new Sukuk issuances were listed on the London Stock Exchange, raising a total of GBP530.63 million (US$825 million). Each of the issuances has a maturity of five years.

For the fifth consecutive year, UK Trade & Investment hosted the UK Pavilion at the World Islamic Banking Conference (WIBC), held on the 21st-23rd November 2011. With 18 UK-based institutions offering Islamic financial services presenting themselves at the pavilion, this was the largest delegation in its history.

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Wealth protection strategy: Invest in shale gas the Islamic way

By Shan Saeed

Global economic outlook

Is the US economy prepared for another US$4.3 trillion in losses? Smart investors are preparing for the worst as the problems in Europe continue to threaten the global financial system. As political and financial upheaval rages across Europe, treasury officials and other financial regulators in the US are digging into the books of American banks to find out just how exposed we are. All big banks have a huge exposure to the European financial markets. They are identifying which financial firms could be the next to crumble. And they are making contingency plans for a worst-case scenario — total credit lockdown and a wave of bank failures like falling dominoes.

Is quantitative easing working for the US in terms of exports?

No, I think to pursue competitiveness policies by manipulating or steering down the nominal values of the exchange rate is a precarious strategy in the economic game plan. In the end, it gets you to Zimbabwe, which didn't exactly become a hub of competitiveness. It is a gross misalignment for historical reasons. I think the US shouldn't get too upset about the Chinese manipulating their currency. There is also no reason to attach great importance to the ability of the US in manipulating its currency. Both are second order instruments in economic policy documents. GDP might grow by less than 1.5% in 2012 for the US.

Europe's financial mess

I think we have maybe a few months – but it could be weeks or it could be days — before there is a material risk of a fundamentally unnecessary default by a country like Spain or Italy, which would be a financial catastrophe dragging the European banking system and North America with it. So the policymakers in Europe have to act now. Financial markets are groping for systematic risk as things unfold in the PIIGS (Portugal, Italy, Ireland, Greece and Spain) economies with banks, exposure and default situations going forward.

To sum up I would like to share a rehash of the Deutsche Bank pitch-book to the European Central Bank (ECB). Germany has two options: inform Europe to take a hike, or commit to bailing out 250 million Europeans' early retirement packages. The ball is in Merkel's court, as she has to worry about this fickle, and potentially pitchfork-bearing, thing called 'voters'. This crisis is the result of the failure to provide the minimal institutional underpinning for a monetary union in the euro area, and also a result of the ECB unfortunately being the heir of the Bundesbank and therefore not understanding and rejecting the role of central bank as lenders of last resort for sovereign debt. Europe's economic growth will be around 1% in 2012.

Shale gas — the next revolution in the energy market

Investors who want to take a position in this new energy revolution should invest in shale gas equities, fields and exchange traded funds (ETFs). Shale gas has taken on a new form of importance. Major players are taking a huge position in shale gas. Saudi Arabia is quitting the oil business in the next 10 years. The Saudi royal family has invested US$130 billion in gas, which is roughly three years net income of Exxon Mobil. It's a big move in the energy market.

I was talking to an analyst at Goldman Sachs in New York in September 2011 who gave me details about this energy revolution. America needs 22 trillion cubic feet (TCF) of shale gas per annum. The known reserve in US is about 2,577 TCF which is approximately 110 years of shale gas available for utilization. This is a game changer for the US economy as it fails to get out of renewed recession fears. China has made a strategic investment in Enca – the Canadian shale gas company - amounting to US$4.7 billion, to fund the world's largest oil shale field, discovered in China in 2009.

Major players in shale gas

The big players are maneuvering aggressively to get the strategic advantage as the energy market landscape is changing rapidly to sustain their market share, to enhance their profitability and to broaden their revenue structure:

1. China
2. The US
3. Canada
4. Saudi Arabia
5. Russia

Fortune favors equity investors

Equity investment is absolutely legitimate in the Islamic way. Shariah permits investment and taking a position in the equity market where market gains or dividends or earnings yield fluctuate and are not fixed. Equity investors are making fortunes in the many companies in the sector. In fact, since the early 2000s, few corporates have made heavy gains in the energy market to take a sustainable edge over others.

- Chesapeake Energy is up 888% (since 2002)
- Brigham Exploration is up 665% (since 2004)
- EOG Energy is up 1,213% (since 2005)
- Pan Orient is up 4,678% (since 2001)
- Occidental is up 707% (since 2006)
- XTO Energy is up 3,685% (since 2002)

The list of big winners is nearly as long as the number of firms that staked their claims.

Happy investing in the equity market.

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Islamic banking emerges as key growth driver for ADCB

In a month that saw a flood of Sukuk issuances, Abu Dhabi Commercial Bank (ADCB)'s US$500 million sale at the end of November went almost unnoticed. However, the bank received more than US$1.4 billion-worth of orders for its issuance, from investors across Asia, Europe and the Middle East, pricing the five-year papers at 4.07%.

As one of the largest banks in the UAE and supported by the government of Abu Dhabi, the positive response to ADCB's Sukuk does not come as a surprise, even as it sold its papers amid "very volatile and challenging market conditions", as the bank itself acknowledged in a statement.

However, with some of the proceeds from the transaction to be used for the acquisition of real estate assets; and the bank just this year growing its property management segment, could ADCB be treading the fine line between Shariah compliance and over-exposure to real estate?

Despite this potential concern, what is notable about ADCB's Sukuk issuance is that it could signal the strengthening of this conventional bank's Islamic banking business.

Growing presence

While not a new segment for the bank, having been introduced in 2008, ADCB's Islamic banking arm has grown in importance this year. In July, it unveiled a new look for the business, launching a suite of products mirroring and complementing its conventional services. Where its Shariah compliant services were previously offered under the Meethaq brand, its wider range of products are now provided via ADCB Islamic Banking.

Ala'a Eraiqat, CEO of ADCB, said that ADCB Islamic Banking aims to be seen as the Shariah compliant product provider of choice, noting that: "Islamic banking is one of the fastest-growing segments in the banking world and goes beyond just financial considerations. ADCB has raised the bar in this sector by offering a full suite of Islamic banking Shariah compliant services, in line with the products and services on offer in conventional banking."

The bank also teamed up with this year's Middle East Manufacturing Exhibition as the exclusive Islamic banking partner for the event, which was held on the 14th through to the 16th November and is regarded as among the most important manufacturing trade shows in the region. ADCB's role as the event's Islamic banking partner allowed it to tap into the small and medium-sized enterprise segment of UAE manufacturers, in a move that could prove lucrative to the bank's already-growing Islamic banking profits.

> *"In the third quarter of 2011, growth from ADCB Islamic Banking has far outpaced its conventional business"*

Money talks

In the third quarter ended the 30th September this year, ADCB reported a year-on-year growth of over 1,000% in net income from Islamic financing to AED36.32 million (US$9.89 million). Although still only contributing around 2.7% to the bank's total net interest and Islamic financing income for the three months to the 30th September this year and 5.92% to its bottom line during the period, growth from ADCB Islamic Banking has far outpaced its conventional business. For the third quarter ended the 30th September this year, ADCB's net interest income grew 48.74% from a year earlier to AED1.3 billion (US$353.97 million).

ADCB's Islamic financing portfolio has also grown at a faster pace than its conventional loan portfolio between the 31st December last year and the 30th September 2011, adding AED840 million (US$228.72 million) to the books compared to the growth of AED370 million (US$100.75 million) recorded in its conventional loans.

In addition, while contributing to a smaller portion of its Islamic portfolio, ADCB's financing to corporates grew 37.96% from the 31st December 2010 to the 30th September 2011, against the 23.04% growth recorded in its Islamic retail financing, displaying the bank's growing significance in the Shariah compliant corporate financing space.

Diversify or die?

While ADCB's Islamic banking business has clearly helped it to diversify its income streams, a potential concern is whether the bank is diversifying enough and if its Shariah compliant forays may be being put to use in an insufficiently efficient manner.

According to a report from Moody's, the proceeds of ADCB's recently issued Sukuk will be used to acquire ownership interest in a portfolio comprising mainly of real estate Ijarah assets, non-real estate Ijarah assets, Salam assets and other Shariah compliant assets.

While the Sukuk investment portfolio itself is diversified, the question is whether ADCB should be increasing its exposure to real estate, given the lessons of the 2008 financial crisis and with the bank already beginning to run property management separately as one of its four operating segments, effective the 1st April this year. According to the notes to its financial statements, the property management segment comprises real estate management and engineering service operations of its subsidiaries Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, ADCB Real Estate Fund operations and rental income.

A further possible concern is the propensity for Islamic banks in the UAE to invest heavily in real estate as they seek Shariah compliant transactions, leaving their balance sheets vulnerable to market conditions. With ADCB's Islamic banking and property management activities growing in tandem, the bank may need to be cautious of over-exposing itself to the UAE's still-fragile real estate market.

Despite these possible pitfalls, ADCB has clearly geared itself up to become a more visible player in the Islamic banking market. As growth of its core conventional business lags behind that of its Islamic division, the launch of ADCB Islamic Banking appears set to help the bank diversify and expand its bottom line. However, it will have to be wary of limiting its coverage of UAE real estate in an effort to achieve Shariah compliance. — *EB*

Regaining investor confidence

Bahrain is well on the way to recovery, and YAHYA ABDULLA explores the positive developments in the real estate market and construction industry which are putting the kingdom back on track.

Despite being the smallest of the GCC member states, the Kingdom of Bahrain has long maintained a strategic role within the Middle East: pioneering social, economic and political reforms. These developments are even more impressive when viewed within the framework of the kingdom's limited oil reserves. A diversified economy including substantial investment into the banking & finance, tourism and heavy industry segments, combined with a strong regulatory framework, has given Bahrain a strong position as a regional business hub. The earlier unrest witnessed in the first quarter of 2011 has now subsided but the overall impact on the real estate market is still being felt, with a level of uncertainty prevailing. However, there is undoubtedly willingness in the country to recover from this period and get Bahrain back to business as usual.

Market forecasts	
Prime rents: office occupational market remains weak with continued falling rents and uncertainties following demonstrations	↘
Vacancy: Oversupply will sustain high vacancy levels	↗
Supply: Current oversupply of office space, but limited Grade A	↗
Demand: Reduced demand given currents situation. Occupiers continue to demand quality and value for money	↘

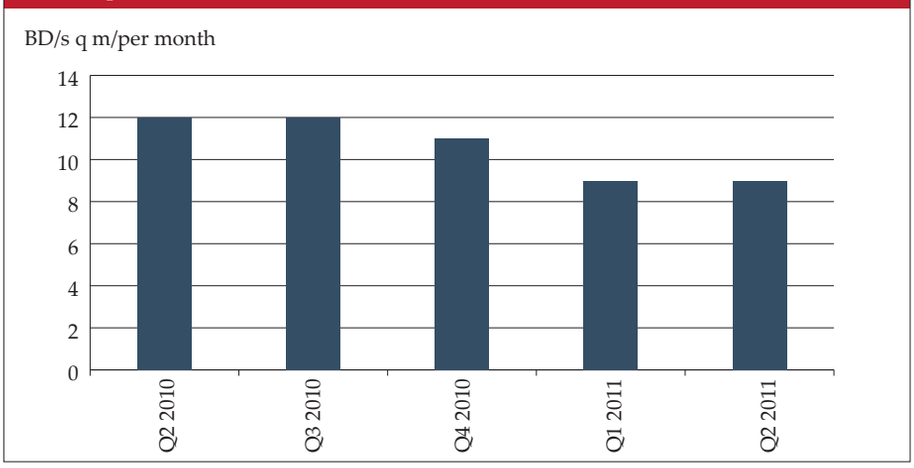
Source: Cushman & Wakefield

Prime office rents – Q2 2011

	Prime rent BD sq m/month	Prime rent US$ sq ft/pa	12 month trend
Diplomatic Area	8.0	23.5	↓
Seef District	7.0	20.6	↓
Bahrain Financial Harbour	7.0	20.6	↓
World Trade Center	9.0	26.5	↓

Source: Cushman & Wakefield

Bahrain prime office rents



Source: Cushman & Wakefield

> ***There is, however, an expectation for continued consolidation within the financial segment, with a few high profile mergers due to take place in 2012***

Bahrain has established itself as a regional banking hub for both conventional and Islamic finance, with more than 408 financial institutions, including 120 banks registered with the Central Bank of Bahrain, of which 26 are Islamic. For a country with a population of around one million, the concentration of financial institutions is testament to the regulations implemented by a highly accredited central bank. There is, however, an expectation for continued consolidation within the financial segment, with a few high profile mergers due to take place in 2012.

Being a relatively small island, land reclamation, infrastructure and indeed the real estate segment are important facets of Bahrain's economic development. As can be expected, there was limited activity across the market during the first quarter of the year as all corporate and retailer enquiries were put on hold. However through the second quarter, properties such as the Bahrain World Trade Center have seen an upsurge in leasing activity. Corporate companies, as ever, remain highly focused on occupational costs, with decisions being made on the basis of the net effective rental terms offered rather than headline rents. Year-on-year rents have shown a 25% decline. Over the last quarter however, rents in prime locations around the World Trade Center are showing signs of stabilization at between BHD8-10 (US$21.2-26.5) per square meter per month for shell and core space. Other locations such as the Seef District and Bahrain Financial Harbor are still suffering from the effects of the earlier unrest and rental levels continue to experience downward pressure. The increase in office leasing

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enquiries over the last quarter is mainly due to companies seeking to relocate to more stable areas of the city. This return in market activity is restricted to certain buildings and is not representative of the wider market. Overall we still expect to see a further decline in rental values in the coming months.

Investor interest is primarily focused on secure income-producing assets, in quality locations, leased to strong covenant tenants on long lease terms. Government-backed infrastructure, affordable housing and logistics projects are also attractive.

Related to the point above, having stalled over the past few years, Bahrain's construction industry is due to return to growth following the government's recent commitment to the affordable housing sector. As is the case in most developing nations, there is a large demand supply mismatch in this segment which the government is aggressively seeking to fill. According to ICD research, the industry is expected to grow by a compound annual growth rate of 7.76% between 2011 and 2015. Affordable housing projects worth around US$7 billion are planned including large PPP initiatives. Earlier in the year, the GCC agreed to a US$10 billion fund for development opportunities in Bahrain— again, it is anticipated that a substantial proportion of this will be allocated to social housing.

The real estate market in Bahrain is still under pressure but some signs of stabilization have been witnessed. During the second half of 2011 there is an expectation of a soft recovery in the office market in specific projects and locations. The prime office sector is expected to perform strongest due to the limited Grade A stock available.

As the home (and indeed headquarters) of many Islamic banks, we would hope to see the country overcome the hurdles it has faced earlier this year and continue its march towards becoming an international business destination.

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Equity markets: Their importance in Islamic economy

SALMAN AHMED SHAIKH provides reasons why preferable equity modes of financing such as Mudarabah and Musharakah are hardly used by Islamic financial institutions in some jurisdictions.

Equity financing is regarded as more just and closer to Islamic principles than debt-based financing. Almost all academic literature on Islamic banking and finance obtains its legitimacy and support through the mention of preferable equity modes of financing such as Mudarabah and Musharakah.

But if these are the preferable modes, why are they not used exclusively? Scholars and practitioners cite trust and documentation problems as reasons. However, these should not be major problems in developed markets where Islamic finance is prevalent.

Hardly used

One of the major hurdles in the use of Mudarabah on the asset side of a bank, i.e. for financing, is that only the Rab al maal is considered to bear all the financial losses. Therefore, if an Islamic bank enters into a Mudarabah contract as a Rab al maal, only the Islamic bank would have to bear all the losses. The Mudarib (fund manager) bears no loss, while he has complete authority in running the affairs of the business.

The Rab al maal (investor) is not allowed to participate in the affairs of the business. This is unlike the case of venture funds, where the venture capitalist can include several covenants for dealing with the agency problem and even select the board of directors and board of management and change them accordingly. In Mudarabah, when a loss occurs the Mudarib acts like an employee of the business and when the profit occurs, he shares in the profit as if he was the only reason behind the profits.

Consider an Islamic economy with Mudarabah on the asset and liability side and no other instrument used. The Mudarib (usually blue chip companies), with no liability to share loss, can obtain financing from banks who would be Rab al maal in the asset side use of Mudarabah.

On the liability side, the bank will be Mudarib and the small savers and investors will be Rab al maal. So, any loss incurred by blue chip companies is ultimately paid for by small savers and investors who have all the liability to share losses without having a say in the affairs of the business.

Restricted Mudarabah and clauses of wilful negligence are insufficient to protect them from losses strictly due to business cycle fluctuations. This example shows that with the current structure, even Mudarabah used alone in an economy is insufficient to bring about any egalitarian change.

> ***"Restricted Mudarabah and clauses of wilful negligence are insufficient to protect the small investor from losses strictly due to business cycle fluctuations"***

Let's analyze trust deficit and documentation problems, which are cited as reasons why Mudarabah is not being used widely. Relax these assumptions and now consider a situation where there are no trust deficit and documentation problems in the economy. If a loss occurs due to business cycle fluctuations, no part of the loss is borne by the business that had all the authority to run the operations. The loss is borne not by the bank because the bank is a Mudarib on the liability side. All losses are borne by the small savers and investors.

Now consider that the government prohibits interest-based lending and borrowing too. Will the people want to be Rab al maal in a Mudarabah with the bank or the shareholder of a blue chip company, which can take all the money, invest it and earn from it, but if any loss occurs, can pass it straight onto the small savers? Mudarabah with the current structure, even when assumptions of trust deficit and documentation problems are relaxed and even when there is no competing conventional banking system, is ineffective.

In Mudarabah, the following two covenants can be introduced to make them 'usable' even if they are not used or will not be used by practitioners who are more comfortable using debt-based modes of finance.

a) The Mudarib can be asked to contribute some capital. The contract will still remain different from Musharakah as only the Mudarib is the working partner.

b) The Mudarib can be asked to share the loss to some extent.

These two covenants will minimize the problem of adverse selection, moral hazard and principal-agent conflict.

Islamic investment banking to facilitate IPO

Not only do Islamic banks not use Mudarabah and Musharakah in their asset side operations, but Islamic financial institutions have shown no inclination to develop an equity market with Islamic investment banks facilitating IPOs through bridge, seed and venture capital financing using preferable equity modes. Nobody seems to be thinking along those lines. This makes the claim of going towards egalitarian and redistribution objectives all the more meaningless.

With surplus liquidity at their disposal, Islamic banks could have provided financing using preferable equity modes to facilitate new IPOs in the market and hence encourage equity financing for the economy.

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But instead, what they are doing with their surplus liquidity makes one very uncomfortable. Islamic banks in Pakistan currently use their excess liquidity to provide funds to the conventional banks which, by way of this, provide interest-based loans. Is this the kind of economy Islamic scholars and practitioners are promoting?

There is a stock exchange in Karachi where more than 750 companies are listed, and they opted to finance themselves with equity. The point is that bankers think they are the only ones who can provide finance. Islamic banking is supported sometimes on the premise that if not it, then what else will suffice and fulfill the needs of the Muslim population.

What about the thousands of private companies incorporated in the country and the thousands of public unlisted and listed companies which generated most of their financing through equity and went through their most difficult phase of business with own equity? What about mega housing and construction projects worth millions of dollars which are financed through private equity in Karachi?

With important covenants in place, equity financing can be used widely. It is interesting to study the size of the debt and equity market in developing countries. For instance, in Pakistan, a corporate bond market hardly exists, whereas equity financing is more prevalent and widely used.

Equity financing through shares will forever deny the claims of bankers in general and Islamic bankers in particular who hide behind trust deficit and documentation problems. Why do people invest in shares of companies without any guarantee over par value let alone dividend? Even when they do, Islamic scholars have put a restriction which even denies people the right to participate in equity markets flexibly.

An analysis of screening principles for equity investments

Islamic scholars have put a cap on how much interest-based debt could be used to finance total assets. In Pakistan, if the ratio of interest-based debt to total assets is 37% or more, then, Islamic scholars disallow investment in ordinary shares of such a company.

Lamentably, this restriction is not mentioned in the Quran and is referred to as an 'operational restriction' by Islamic scholars. A company which has used an Islamic debt — based mode of finance to finance a fixed asset or has used an interest-based debt to finance the same asset, will be rendered non-compliant for investment in its ordinary shares if it has used an interest-based financing method.

> ***"Islamic scholars have deprived small investors of the opportunity to invest in these companies"***

But, from the perspective of leverage, it will have the same nature of liability and leverage position. It is incorrect to say that this principle discourages leveraging. Fixed instalments will be payable in both cases from an economic point of view. But, with higher Islamic banking spreads, fixed installments to Islamic banks will be higher than conventional.

While small investors are deprived of equity investments in such companies, these companies will be provided with finance by Islamic banks with priority. Hubco, Kapco, Nishat Mills, PIA, Engro and FFBL are some of the companies whose shares performed well and they were provided with finance by Islamic banks. But for small investors, investment in ordinary shares of these companies was not allowed solely due to an 'operational restriction' and on the premise of discouraging 'leverage' and promoting an 'Islamic debt-based mode of finance'.

Islamic banks would earn exorbitant profits by providing debt-based Islamic modes of finance to these companies, but Islamic scholars by way of their self-imposed restriction have deprived small investors of the opportunity to invest in the ordinary shares of these companies.

Small investors already earn a negative real interest rate in Pakistan, since Islamic banking spreads are 8.8% compared to 6.9% for conventional banks. Hence, Islamic scholars have not only deprived small investors of a useful way to earn inflation-beating returns through equity investments, but with this rent-seeking mentality, they have also deprived their depositors by paying them lower profit rates and maintaining one of the world's highest banking spreads.

Conclusion

With Murabahah as an alternative, profitable companies will not opt for Mudarabah/Musharakah because they will not want to share profits and so will opt for a cheaper method of sourcing funds, such as debt financing.

Less profitable companies will want to go for Mudarabah/Musharakah, but banks as conservative financial institutions will not take the risk with these companies. The argument that Mudarabah/Musharakah financing is not possible due to lack of authentic documentation and trust levels is also very weak.

Islamic banks operating in developed markets where such problems are not found have also not gone for Mudarabah/Musharakah financing. As a matter of fact, Islamic banks do not want to take on market and price risk. Default, credit, political, exchange and other risks are also taken by conventional banks.

If Mudarabah and Musharakah are deemed ideal alternatives by Islamic banking experts and scholars, then they would have been better off entering into investment banking and supporting new IPOs before they entered into commercial banking. It is sad that Islamic bankers and scholars demand incentives for the industry, while as a matter of fact, they are using the same benchmark for pricing, they are already not charged GST on their sale of assets to clients in the second leg of transaction (since even the government officials know whether an Islamic bank is a trading house or a financial intermediary) and they are maintaining the highest banking spreads in the world.

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Malaysia as a global leader in the Sukuk market: Should we worry?

The Malaysian Islamic financial system is both robust and fast growing. EDIB SMOLO believes that what is now needed for the further development of the industry is a greater contribution from other jurisdictions and market players.

Malaysia was among the first countries to undertake the challenge of developing the Islamic finance industry and since its inception the sector has shown no signs of slowing down. Malaysia has today become a global leader in the Islamic finance industry.

Malaysia's dominance is nowhere more pervasive than in the Islamic capital market, especially the Sukuk market.

After a slowdown in 2008, the Sukuk market is back on track. A huge drop in the issuance of Sukuk in 2008 and a slow recovery in the following couple of years were mainly due to two reasons: (i) a proclamation by AAOIFI stating that the majority of equity-based Sukuk in the market were not Shariah compliant; and (ii) the global financial crisis affecting the overall performance of the economies globally.

> *"After a slowdown in 2008, the Sukuk market is back on track"*

Although the abovementioned reasons are both commonly cited by market players, it is difficult to determine which had the stronger effect. Nevertheless, given the current situation and the high levels of Sukuk issuance in 2011, it looks like these two factors have been overcome.

In fact, during the recent IFN Asia Forum 2011, held in Kuala Lumpur, various parties expressed their satisfaction with the current market performance. Furthermore, they were also very optimistic about the future of the market. In recent years the global Sukuk market has been dominated by issuances from Malaysia (see Chart 1 and Table 2). Thus, it is not surprising to find a lot of 'firsts' in the industry also originating from Malaysia. For example:

(i) Kumpulan Guthrie's issuance of US$150 million in 2001 was the world's first global corporate Sukuk;

(ii) The 2002 issuance of US$600 million by the Malaysian government was the world's first global sovereign Sukuk;

(iii) The 2004 issuance of RM500 million (US$132 million) by the International

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Table 1: Statistics on corporate Sukuk in Malaysia

Sukuk approved	2009	2010	Q1-Q3 2011
Number of Sukuk	11	21	26
Size of Sukuk	RM33.96 billion (US$11 billion)	RM40.33 billion (US$12.7 billion)	RM40.7 billion (US$12.8 billion)
Size of total bonds approved	RM57.50 billion (US$18 billion)	RM63.58 billion (US$20 billion)	RM63.8 billion (US$20.04 billion)
% of size of Sukuk to total bonds approved	59.1%	63.4%	64%
Sukuk issued	**2009**	**2010**	**Q1-Q3 2011**
Size of Sukuk issued	RM32.30 billion (US$10.2 billion)	RM30.24 billion (US$9.5 billion)	RM33 billion (US$10.4 billion)
% of Sukuk issued to total bonds issued	52%	57%	62%
Sukuk Outstanding	**2009**	**2010**	**September 2011**
Size of outstanding sukuk	RM172 billion (US$54 billion)	RM180 billion (US$57 billion)	RM200 billion (US$63 billion)
% of outstanding sukuk to total outstanding corporate bonds	57%	57%	58%

Source: Securities Commission

Chart 1: Sukuk issuance 2000-Nov 2011

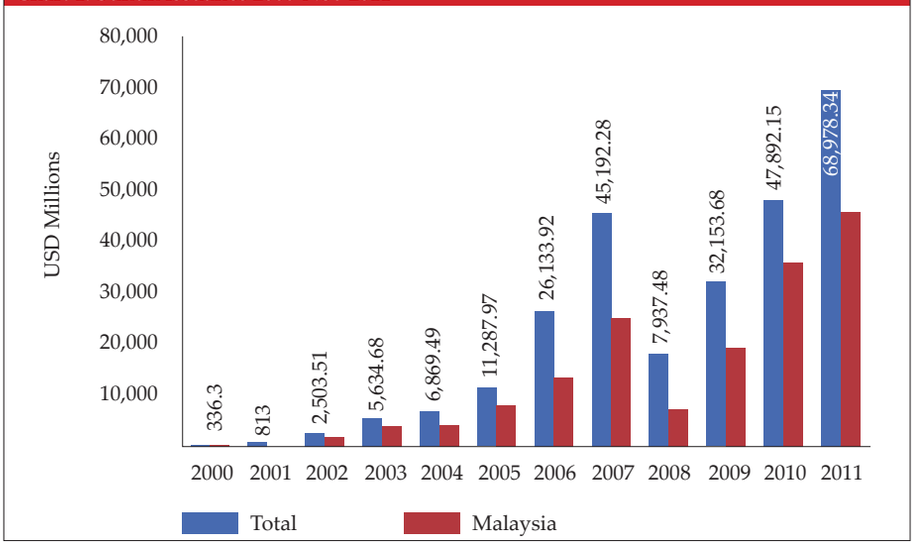

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Table 2: Issuance of Sukuk 2000 - Nov 2011

Year	No. of Sukuk issued	Total	Malaysia	% Share of Malaysia in Total
2000	3	336.30	336.3	100
2001	5	813.00	-	-
2002	31	2,503.51	1,678.18	67.03
2003	33	5,634.68	3,967.28	70.41
2004	62	6,869.49	4,256.48	61.96
2005	99	11,287.97	7,872.28	69.74
2006	208	26,133.92	13,428.53	51.38
2007	207	45,192.28	24,699.99	54.66
2008	227	17,937.48	7,175.84	40.00
2009	802	32,153.68	19,009.22	59.12
2010	796	47,892.15	35,630.13	74.40
2011	605	68,978.34	45,637.95	66.16

Source: Islamic Finance Information Service (IFIS)

Finance Corporation (World Bank) was designated as the first ringgit Sukuk issuance by a supranational agency.

Malaysia's dominance in the Sukuk market: Advantages and disadvantages

The statistics show that currently 66% of all Sukuk issuances globally are from Malaysia. However, there are both advantages and possible disadvantages in the current rapid development, many of which are overlooked by market players. Let us analyze both sides here.

It is true that the dominance of Malaysian players in the global arena for Sukuk is a considerable achievement. This is a result of a coordinated effort towards making Malaysia a global Islamic finance hub by the Malaysian government, the central bank (Bank Negara Malaysia), various specialized institutes serving the Islamic financial industry's needs, as well as financial institutions operating with the Malaysian Islamic finance jurisdiction.

Negative effects

Yet this brings us to the negative effects of the current developments in the global Sukuk market. Firstly, while the dominance of Malaysia in the global Sukuk market is undeniably a good thing, it can also be seen as a market failure on the part of other jurisdictions in developing a viable and healthy Islamic financial system.

> ***"Securities Commission Malaysia has already indicated that greater internationalization of the capital market is a critical aspect for the further strengthening of Malaysia's position as a global Islamic capital market hub"***

Secondly, if putting all your eggs in one basket is arguably not a wise strategy in finance, then similarly hoping for the global success of the Islamic finance by relying on Malaysia alone will not bear fruit in the long run. Thus, there is a greater role to be played by other countries and markets.

This said, what is needed for the further development of the Islamic finance industry is a greater contribution and further efforts from other countries, jurisdictions and market players. Malaysia is doing a significant and important job in promoting the industry. However, the Securities Commission Malaysia has already indicated that greater internationalization of the capital market is a critical aspect for the further strengthening of Malaysia's position as a global Islamic capital market hub.

Here again, a word of caution seems appropriate. While greater participation by other countries is welcome, we should avoid a simplistic approach to Islamic finance whereby the focus is given to the Sukuk market alone while ignoring other sectors of the Islamic financial system. This may lead to a situation that could be termed as 'Sukukization' — similar to the 'financialization' that preceded the global financial crisis 2008-2009.

Conclusion

Instead, we should look at the Islamic finance in a more holistic way. Only then we can hope to achieve a true global Islamic financial system with more cross-border transactions and greater internationalization. This may be achieved if we learn from the Malaysian experience and if we strive hard enough to implement that experience in our own backyards.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of, and should not be attributed to ISRA.

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The opportunities for Islamic finance in the Czech Republic

IVANA HRDLICKOVA believes that the introduction of Islamic finance in the Czech Republic may bring new elements to the financial business.

The term Islamic finance has hitherto been a relatively unknown concept in the Czech Republic and many people have no idea about the industry. The economic situation in the Czech Republic has obviously been affected by the European and global economic crisis.

Nevertheless, the Czech Republic has been generally successful in comparison with other post-communist European countries. Financial institutions and banks have a long history in the Czech Republic, especially since the time of 'The First Czech Republic', the most developed and famous period of the republic, where businesses were founded by Bata, Skoda etc.

Recently however, lax financial principles have caused the failure of a number of entities. In addition, while European and international financial laws have been developed over the last two centuries. Czech financial laws have only developed within the last 20 years.

We are witnessing the failure of the capitalist economic system, which is based on interest and usury. However the capitalist economy has been as a dream for post-communist countries, which previously had to deal with the socialist economy.

These countries believed in the success of the socialist economy, but later found out that despite its just and equitable principles, it simply could not survive. They started following the capitalist system, which was undoubtedly more successful at that time than socialism. However, the capitalist economy is not based on moral principles. The rich people therefore become richer while the poor get poorer.

Czech Republic

The Czech Republic has been a member of the European Union since 2004. The history of the Czech Republic is interesting and knowing its history may help to understand the mentality of the people, conditions for business and opportunities in the country. There is currently no Islamic finance practice in the Czech Republic and the public awareness of this principle is very low.

Islam has been considered as a synonym for terrorism, oppression of women and old fashioned practice, and most people - influenced by the media - have no idea what Islam really means.

> ***"There is an opportunity for Islamic banking to offer the Czech people another option, and this is definitely a challenge for financial institutions in the Czech Republic"***

Brief history

The Czech Republic was a part of the former Austro-Hungarian Empire. This historical empire perished in 1918 and Czechoslovakia was established as one of subsequent newly-formed states. This period (1918-1938) is known as 'The First Republic' and is considered to have been the most successful developed period in the country's history.

The First Republic successfully operated a number of banks and non-banking financial institutions. Cooperative savings associations and savings and loan associations were very popular.

The communist period began with the nationalization of assets in February 1948 and lasted until 1989. Within this time, no private businesses were allowed; the cooperative savings associations and savings and loan associations were abolished, and only state banks were allowed.

The 'velvet' revolution in 1989 changed the system completely. The legal system followed the western system and allowed private business, new banks and non-banking financial institutions and foreign investments.

Many people came back to the newly established cooperative savings associations and savings and loan associations and saved a lot of money. At that time there were more than 100 such institutions in the Czech Republic. However unfortunately, most of them failed and people lost their life savings and money from the restitution.

The Czech Republic has a civil law system. The operations of financial institutions are regulated by the bank legislation. The banking supervisory authority is the Czech National Bank.

The Czech National Bank is also the supervisory body for the state over all financial markets: including banks, cooperative savings associations, saving and loans associations, investment funds, investment companies, insurance companies, insurance brokers, pension funds and money-exchange.

Currently there are 40 banks or branches of banks in the republic and 15 cooperative savings associations (savings and loan associations).

Problems and solutions?

What are the main current problems? The main problem is outstanding loans. With the subprime mortgage problems in the US affecting the situation in the EU, mortgages in the Czech Republic have become increasingly expensive. Because of the lax legislation in 1998-

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2000, many people could get a mortgage with under-estimated property given as a pledge, which caused serious problems. Customer credits allowed people to buy many unnecessary things. Another growing category of outstanding loans is credit cards.

The current trends of conventional banks and non-banking financial institutions are making the people more afraid and more poor. There is an opportunity for Islamic banking to offer the Czech people another option, and this is definitely a challenge for financial institutions in the Czech Republic.

Most bankers and entrepreneurs in the republic who are dealing with financial products are not used to Islamic banking, as they do not have any proper knowledge. I believe that the introduction of Islamic finance in the Czech Republic may bring new elements to the financial business.

> ***"There are currently no legal obstacles for Islamic finance practice within the Czech legislation"***

Generally there are currently no legal obstacles for Islamic finance practice within the Czech legislation. However this issue needs to be examined in further detail. There are different conditions for the banks as the banking regulations are strict.

What do we need?

We need to educate the people about the basic principles of Islamic finance. At the same time we need to educate financial and legal professionals about the Islamic finance principles and their mode of use within the Czech legislation and business and financial environment.

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Serious concerns in Goldman Sachs' Sukuk structure

The revelation of possible flows in the planned US$2 billion Sukuk program by Goldman Sachs raises significant concerns regarding its Shariah compliance. MOHAMMED KHNIFER looks at three flows in the overall structure.

I was asked by prospective investors to provide independent financial advice over the planned milestone Sukuk issuance by Goldman Sachs (GS). After examining the offer circular thoroughly, there are three possible flows in the overall structure. Additionally, we will try to suggest briefly an alternative possible Sukuk structure for GS.

1) There is a strong indication from the proposed structure and the prospectus that the Sukuk is not as they claim. Instead of being a Sukuk Murabahah, rather it appears to be a reverse Tawarruq. (In 2009, the International Council of Fiqh Academy ruled that organized and reverse Tawarruq to be "a deception" that seeks to disguise the use of usury. Thus, it is impermissible.)
2) There is a strong indication that GS will be using, eventually, the proceeds to fund its conventional activities. (According to AAOIFI: "Monetization should not be performed for the benefit of conventional banks when it is discovered that such banks are going to use liquidity for interest-based lending instead of Shariah compliant operations.") Thus, it is impermissible.
3) The so-called Sukuk Murabahah is listed on the Irish Stock Exchange (ISE). There are some doubts as to how the ISE will make sure that the securities will be traded at par value. Usually with trading, the yield will rise or fall. When and if that happens, it will mean that we are trading debt. That is prohibited under Shariah.

Tawarruq Sukuk

The following analysis is based on publically available information such as the approved initial prospectus by the Central Bank of Ireland, which was published in October on the Dublin-based central bank's website.

To start off, GS may argue that the contract between the certificate holders (i.e. Global Sukuk Company as a trustee and a seller) and the New York-based bank Goldman Sachs International (GSI) is Murabahah. That is correct. But they are not revealing the 'overall' structure of the entire proceeds cycle. The entire structure indicates the possible existence of reverse Tawarruq.

AAOIFI defines Sukuk Murabahah as certificates of equal value issued for the purpose of financing the purchase of goods through Murabahah so that the certificate holders become the owners of the commodity Murabahah.

Now let us compare that definition with what the GS Sukuk prospectus stipulates. You will notice that if we go along with their claim, then they should have labeled it as a reverse Murabahah anyway because the final ownership is in the hands of GSI.

"Pursuant to the terms of a master Murabahah agreement dated the closing date (the "Master Murabahah Agreement") and entered into between Global Sukuk Company as the trustee and the seller (in such capacity, the "seller") and Goldman Sachs International (GSI) as purchaser (in such capacity, the "purchaser") and in connection with each series, the purchaser will enter into a Murabahah contract (on the terms and subject to the conditions set out in the Master Murabahah Agreement) whereby the seller will, at the request of the purchaser, use the proceeds of the issuance of the series to purchase certain commodities from a third party supplier on immediate delivery and immediate payment terms and will immediately sell such commodities to the purchaser on immediate delivery terms but with payment on a deferred basis."

The above excerpt from the offering circular proves that they got it wrong, intentionally or unintentionally, even if we go along with their argument.

Reverse Tawarruq is when the beneficiary in our case (i.e. GSI) purchases the commodity from the customer (i.e. Sukukholders) and sells it to a third party to obtain liquidity.

Given the above, how can we extract the exact legal phrases that prove GSI will sell the commodities to obtain liquidity? The following excerpt was taking from GS' offering circular:

"Pursuant to the Master Murabahah Agreement, the proceeds from the issuance of each series of certificates will be directly invested in commodities (as defined in the conditions) which will in turn be on-sold to GSI (in its capacity as the purchaser) under a Murabahah transaction. Upon completion of the sale of the commodities by the trustee (in its capacity as seller) to the purchaser, the purchaser may hold the commodities as inventory or elect to sell the commodities in the open market provided that where the purchaser elects to sell the commodities, it shall sell the commodities to a third party buyer that is not the initial supplier."

If GS elects to sell the commodities, then this is our first signal for the existence of a reverse tawarruq.

Hard evidence

Our second clue is in this legal document which states:

"The net proceeds of each series issued under the program will be applied by the trustee and GSI in the manner described in "Structure Overview – Murabahah Arrangements" and, in respect of GSI only, for its general corporate purposes and to meet its financing needs."

These lawyers and 'Islamic' investment bankers are saying that GS is not going to hold on to these commodities during the tenure of the issuance (which could be five or 10 years). In other words, the Sukuk proceeds will be channeled through a long cycle, so GS can utilize them for its "general corporate purposes and to meet its financing needs."

Proposed structures

I am reluctant to reveal to the public the detailed proposed and alternative Sukuk structures should GS really be keen to tap the Islamic finance industry with a pure structure. Generally these financially engineered structures rely heavily on the Mudarabah and Wakalah contracts. Clustered Sukuk is not ruled out as well. Exotic forms for tier II capital can be financially structured too.

But GS could have easily come up with a pure form of Sukuk structure, instead of risking it by gambling with their reputation.

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Islamic Investor

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Asset Management

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Offshore centers galore

Cover Story

CIMB-Principal Islamic Asset Management (CIMB) last week announced that it was in the final stages of launching three Shariah compliant funds in Ireland. CIMB is one of many Asian fund managers which have not been deterred from rolling out UCITs funds by the ongoing Eurozone debt crisis.

Ireland is determined to become a center for Islamic finance with its Taoiseach (prime minister), Edna Kenny, announcing in June that he was doing everything he could to put the country on the map of the Islamic finance industry. Kenny added that Ireland has already made its tax laws and financial regulations Shariah compliant, and had recently signed double-taxation agreements with Saudi Arabia, Bahrain, Kuwait and the UAE.

Ken Owens, the chairman of the Irish Funds Industry Association, was quoted as saying that there is currently a scramble for Islamic business internationally. The surge of offshore centers offering Islamic finance is testament to this. Traditionally associated with conventional finance, these centers have now realized the potential of the Islamic finance industry. Currently there are 14 known offshore centers that are proactively inviting Islamic funds into their jurisdiction, stretching from Bermuda to Labuan, with the latest being Malta.

So what are fund managers looking for when considering whether to set up a fund in an offshore jurisdiction? Fawaz Elmalki, a director at Conyers, Dill & Pearman in Dubai, lists several factors including the ease of conducting business, a low tax regime and regulatory flexibility, as well as high legal standards and a pool of trained specialists. This, he said, has resulted in more offshore centers fast-tracking their efforts to amend their regulatory, tax and legal systems to facilitate Islamic finance.

Realizing that merely creating a Shariah compliant friendly environment is not always enough to attract Islamic investment, many offshore centers have also taken to marketing campaigns in key Islamic finance jurisdictions.

Ian Lancaster, the chief executive officer and chief investment officer at Reliance Asset Management Malaysia, believes that two main factors influence the decision of fund managers to set up a fund in an offshore jurisdiction: cost, and speed of the process. Reliance Asset Management Malaysia manages the World Shariah Funds (WSF) Reliance Global Shariah Growth Fund, which is domiciled in Guernsey.

"Luxembourg and Dublin are more expensive to launch a fund in than Guernsey, as well as [having a slower] speed of regulatory approval. Smaller fund managers will find it more economical to set up a fund in Guernsey. The speed is important because when you obtain seed capital for the fund, it might be withdrawn if the process to set up the fund is too laborious," he says, adding that some offshore centers can take three to six months while Guernsey takes a maximum of around two months.

Lancaster believes that although Guernsey is less well-known, this does not necessarily affect investors' perceptions, and that the three offshore centers are of broadly equal footing, with none of them being of questionable quality. He admits that Luxembourg is the more reputable of the three centers due to the strength of its history as the center of European money management and also as the EU's leading investment center. "There is no particular advantage or disadvantage regarding the regulatory regime of the three offshore centers, although Guernsey has not had the advantages afforded to Dublin or Luxembourg, which have more money because these centers have been established much longer," he explains.

However, Lancaster notes that funds set up in Guernsey are generally much smaller than conventional funds. "Unless the fund is US$1 billion, the total expense ratio of a Shariah fund will be extremely high and has to be absorbed, so its fund managers must keep the cost of the fund lower in order to be attractive to investors."

As offshore centers continue to play a key role in the financial services industry, and continue to promote the advantages of doing business in their jurisdictions, Islamic financial institutions looking to establish business will have an increasing number of options. The healthy competition of these centers will ultimately be beneficial to the Islamic finance industry as a whole. — RW

In this issue...

Asset management firm goes for Sukuk

UK: Newly launched Solum Asset Management is planning to issue a Sukuk in the first quarter of 2012 that will invest in student accommodation in the UK.

The Sukuk will have a maturity period of between five to seven years with net initial yields on acquisition likely to be between 5.75 % (London Prime) and 7.25% (regional).

The Sukuk will target assets where the average rental growth is expected to be at least 2.5% per annum.

Pursuant to the Sukuk, the company will also seek to establish a Shariah compliant UK Social Housing Fund in the fourth quarter of 2012.

Maybank Islamic in PE foray

SINGAPORE: Maybank Islamic has partnered with Maybank MEACP to launch a 10-year Asia-focused clean energy private equity (PE) fund worth US$500 million.

Maybank MEACP is a joint venture between Maybank and Singapore's Middle East & Asia Capital Partners.

The fund will invest in wind, solar, geothermal, small hydroelectric, biomass, biofuels and energy efficiency projects in the Asia Pacific region. It will comprise two parallel investment vehicles: a US$350 million master fund supported by Maybank, Asian Development Bank and International Finance Corporation, and a US$150 million co-financing vehicle supported by US-based Overseas Private Investment Corporation.

The first tranche of funds will have an investment of US$87.5 million, of which Maybank will contribute US$50 million.

Impending launch

MALAYSIA: CIMB-Principal Islamic Asset Management is in the final stages of establishing its Islamic fund targeting the European market via the Dublin global fund platform, according to Noripah Kamso, its CEO.

Noripah did not provide further details of the product, except that the fund will probably be launched in 2012 and use the UCITS framework.

Good response

UAE: Emirates NBD Asset Managment, the asset management arm of Emirates NBD, has announced that its Emirates Islamic Money Market Fund has attracted more than US$100 million from investors in the 18 months since the fund was launched.

The fund has also achieved four times the total return compared to overnight deposits during the same period.

"Asset growth of the fund is a reflection of the interest shown by international and local investors to the higher profits that can be achieved from investing in Islamic bank deposits," said Deon Vernooy, its senior executive officer.

Jumping on student housing bandwagon

UK: Independent investment advisory firm 90 North Real Estate Partners, part-owned by UK entrepreneur James Caan, is targeting Gulf investors for a GBP45 million (US$69 million) Shariah compliant fund investing in student housing in the UK.

"The UK is a natural place that I think Middle East investors find very comfortable, because of the governance, the laws and the transparency," said Caan.

The evolution of the commodity indexes

The latest development in commodity indexes is expected to see exponential investment growth in the asset class, claims SIMON GLOVER, who provides a brief history into how such indexes came about.

Over the last decade, we have been so besotted with the equity markets that we think they are our primary business. Leafing through the world factbook, I noticed that the equity market's total world capitalization is some US$40 trillion. That becomes the benchmark. It is worth mentioning that the total world public debt is US$25 trillion and the total value of imports/exports is estimated within the range of US$40 trillion. These sound like large sums but they pale in significance to the size of the world's commodity markets.

The value of farmlands alone is estimated to be about US$10 trillion and if we were to start to go into all the value of oil, energy, electricity, grains, metals, gold and all of the infrastructure required to support these industries, and the market capitalization of the companies involved in these businesses, you begin to get a sense of how important commodities are in the world. In a sense they dwarf the equity markets, yet why have we heard so little about them? We have undoubtedly learnt a lot more in the last few years due to the constant themes in the press about the need to feed the world's growing population, the world getting richer, the transition towards urbanization and debates on how we are going to meet these challenges. Certainly commodities have risen in our perception and understanding, but I still think we have a long way to go.

To go back in time for a moment, to look the history of where it all began in Samaria some 2,000-3,000 years ago: in present-day Iran, archaeologists found little clay pieces in the shape of a goat or sheep, which were then numbered and put into clay pots. This formed the basis at that time for a forward promise to deliver the livestock that matched the numbers placed in the clay pot. Unfortunately the system encountered problems as the clay pots would break or the livestock would get loose and scatter, so a different mechanism needed to be implemented. This brought about a mechanism of engraved flat tablets. A little later, the markets developed further and, similar to today, began to account for gold, silver, spices and cloth as well. This growth of trade was similarly aligned to the economies that promoted the system, which effectively handled and maintained the trade of these commodities. They grew to dominate world trade and become what is known as the economic powers of today.

We have moved a long way from the sheep and goats in the little clay pots. The current numbers of futures contracts traded every year is some US$2.5 trillion and growing. The challenge today is how to keep track of the prices of these commodities. In 1730, the first futures market was developed in Japan with a rice exchange developed after several years of poor rice harvest. The samurai needed a system to convert their rice holdings to currency or coins and that was the first precursor to today's futures markets. In 1864 the Chicago Board of Trade was established, and listed the first standardized futures contracts for the delivery of grain. Subsequently, as we know today, futures exchanges and contracts have multiplied around the world. Prices for individual commodities themselves perhaps are useful for certain purposes but they provide no benchmark for this asset class on the whole. For example if one were to trade in the equity markets, the Dow Jones Indexes, Nikkei or FTSE 100 or the multiple equity indexes make benchmarking the exchanges, countries, economies so much easier, as opposed to an investor having to buy and trade every individual stock which these indexes now benchmark.

So commodity indexes are necessary to benchmark the asset class, and the concept has actually been around for quite a long time. The Economist published the first index in 1864 but this just tracked the spot commodities and as such was not investable. It was simply a reference point. The first commodity index as we know it today was launched in 1991 by Goldman Sachs (GS). A few years earlier it had bought one of the largest commodities trading groups a company called J Aron in New York and encouraged it to come up with products. The world of commodities was otherwise flat and boring at the time. J Aron realized that in order to produce something that the investing public would relish, it had to imbue that product with some form of implied yield or dividend or income. It also noticed the energy markets in the US markets over the last 20 years had been a 'contango backward-dated' market structure, which is where the spot prices are at a premium to the forward price. Thus if your hold position is spot and over time you keep selling the spot and buying something forward, you are actually earning income. So it developed the first index – the Goldman Sachs Commodity Index - and it was successful with the product because it had an implied or inherent yield of some variable between 5–6%.

As a result of its weighting towards energy, it was not a true benchmark of the entire asset class. So Dow Jones, which was once AIG, in 1998 came out with a more institutional product with a much broader weighting, using commodities with a more balanced approach for investments in general. The indexes still had some problems in that they were locked into a very strict rule-based methodology whereby they would invest only in the nearby futures contracts. Every month or two, they would have to sell the nearby futures contracts and buy something further forward and as their assets grew under management this became problematic. The volumes of contracts they were having to buy and sell and the predictability of rolling these positions became such that the performance of these indexes began to suffer.

So more recently in the history of commodity indexes, a second generation of commodities indexes have been launched which seek to solve this problem. Largely - and I am generalizing a little bit - by investing into much further forward positions where the difference in prices are much smaller they can yield to their investors a more constant and predictable return.

Why have commodity indexes been relatively successful? Commodities have been much in focus over the last five years for the reasons given: such as population growth, demand and income growth and substitution, and therefore

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prices have rallied. Hardly an hour goes by without the financial networks mentioning the commodity markets. The assets tracking these indexes have grown from US$0 in 1991 to what is estimated today to be around US$400 billion. That in itself is a successful growth. However, it is projected that these assets over time (and for reasons I will state below) will go much higher.

Who are the typical users of indexes? I mentioned that the GS index was designed for specialist investors who were seeking the income generating capacity from this implied yield. When Dow Jones launched its index, it did so simultaneously with an academic paper from two eminent professors from the US with regards to the benefit of the inclusion of an allocation to commodities in the standard portfolio of equities and bonds, and they were able to show academically and rigorously that such an inclusion would prove the risk-adjusted returns of a portfolio.

> ***"Hardly an hour goes by without the financial networks mentioning the commodity markets. The assets tracking these indexes have grown from US$0 in 1991 to what is estimated today to be around US$400 billion"***

This paper circulated and, almost overnight, it was taken up by several large asset-rich insurance companies in the US: Principal Financial Group, and Pimco, the country's largest bond distributor. They started wrapping their bond products with a percentage of commodity exposure and those assets immediately began to take off.

We have come quite a long way since then as it has become a standard portfolio management theory and more recently has seen growth in the retail market, primarily through the ETF product. The latest development is the third generation of commodity indexes which are now coming out, which are based on the premise that being long or having exposure to all commodities on an equally weighted basis may not be the optimal way to do it.

The third generation indexes are thus trying to introduce an element of active commodity weighting into their algorithm such that you do not necessarily go long all but you might be long on the commodities that have the most likely chance of appreciating and maintain a reduced exposure to those which may be already expensive and may be overvalued.

The Physical FTSE Commodity Index Series began in 2008 when we joined in partnership with the Dubai International Finance Center. Our mission was to develop more authentic Islamic financial products for the growing Islamic market space: both because it was perceived that there was a paucity of products, and because of our own commodity experience and the relative ease with which commodities could be included into Shariah compliant products. The index series was to be Shariah compliant. We excluded the use of any derivatives and non-permissible commodities. There were also additional goals set for the index series, noting that the conventional products already available were based almost exclusively on US futures contracts. These were of lesser relevance to the GCC and certainly to the Asian markets because, for example, the price of oil in Cushing, Oklahoma - which is the basis of the Nymex WTI Contract - or the price of the delivery in the warehousing of wheat in Chicago, is not quite so relevant to an Asian or GCC investor. So we wanted to solve that problem as well.

We soon realized that the product needed to be based on physical commodities rather than futures, which gave us a number of opportunities – we could get away from the delivery terms set by a futures contract and be a little more expansive and relevant to other markets by setting delivery points and prices in other market areas. We also wanted it to be a third generation index so it was up to date with all the latest developments in the index period, and we developed a dynamic indexing algorithm which meant the index could, depending on market price, be referencing spot markets or the six month forward market.

In order to enable us to contract forward positions, we used Salam contracts. We teamed up with FTSE in 2009 and they had depth in equities and bond markets but nothing in the alternative asset class, so they were keen to use this product to enter into the commodity asset class. We launched in May this year a subset of the index series.

The commodities can be broken down into minerals and agriculture. In the minerals, we have energy and the four base metals which we have chosen to reference.

From my perspective, the growth in commodity index investing is going to grow tremendously as the latest development of such indexes leads the world in the area of commodity indexing.

Simon Glover is the executive director and member of the board at Merit Commodity Partners. This article is an excerpt taken from his presentation during the IFN Issuers & Investors Asia Forum 2011.

Dana Makmur PHEIM

DMP aims to provide its unitholders with steady income and prospects for capital appreciation in the longer-term by investing in a balanced portfolio of equities and fixed income instruments which strictly comply with the principles of the Shariah.

What led to this fund being launched?

We target more conservative investors who wish to invest in Islamic balanced funds. Since this fund will invest up to 60% in Islamic equity and up to 40% in Islamic bonds, investors can enjoy both the steady return from bonds as well as potential capital gain from equities. In the event of weak equity market conditions, a return to bonds will help to cushion the potential capital loss from the equity asset class. Hence downside risk of this fund is quite well protected.

Why has this particular region / asset class been chosen?

It is a Malaysian equity-based Islamic balanced fund. We invest in Shariah-approved stocks and Islamic bonds issued in Malaysia. During favourable equity market conditions, we will invest up to 60% in equity to take advantage of the rising share prices. On the contrary, we will reduce our equity exposure accordingly in the event of adverse equity market conditions to protect our capital. Meanwhile, we will invest only in high quality bonds to mitigate our downgrade or default risk.

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

Stock selection and asset allocation are the main drivers for the fund's performance. We will invest in undervalued stocks which are trading at cheap valuation (low price/earnings and price/book value), high dividend-yielding stocks. We also focus on companies with solid management teams and a good track record and which practice good corporate governance. We also invest in mid to small cap companies with high growth potential in the medium- to long-run.

Who are your investors (profile)?

Mid- to long-term investors with some risk appetite. We target both retail and institutional investors, mostly from Malaysia.

What specific risks does the fund take into consideration?

Stock market risk, performance of the individual stock invested, reclassification of Shariah status risk, interest rate risk.

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

We invest a fair bit in commodity stocks, i.e. fuel-based and plantation-based stocks that we believe will continue to do well in the future.

What are the sectors you have recently exited and why?

We reduced our exposure in the property, steel and technology sectors, which we believe will underperform during economic slowdown.

How has this change affected your portfolio of this fund?

By avoiding the cyclical sectors like property, steel and technology sectors, we are able to outperform the benchmark.

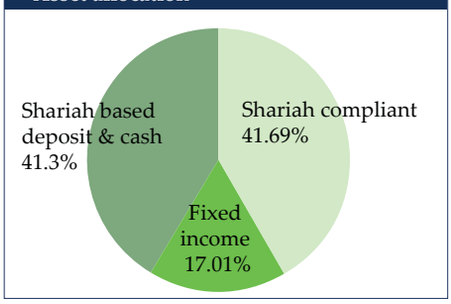
What is the market outlook for this fund?

We believe that return from equity will continue to outperform other asset classes in the long-term. We are cautiously optimistic about the outlook of this fund.

Fact sheet

Fund manager	Pheim Asset Management
Trustee	HSBC (Malaysia) Trustee
Shariah advisor(s)	Islamic Banking & Finance Institute Malaysia
Benchmark (Index)	Weighted Average of 60% of FTSE Bursa Malaysia EMAS Shariah Index and 40% of Maybank 1-year GIA Rate
Domicile	Malaysia
Inception date	28th January 2002
Fund characteristics *(as at the 31st October 2011)	**Fund type** Open Ended **Fund size** RM8.9 million (US$2.79 million) **NAV per share** RM 1.47 (US$0.46) **Minimum investment** RM1,000 (US$314) **Management fee** 1.5%

***Asset allocation**

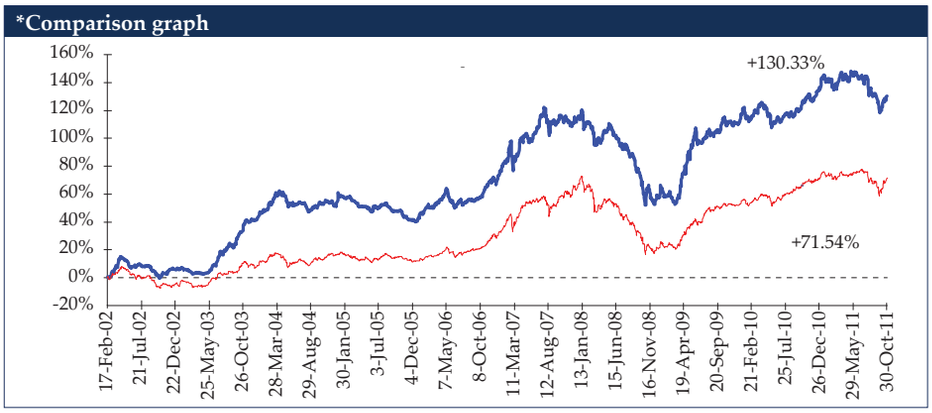


***Performance**

6 Months (28/04/11 -28/10/11)	6.2%
1 Years (28/10/10 -28/10/11)	+1.01%
3 Years (28/10/08 -28/10/11)	+51.37%
5 Years (27/10/06 -28/10/11)	+40.77%

Source: The Edge Nov 7, 2011

***Comparison graph**



***Top Largest Holdings — Shariah — Compliant Equities % of NAV**

Tradewinds Plantation	Malaysia	4.06
Tradewinds (Malaysia)	Malaysia	3.70
Ta Ann Holdings	Malaysia	3.38
Petronas Chemicals Group	Malaysia	3.04
CB Industrial Product Holding	Malaysia	2.78
WCT	Malaysia	2.22
Bumi Armada	Malaysia	2.10
Sarawak Oil Palms	Malaysia	2.05

Eurekahedge Asia Pacific Islamic Fund Index

Top 10 Monthly returns for Developed Markets funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Madar US Index	Almadar Finance & Investment	17.77	Kuwait
2	Azzad Ethical Mid Cap	Azzad Asset Management	14.07	US
3	JPM Islamic Global Dynamic Equity (USD) A	J.P. Morgan International Bank	14.05	Luxembourg
4	Al-Mubarak Global Equity	Arab National Bank	13.15	Saudi Arabia
5	AlAhli Global Real Estate	The National Commercial Bank	12.98	Saudi Arabia
6	ETFS Physical Silver	ETFS Metal Securities	12.40	Jersey
7	The Iman	Allied Asset Advisors	12.24	US
8	Allianz RCM Islamic Global Equity Opportunities - A - USD	Allianz Global Investors Luxembourg	12.24	Luxembourg
9	SUT Ethical Growth	Singapore Unit Trusts	11.87	Singapore
10	Russell Jadwa World Equity	Jadwa Investment	11.19	Saudi Arabia
	*** Eurekahedge Developed Markets Islamic Fund Index**		**5.42**	

** Based on 93.90% of funds which have reported October 2011 returns as at 29th November-2011*

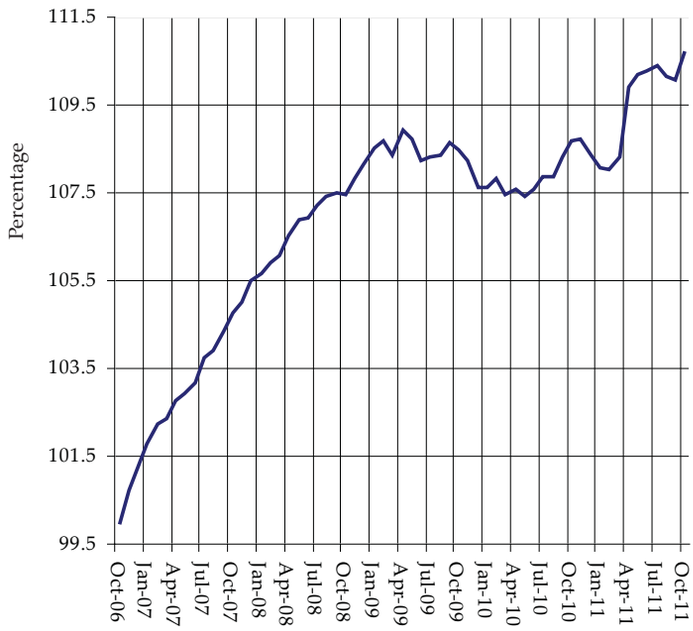
Top 10 Monthly returns for Emerging Markets funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	TA Dana Fokus	TA Investment Management	12.69	Malaysia
2	Islamic Emerging Markets Equity Certificate	ABN AMRO Bank	12.29	Not disclosed
3	Russell Jadwa Emerging Markets Equity	Jadwa Investment	11.18	Saudi Arabia
4	TA Dana Optimix	TA Investment Management	10.83	Malaysia
5	Public China Ittikal	Public Mutual	10.64	Malaysia
6	Allianz RCM Islamic Global Emerging Markets Equity - AT - USD	Allianz Global Investors Luxembourg	10.05	Luxembourg
7	TA Islamic	TA Investment Management	10.05	Malaysia
8	ING Ekuiti Islam	ING Funds	9.79	Malaysia
9	CIMB Islamic Small Cap	CIMB-Principal Asset Management	9.19	Malaysia
10	CIMB Islamic Equity Aggressive	CIMB-Principal Asset Management	9.19	Malaysia
	*** Eurekahedge Emerging Markets Islamic Fund Index**		**3.05**	

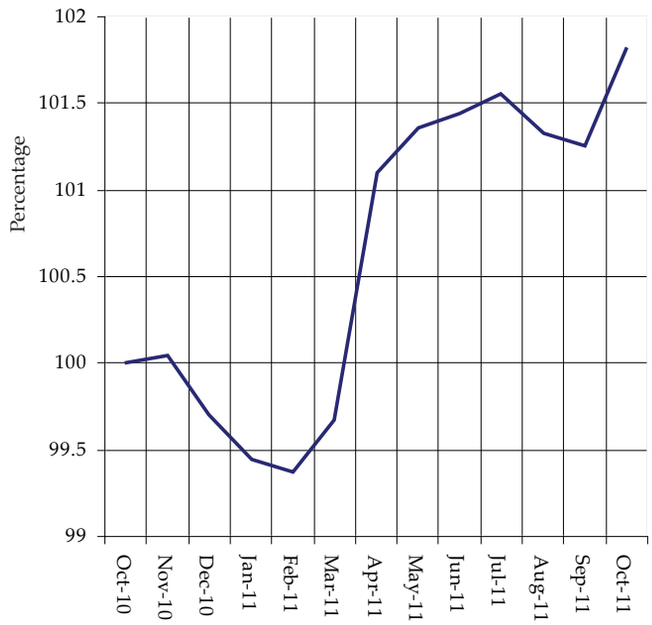
** Based on 88.42% of funds which have reported October 2011 returns as at 29th November 2011*

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 Money Market Index over the last 5 years



Eurekahedge Islamic Fund Money Market Index over the last 1 year



Top 10 Islamic Money Market Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	ING i-Enhanced Cash	ING Funds	5.18	Malaysia
2	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	3.19	Pakistan
3	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	2.72	Pakistan
4	MAAKL Al-Ma'mun	MAAKL Mutual	0.72	Malaysia
5	OSK-UOB Institutional Islamic Money Market	OSK-UOB Unit Trust Management	0.69	Malaysia
6	PB Islamic Cash Plus	Public Mutual	0.69	Malaysia
7	Public Islamic Money Market	Public Mutual	0.66	Malaysia
8	PB Islamic Cash Management	Public Mutual	0.66	Malaysia
9	Apex Dana Al Kanz	Apex Investment Services	0.65	Malaysia
10	Kenanga Islamic Money Market	Kenanga Investors	0.44	Malaysia
	***Eurekahedge Islamic Money Market Fund Index**		**0.25**	

** Based on 97.62% of the NAV for October 2011 as at 29th November 2011*

Top 5 Islamic Commodity Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%	Fund Domicile
1	ETFS Physical Gold	ETFS Metal Securities	6.62	Jersey
2	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	1.31	Malaysia
3	AmPrecious Metals	AmInvestment Management	-3.76	Malaysia
4	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	-4.53	Ireland
5	ETFS Physical PM Basket	ETFS Metal Securities	-5.63	Jersey
	*** Eurekahedge Developed Markets Islamic Fund Index**		**-6.58**	

** Based on 100% of funds which have reported October 2011 returns as at 29th November 2011*

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

Takaful news

Brought to you by Takaful IKHLAS®

30th November 2011

Growth drivers in Takaful distribution

Cover story

Growth of Takaful and its distribution are highly dependent on three intertwined factors: target market, distribution channels and products. Each audience requires a slightly different strategy and approach, each with their own special protection requirements.

Life Takaful dominates the Takaful landscape and this has therefore created a highly retail focused distribution channel. Currently the greatest driver in the Takaful space is under penetration. Even in a relatively developed market such as Malaysia, Takaful penetration only amounts to less than 1% of GDP. The penetration rate also remains low in regards to the premium and general sectors of the Takaful market.

Growth in the Takaful market is currently driven by an increasing supply of products and innovation brought to the market by a rise in the number of Takaful operators. Currently, the demand for Takaful appears to outstrip supply. This is primarily due to the rapid increase in the wealth of the Takaful demographic and as a result a greater need for coverage to protect that wealth gain. However, the ethical dimension of Takaful is appealing beyond the Muslim target audience, further adding to this growth.

According to Azim Mithani, CEO of Prudential BSN Takaful: "We need to rise up to this growth challenge. I don't believe that we necessarily need to benchmark ourselves against insurance operators. However, a Takaful benchmark needs to be adopted." Takaful participants should not expect any less from their Takaful policy than they would from a conventional insurance contract. By addressing the needs of customers and participants, Takaful need not compete. We all need protection and coverage, and as a result, parallel products will emerge to compete with the products offered by the conventional industry.

A key enablers for the Takaful industry going forward will be greater professionalism. Agency staff and bancaTakaful providers must be able to provide a fact-based, knowledge-driven approach based on the needs of each individual. Equipping personnel with the required Shariah knowledge is central to this.

The agency model is essential in attracting higher net worth individuals. This will eventually be overcome as the bancassurance model gains traction. However this will require a greater level of harmonization between banking and insurance operators.

The BancaTakaful model offers a greater variety of opportunities as it can create partnerships allowing the selling of products through telemarketing and in-branch distribution models that can be targeted to certain markets and products. This model will however require greater regulation to be fully adopted in emerging markets to prevent abuse.

Force of numbers is always going to be key to any business-driven enterprise, and the agency-driven approach is central to achieving this.

The BancaTakaful channel is proving to be the fastest-growing channel within Takaful, mirroring its conventional insurance growth in emerging markets. The popular belief is that the main market will begin to turn towards the bancassurance model as a matter of convenience. Brand loyalty will also begin to play an increasing part in Takaful uptake as simplicity in bundling Takaful solutions with existing banking products from the same company through cross-selling makes for easy payment and claims.

Hybrid distribution models are also on the rise. A hybrid agency model is a combination of an agency's business model utilizing a banks customer database. The hybrid model also proves to be a less intrusive method, as a customer is not forced to divulge important financial information as their records are already held by the bank.

Takaful operators are gaining an ever more impressive array of products and pools to attract a wider range of customers. Call centers, customer relationship management databases and point of sale systems are playing an increasingly large role in making product uptake convenient and easy to deliver to the customer. This sophistication is central to providing an equal service to the conventional insurance industry as well as allowing for a greater distribution. — *SW*

In this issue...

Extended coverage

UAE: Takaful Emarat has launched a suite of individual health insurance plans with an extended scope to include international coverage, catering to the diverse health care needs of individuals and their families.

The Takaful operator has also introduced a 'Second Medical Opinion' service by leveraging the strength of its strategic founder, UNIQA Group Austria, allowing customers to seek medical advice from UNIQA's European health experts in Vienna, Austria.

Additionally, Takaful Emarat has unveiled a microTakaful-based protection plan, which provides Takaful protection against natural and accidental death, permanent or partial disability due to accidents as well as repatriation benefits.

Eyeing Malaysian Takaful market

BAHRAIN: Legal & General Gulf Takaful, a subsidiary of Legal and General Gulf, may establish business operations in Malaysia, said Manfred Maske, its managing director.

However, Manfred said that the company needs to strengthen its market penetration in the GCC first before expanding to Malaysia. He added that the GCC market, particularly Bahrain, continues to experience good growth, despite the recent political turmoil.

The Takaful operator, which began operations in the middle of 2011, is targeting a total weighted Takaful contribution of US$25 million from its Bahrain operations and a smaller part from Kuwait.

Towards a common cause

MALAYSIA: Takaful Ikhlas, MAA Takaful and FOSMEC have signed a MoU to offer Takaful coverage to foreign students in the country.

Under the MOU, Takaful Ikhlas will offer group hospital and surgical Takaful, while MAA Takaful will provide group personal accident Takaful, with FOSMEC marketing these products from January 2012.

Syed Moheeb Kamarulzaman, the president and CEO of Takaful Ikhlas, said that the companies expect the plans to contribute RM4 million (US$1.3 million) in premiums.

FOSMEC is mandated by the ministry of higher education to conduct health check-ups and provide insurance management to foreign students.

Mixed results

MALAYSIA: MNRB Holdings reported a pre-tax loss of RM337,000 (US$105,553) for the second quarter ended on the 30th September 2011 compared to a pre-tax profit of RM27.94 million (US8.75 million) in the same period last year.

However, revenue rose to RM362.65 million (US$113.59 million) from RM338.97 million (US$106.18 million), contributed by an increase in its Wakalah fees earned by its Takaful and re-Takaful business.

Sales surge

MALAYSIA: Prudential BSN Takaful has reported RM53.9 million (US$17 million)-worth of new business sales in the third quarter of 2011, a 57% increase from the same period last year.

Azim Mithani, its CEO, said that its PruBSN Link Series product contributed 40% to the company's new business growth in the quarter.

Aiming for the top spot

MALAYSIA: Great Eastern Takaful has unveiled a plan to become one of Indonesia's top three Takaful players in three to five years by introducing affordable Takaful plans and leveraging on its bancaTakaful distribution partnership with Bank OCBC NISP.

Mohamad Salihuddin Ahmad, its CEO and executive director, said that the company will venture into Indonesia by April 2012, where it is also hoping to become a fully-fledged Takaful firm.

High profit increase

MALAYSIA: Syarikat Takaful Malaysia has reported an 81% year-on-year growth in its profit before zakat and tax to RM60 million (US$19 million) for the nine months ended the 30th September 2011.

Group operating revenue for the nine months rose 18% to RM1.04 billion (US$327 million) due to the growth in its General Takaful and group Family Takaful businesses, according to Mohamed Hassan Kamil, its group managing director.

"Is there room for further innovation of Islamic cross-border financing, and what else can be done to develop the market?"

A Two areas come to mind. One is closer integration with the halal industry. The second is using the Ottoman Ehsam instrument as part of an Islamic monetary policy. The latter is under investigation by INCEIF and ISRA to see if it can be applied in the present day.

DAUD VICARY ABDULLAH
President & CEO, INCEIF

A At present conditions are very difficult for Islamic cross-border financing globally, because of the Eurozone crisis, and regionally, due to the adverse economic developments resulting from the Arab Spring.

Now however is arguably a good time to reconsider what Islamic cross-border financing can offer. In the past the capital movements have been virtually identical to conventional financial flows apart from the Shariah screening.

The product offering would be more innovative if the risk sharing characteristics of Islamic finance were stressed. Private equity finance for example could be structured using a Musharakah model. Most international Sukuk offerings are based on Ijarah structures which are similar to conventional floating-rate notes.

A more innovative approach would be to use increasing Musharakah involving an exit to equity, the opposite of diminishing Musharakah with an exit to cash.

There are many innovative possibilities to consider during this period of reflection before cross-border capital flows pick up.

PROFESSOR RODNEY WILSON
Director of postgraduate studies, Durham University

A A vital component in cross-border financial services is related to the standardization of instruments. In particular in Islamic finance, as a growing industry, enhanced standardization of contracts between countries will be a necessity to allow for further innovation.

DR NATALIE SCHOON
Principal consultant, Formabb

Next Forum Question:

"What is the outlook for cross-border financing in 2012 given the prevailing volatility in the global economy and markets?"

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before the 16th December 2011.

Emad Mansour, CEO, Qatar First Investment Bank

Emad Mansour has over 19 years of investment banking experience working with regional and international financial institutions in locations across the GCC including Qatar, Bahrain and Saudi Arabia. He has led a number of deals including the privatization of Royal Jordanian and the restructuring of Saudi Arabian Airlines, and various other transactions across the MENA region.

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

After completing an MSc in Financial Economics from Cass Business School in London in 1992, I joined the Commercial Bank of Qatar's corporate banking business. Six years later I was offered for a position with BNP Paribas and joined their regional head office in Bahrain, responsible for their corporate finance businesses. After eight years with BNP Paribas, I joined Samba Financial Group in Riyadh, as the head of investment banking. Then I was appointed as the deputy CEO of Qatar First Investment Bank (QFIB) and subsequently as CEO in December 2010.

What does your role involve?

The bank is now three years old and I joined the bank from day one. The task of building an institution, which we started at the height of the financial crisis in 2008, required many sacrifices along the way.

Our challenges were not simply limited to assuring the regulators that we were doing the right thing: we also had to gain the trust of our shareholders (more than 1,200 GCC-based individuals and institutions) and develop modes of communication to reassure them that the investment they made in this start-up institution was secure amid market turmoil.

Since the inception of QFIB, the market has and is still experiencing unprecedented volatility and uncertainty. Despite the challenges, we have managed to put in place an excellent management team. We managed to break even from year one and turn a profit in the second year of operations. As the third year of operations comes to a close, we are poised to record good growth.

What is your greatest achievement to date?

I have worked with many well-established larger banks, but the experience of being part of the start-up team of QFIB, with all the challenges that we faced, tops all my other experiences.

Which of your products/ services deliver the best results?

Our star business line is principal investments. We are fortunate to have been well capitalized from the start. Our paid up capital is US$430 million, and we have used our capital resources wisely to invest in key economic growth sectors that are delivering excellent returns.

What are the strengths of your business?

Our greatest strength is our team. We have one of the best investment banking teams across the GCC region. They are supported by an efficient support services machine that allows them to pick the right opportunities and make the most of them. We have an excellent internal control environment and our corporate governance standards are among the highest in the industry.

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

Success in any organization starts with having the right team in place. Banking is a people business and without the right team we would not have been able to achieve whatever we have achieved. In addition, Qatar is a great place to do business and will have a positive GDP growth next year.

What are the obstacles faced in running your business today?

The biggest challenge that we are facing today is market conditions. QFIB was established in late 2008 and since then markets have not had a steady run for any length of time.

The rules of the investment banking industry are constantly changing since the onset of the financial crisis. Such market conditions have made it very difficult for the investment banking industry (especially for a start-up operation like ours) to plan ahead and to deploy resources in a meaningful, predictable way.

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

The only way is up for the Islamic finance industry for many reasons. This industry has demonstrated that it is able to develop products, services and structures that can become perfect substitutes for their conventional equivalents. The industry has also shown above average resilience in the face of financial turmoil.

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

I believe that most Islamic bankers would like to see some standardization of fatwas. We believe that the industry can be put on a higher growth trajectory if fatwas and Shariah compliant structures can be standardized across the industry, by doing away with the current system where every institution is obligated to obtain its own individual fatwas from their own individual Shariah committees.

Bahrain's US$750 million Sukuk

The Kingdom of Bahrain, acting through the Central Bank of Bahrain, priced its US$750 million seven year Reg S fixed rate Sukuk offering on the 22nd of November 2011. This is the kingdom's first seven-year international Sukuk offering and it's fourth such sovereign issuance.

The timely issuance comes at an opportune time, just as Bahrain's position as an active promoter in the Islamic finance space was beginning to fade as the kingdom appeared to actively shun the attention in light of the civil unrest that tarnished 2011.

Representatives from the kingdom conducted investor meetings in Asia, the Middle East and London, following which the kingdom accumulated an order book of US$1.8 billion from a final pool of 115 high quality investors. The issuance was raised from US$500 million to US$750 million after the Sukuk was oversubscribed by almost eight times.

Bahrain "quickly realized when they saw the responses coming through [that] they could increase the issue, the only constraint was in terms of assets," said Mohammed Dawood, the head of debt capital markets at HSBC Amanah.

The order book was driven by broad demand, with allocations of 62% to Middle East investors, 20% to European investors, 12% to Asian, and 6% to investors from other regions.

By investor type, 40% of the Sukuk were placed with banks, 22% with asset managers, 20% to central banks, sovereign wealth funds and supranationals, 12% to insurance companies and 3% to private banks, and 3% with other investor types. Approximately a third of the offering was placed with Islamic accounts.

The Sukuk offering was priced in line with the guidance price spread over midswaps of 450 basis points to yield 6.273%. The maturity date of the certificates is the 22nd November 2018 and the certificates are rated 'BBB' by both Standard & Poor's and Fitch. Scarce sovereign sales in the region helped investors overlook Bahrain's slowing economic growth

"Bahrain's return to the Sukuk market through a longer-dated issue is part of our desire to create a yield curve in the international Sukuk market in the same way that we have in our domestic market," said Sheikh Salman Bin Isa Al Khalifa, the executive director of banking operations at the central bank. "The strong demand from new as well as existing international investors is a confirmation of investor confidence in our credit, particularly in view of the volatile market backdrop," he added.

The certificates will be issued by CBB International Sukuk Company (No. 3) (SPC) and are expected to settle on the 22nd November. The certificates will be listed on the London Stock Exchange.

According to a statement from the central bank: "Despite a very active calendar with over US$3.5 billion in competing Sukuk supply, Bahrain was able to price its seven-year offering in a historically attractive benchmark yield environment."

The transaction was smoothly executed despite softer market conditions on the day of pricing. This meant that the benchmark-sized US dollar five-year Sukuk was priced at the lower end of expectations at a spread of 340 basis points over five-year US treasuries.

The issuance is a sign that the Middle East is beginning to warm up to longer tenored Sukuk. Sheikh Salman also added that the issuance was "a testament to Bahrain's strong credit and the confidence which international markets place on the kingdom's financial sector".

BNP Paribas, Citigroup and Standard Chartered Bank were hired to manage the sale. Bahrain is expected to use the money to finance a budget deficit of about 5%.

According to Rasheed Al Maraj, the governor of the Central Bank of Bahrain, the country is not planning to issue further international Sukuk and the size of its public debt is still within safe limits. — *SW*

مصرف البحرين المركزي

Central Bank of Bahrain

US$750 million

22nd November 2011

Issuer	CBB International Sukuk Company (No. 3)
Obligor	Central Bank of Bahrain
Issuance price	US$750 million
Purpose of issuance	To finance approximately 5% of government debt
Tenor	Seven years
Coupon rate / return	6.273%
Currency	US dollar
Maturity date	22nd November 2018
Lead manager(s)	BNP Paribas, Citigroup, Standard Chartered
Spread	450 basis points over midswaps
Listing	London Stock Exchange
Reoffer price	100
Rating	'BBB' by S&P and Fitch
Structure	Ijarah
Investor breakdown	From a pool of 115 investors: Middle East 62%, Europe 20%, Asia 12% and 6% to other regions. By investor type: 40% with banks, 22% with asset managers, 20% to central banks, sovereign wealth funds and supranationals, 12% to insurance companies and 3% to private banks, other investors account for the final 3%. Approximately a third of the offering was placed with Islamic accounts.
Denominations	US$100,000; US$1,000

ISSUER	SIZE	DATE ANNOUNCED
Emirates NBD	TBA	29th November 2011
Solum Asset Management	TBA	27th November 2011
Indonesian finance ministry	TBA	24th November 2011
Solum Asset Management	TBA	24th November 2011
Albaraka Turk Katilim Bankasi	US$200 million	21st November 2011
Majid Al Futtaim	US$500 million	21st November 2011
Bank Syariah Mandiri	IDR500 billion	18th November 2011
UEM Group & EPF	RM33 billion	17th November 2011
PLUS Expressways	RM30 billion	16th November 2011
Abu Dhabi Islamic Bank	US$500 million	9th November 2011
Emirates Airline	TBA	8th November 2011
Poh Kong Holdings	RM150 million	1st November 2011
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
Mydin	RM350 million	13th 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
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Bank Negara Malaysia	RM1 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

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UK: Dr Natalie Schoon
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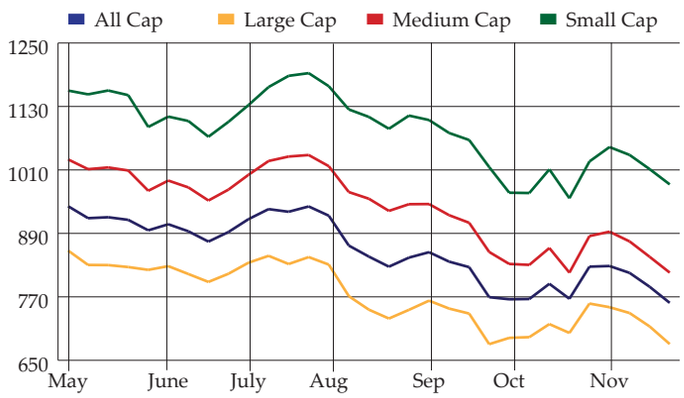
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

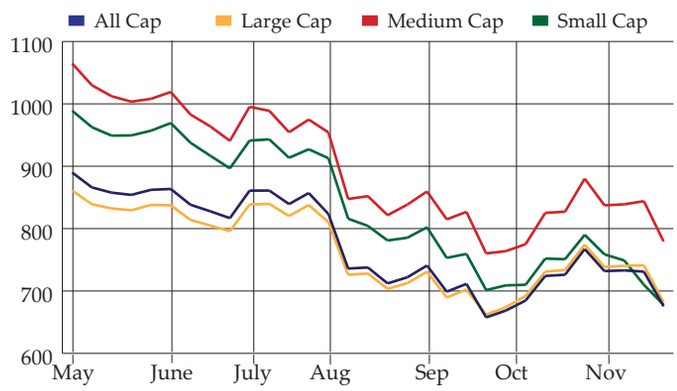
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

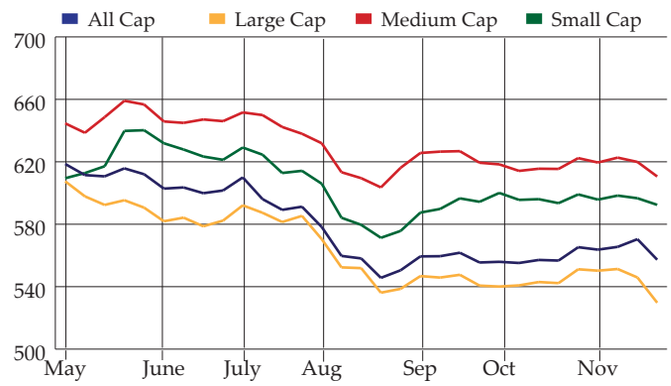
REDmoney Asia ex. Japan *6 Months*



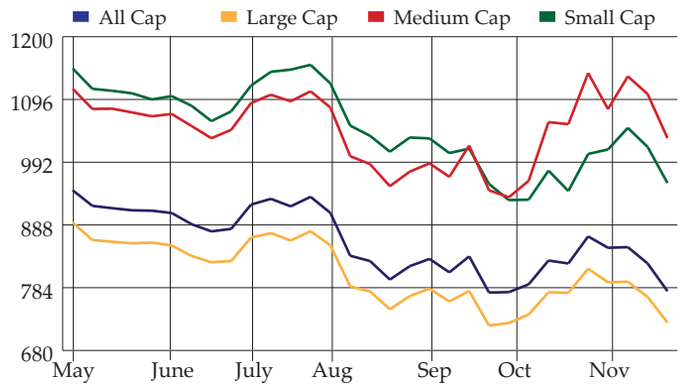
REDmoney Europe *6 Months*



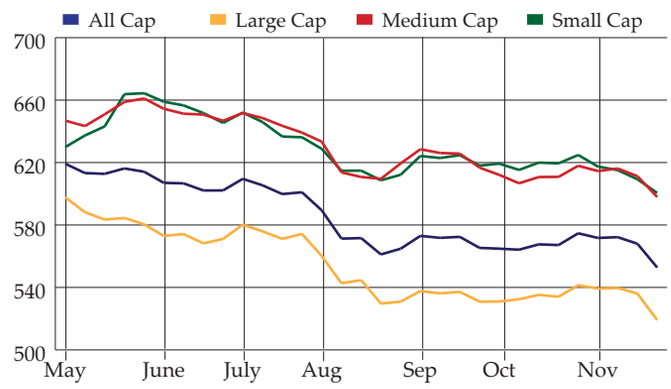
REDmoney GCC *6 Months*



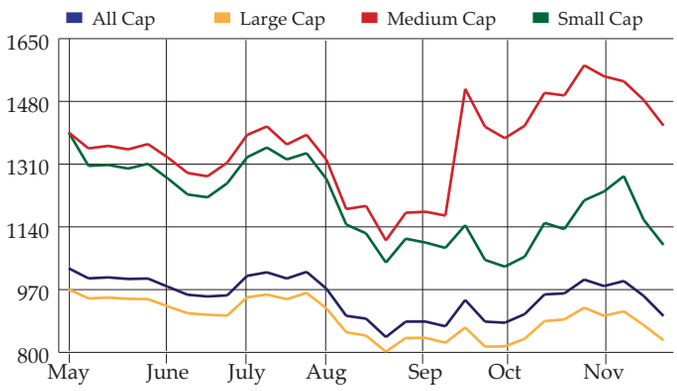
REDmoney Global *6 Months*



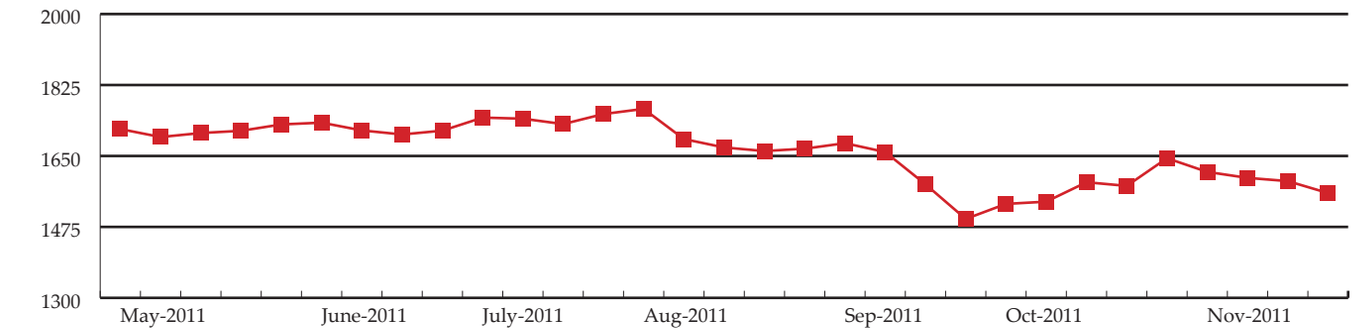
REDmoney MENA *6 Months*



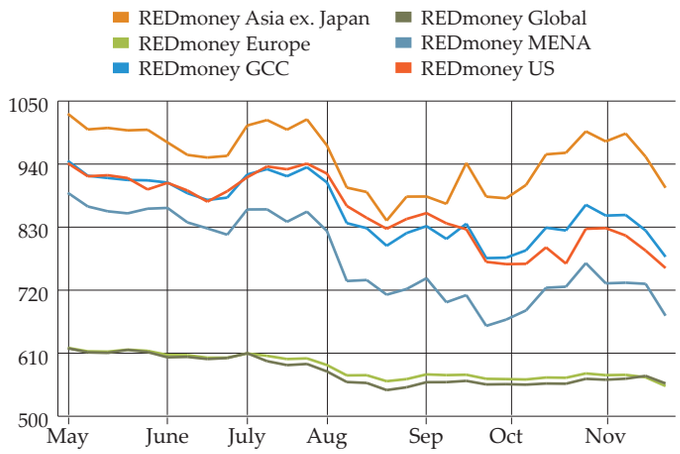
REDmoney US *6 Months*



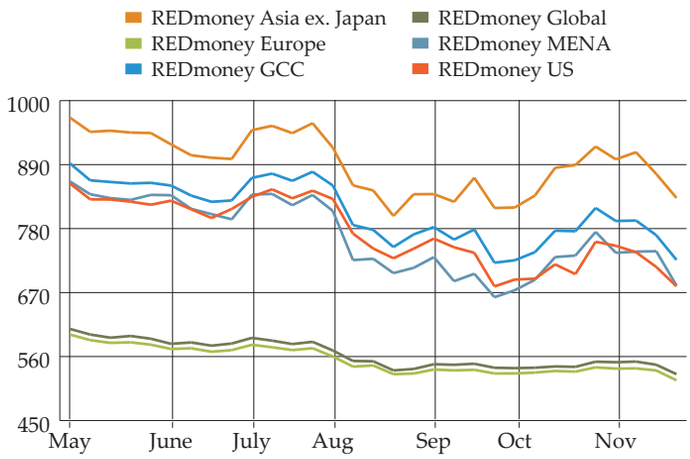
SAMI Halal Food Participation (All Cap) *6 months*



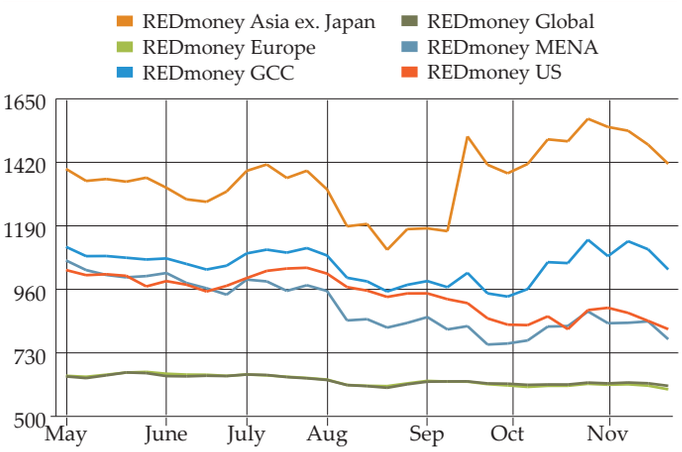
REDmoney Global Shariah Index Series (All Cap) *6 Months*



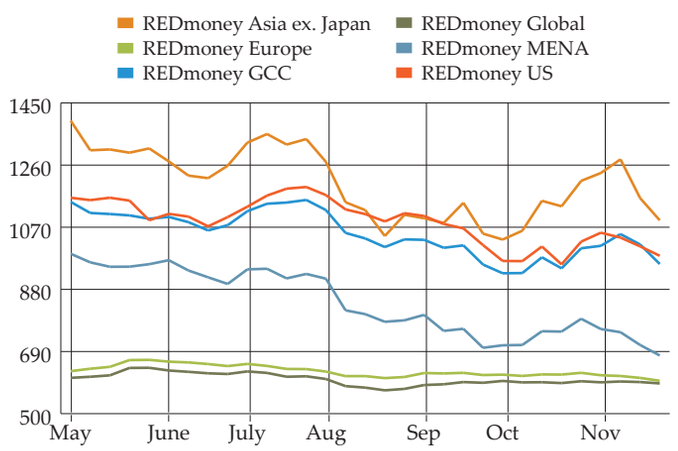
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



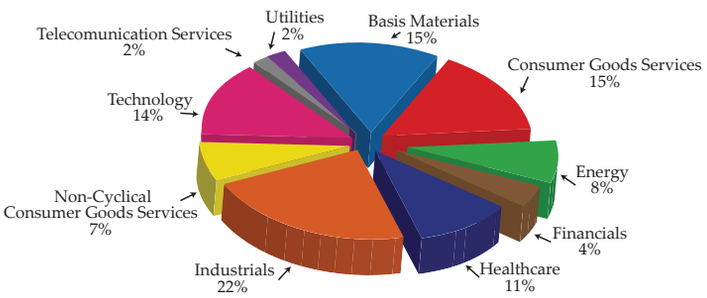
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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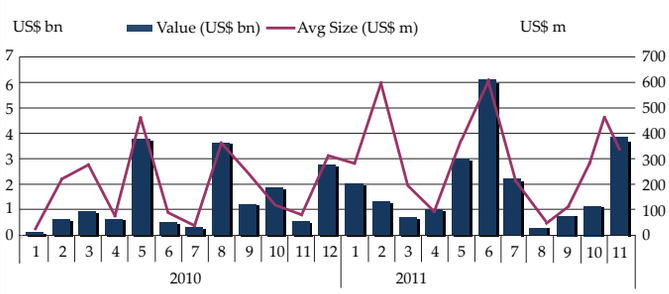
Most Recent Global Sukuk

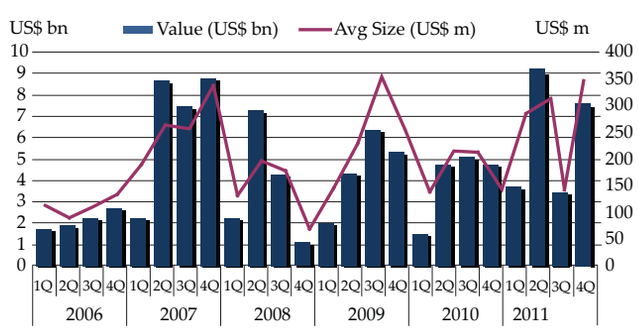
Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	770	CIMB Group, Maybank Investment Bank
2nd Nov 2011	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
16th Nov 2011	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	Standard Chartered, BNP Paribas, Citigroup
16th Nov 2011	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14th Nov 2011	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	Standard Chartered, HSBC, Citigroup
2nd Nov 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	139	CIMB Group
25th Oct 2011	Manjung Island Energy	Malaysia	Sukuk	Domestic market public issue	1,545	Lembaga Tabung Haji, CIMB Group
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Commerz-bank 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 Invest-ment 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, AmInvest-ment 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, AmInvest-ment 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

Global Sukuk Volume by Month



Global Islamic Bond 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	3,598	5	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	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
4	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275	2	Maybank Investment Bank
5	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
6	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
7	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
8	ANIH	Malaysia	Sukuk	Domestic market private placement	770	1	CIMB Group, Maybank Investment Bank
9	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
9	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
11	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	732	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
13	Cagamas	Malaysia	Sukuk	Domestic market private placement	663	13	RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, AmInvestment Bank, Maybank Investment Bank
14	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigorup
15	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
15	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
15	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
15	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
19	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
20	Malaysia Airports Capital	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1	CIMB Group, Citigroup
21	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
22	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
23	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Commerzbank Group, Abu Dhabi Investment Council
24	Maybank Islamic	Malaysia	Sukuk	Domestic market private placement	330	1	Maybank Investment Bank
25	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
26	Bank Aljazira	Saudi Arabia	Sukuk	Domestic market private placement	267	1	JPMorgan, HSBC
27	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
28	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	263	1	HSBC, CIMB Group, AmInvestment Bank
29	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	1	AmInvestment Bank
30	Besraya (M)	Malaysia	Sukuk	Domestic market public issue	233	1	AmInvestment Bank
	Total				**25,157**	**92**	

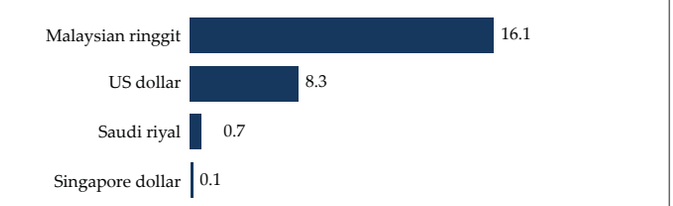
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	5,527	28	22.0
2	CIMB Group	5,370	33	21.4
3	HSBC	3,579	16	14.2
4	AmInvestment Bank	1,923	26	7.6
5	Citigroup	1,817	7	7.2
6	Standard Chartered Bank	1,689	10	6.7
7	RHB Capital	1,033	7	4.1
8	Lembaga Tabung Haji	925	4	3.7
9	BNP Paribas	438	2	1.7
10	Deutsche Bank	427	2	1.7
11	RBS	416	3	1.7
12	JPMorgan	258	2	1.0
13	Riyad Bank	240	1	1.0
14	OCBC	173	6	0.7
15	Public Bank	163	5	0.7
16	Affin Investment Bank	155	4	0.6
17	KFH	149	2	0.6
18	Bank of America Merrill Lynch	125	1	0.5
18	Abu Dhabi Commercial Bank	125	1	0.5
20	DRB-HICOM	123	2	0.5
21	Nomura	83	1	0.3
21	National Bank of Abu Dhabi	83	1	0.3
21	Abu Dhabi Islamic Bank	83	1	0.3
24	Commerzbank Group	70	1	0.3
24	Abu Dhabi Investment Council	70	1	0.3
26	Malaysian Industrial Development Finance	40	1	0.2
27	Hong Leong Bank	40	2	0.2
28	Al-Rajhi Banking & Investment	16	1	0.1
29	OSK	13	2	0.1
30	Mitsubishi UFJ Financial Group	1	1	0.0
	Total	**25,157**	**92**	**100.0**

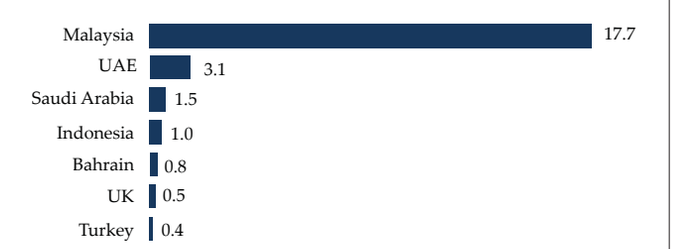
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	762	4	17.5
2	Riyad Bank	363	3	8.3
3	Public Investment Fund	304	3	7.0
4	Arab National Bank	249	2	5.7
5	Samba Financial Group	239	3	5.5
5	Al-Rajhi Banking & Investment	237	2	5.4
7	Bank Al-Jazira	234	3	5.4
7	Saudi Hollandi Bank	231	2	5.3
9	Alinma Bank	179	2	4.1
10	HSBC Holdings	172	2	3.9

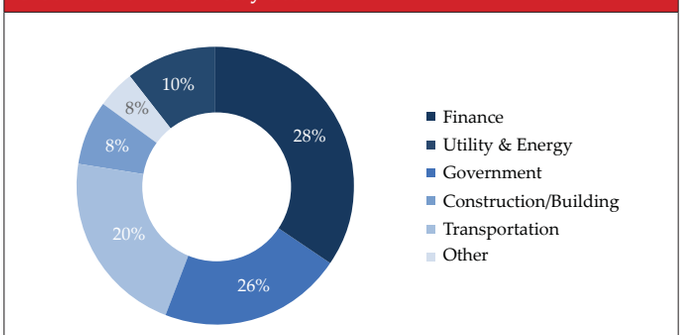
Sukuk Volume by Currency US$ (billion) *12 Months*



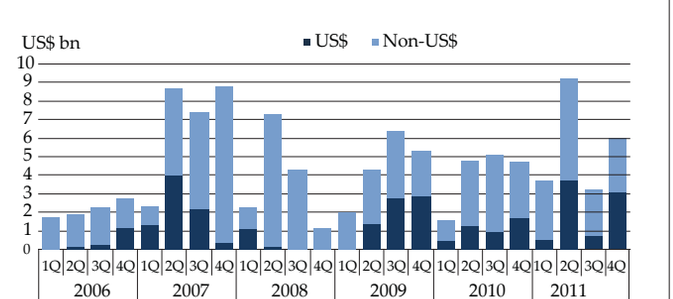
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	Afridi & Angell	267	1	2.2
4	Herbert Smith Gleiss Lutz Stibbe	267	1	2.2
4	Latham & Watkins	267	1	2.2

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	960	5	12.3
2	Samba Capital	660	4	8.5
3	Maybank Investment Bank	517	3	6.7
4	Saudi National Commercial Bank	462	2	5.9
4	Banque Saudi Fransi	462	2	5.9
6	Citigroup	425	6	5.5
7	Abu Dhabi Islamic Bank	398	3	5.1
8	Standard Chartered Bank	354	7	4.6
9	AmInvestment Bank	280	2	3.6
10	RBS	233	1	3.0
11	CIMB Group	216	2	2.8
12	Bank Al-Jazira	197	2	2.5
13	Emirates NBD	180	3	2.3
14	RHB Capital	164	1	2.1
14	Lembaga Tabung Haji	164	1	2.1
16	Arab Banking Corporation	162	3	2.1
17	Deutsche Bank	150	1	1.9
18	Noor Islamic Bank	147	2	1.9
19	Alinma Bank	142	2	1.8
19	Al-Rajhi Banking & Investment	142	2	1.8
21	Riyad Bank	129	1	1.7
22	Bank of China	93	1	1.2
23	BNP Paribas	89	2	1.1
24	Saudi Hollandi Bank	74	1	0.9
24	Export Development Canada	74	1	0.9
24	Arab Petroleum Investments	74	1	0.9
24	Arab National Bank	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	20.1
2	Citigroup	524	6	6.7
3	Abu Dhabi Islamic Bank	428	3	5.5
4	Maybank Investment Bank	237	1	3.1
5	RBS	233	1	3.0
5	HSBC	233	1	3.0
7	Standard Chartered Bank	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
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
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
22nd Sep 2011	Albaraka Turk	Turkey	344
14th Dec 2010	Majid Al Futtaim Properties	UAE	310

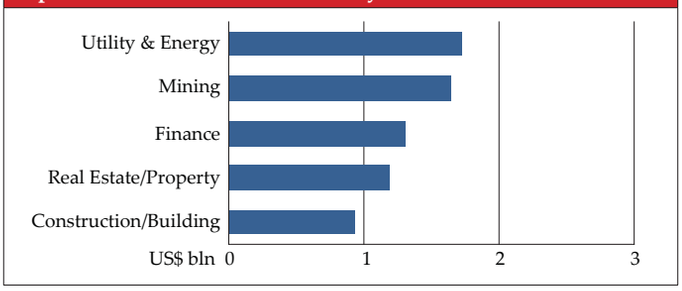
Top Islamic Finance Related Loans by Country

12 Months

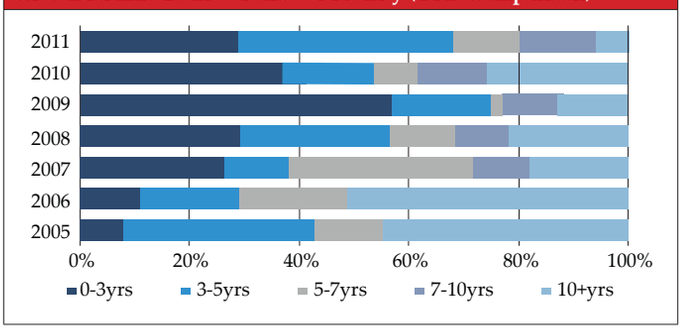
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	3,129	4	40.2
2	UAE	1,479	7	19.0
3	Malaysia	1,395	4	17.9
4	Turkey	988	5	12.7
5	Indonesia	450	1	5.8
6	China	93	1	1.2
7	Kuwait	87	1	1.1
8	Pakistan	60	2	0.8
9	Russian Federation	60	1	0.8
10	Bahrain	45	1	0.6

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

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

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

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

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

14th December 2011
Islamic Finance Breakfast Meeting : Islamic Asset Management
Kuala Lumpur (*REDmoney Events*)

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)*

13th March 2012
IFN Roadshow Singapore
Singapore *(REDmoney events)*

16th — 17th April 2012
IFN Indonesia Forum
Jakarta *(REDmoney events)*

24th April 2012
IFN Roadshow Thailand
Bangkok *(REDmoney events)*

8th May 2012
IFN Roadshow Australia
Sydney *(REDmoney events)*

30th May 2012
IFN Roadshow Hong Kong
Hong Kong *(REDmoney events)*

3rd – 4th June 2012
IFN Saudi Arabia Forum
Riyadh, Saudi Arabia *(REDmoney events)*

21st June 2012
IFN Roadshow Japan
Tokyo *(REDmoney events)*

5th – 6th September 2012
IFN Europe Forum 2012
London, UK *(REDmoney events)*

1st October 2012
IFN Roadshow Egypt
Cairo *(REDmoney events)*

4th October 2012
IFN Roadshow Turkey
Istanbul *(REDmoney events)*

5th – 6th November 2012
IFN Asia Forum 2012
Kuala Lumpur *(REDmoney events)*

26th November 2012
IFN Roadshow Brunei
Brunei *(REDmoney events)*

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