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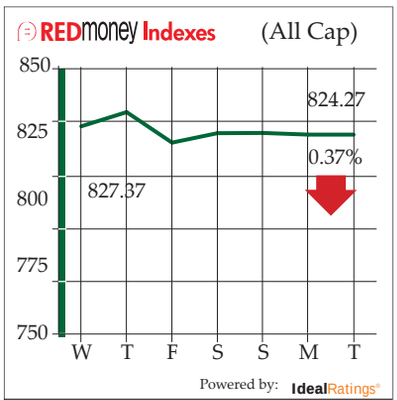

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IFRS: How prepared are we?

Cover Story

The new International Financial Reporting Standards (IFRS) are due to come into force in Malaysia on 1st January 2012. Yet many Islamic countries are still dragging their feet over the new standards. How prepared are Islamic financial institutions to implement the new system, and what will the impact be for those who are left behind?

Although a number of competing accounting standards still exist, including US GAAP (most prominently in the US) and AAOIFI in several Islamic countries, IFRS is the most widely-used standardized set of reporting rules across the finance industry. Over 100 countries now require, permit or are changing to IFRS, including nine of the top 10 global capital markets. In terms of Islamic finance, many of the key markets now use IFRS or systems based upon it, due to the obvious advantages of global acceptance, reduced reporting costs, improved market credibility and cross-border comparability.

However, the International Accounting Standards Board (IASB) requires full word-for-word adoption to be considered in full compliance: and this is proving to be a stumbling block for many Islamic countries who are reluctant to fully embrace the standards amid fears that IFRS does not adequately account for the unique complexities of Islamic finance. Throughout the Islamic finance world there are very different levels of preparation, and this could prove to be one of the key differentiating factors in the competitive regional development of Islamic finance going forward.

A pattern for preparation

Malaysia, one of the leading global hubs for the industry, has been preparing for IFRS since 1997 when it first initiated harmonization procedures to bring its standards in line with IFRS requirements. Since 2006 the country has been converging with IFRS standards, and by January 2012 it plans to be fully compliant.

Although Malaysia initially considered a separate system for Islamic accounting standards, the Malaysian Accounting Standards Board (MASB) set up a special working group looking at reporting for Islamic finance in 1997 which came to the conclusion that the industry could be covered under conventional standards, as long as some special provisions were made.

Conventional MASB-approved standards now apply to all Malaysian financial institutions, including Islamic finance institutions, unless there is a clear Shariah prohibition. The country has issued specific guidance for Islamic finance which clarifies some of the issues. The Statement of Principle SOP i-1 sets out the principles that underlie the MASB approach to financial reporting from an Islamic perspective.

It is concerned with the display and presentation of information that must form part of financial reporting from an Islamic perspective, and is designed

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Constructive controversy

Editor's Note

Although most of us prefer to avoid conflict, an undeniable characteristic of any divergence in behavior or opinion is that it leads to change. Whether for better or for worse, sometimes it takes a little clashing of heads in order for an idea or a particular state of affairs to progress to the next level.

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NEWS

Banque Centrale Populaire to roll out new Shariah compliant products in the first quarter of 2012

Amana Bank launches operations

QIIB leads talks on Islamic bank joint venture in Morocco

Al Baraka Egypt to launch credit cards in the second quarter of 2012

Thailand's finance ministry launches investigation into unusual financing by **Islamic Bank of Thailand**

Islamic banks and financial institutions in Malaysia should make financing easier for new growth sectors, says former premier

Amrahbank signs US$1.5 million trade finance pact with ITFC

South Africa prepares for debut sovereign Sukuk

Emirates NBD shelves plans for Sukuk sale

Indonesia's central bank commences Shariah reverse repo

Indian Center for Islamic Finance calls for Islamic banking to fund India's infrastructure needs

Indonesia's central bank sells nine-month Islamic debt at 5.04%

Islamic microfinance in Pakistan needs to be looked at seriously, says **Al Baraka Bank Pakistan**

Outlook of local banks in Malaysia expected to remain stable, says **Fitch**

Pakistan International Airlines Corporation raises US$90 million via Islamic syndicated financing facility

Central Bank of Bahrain in push for consolidation of Islamic banks

Silkbank said to obtain license from central bank to start Islamic banking operations

Maybank Syariah Indonesia provides US$12.5 million financing to **Global Niaga Bersama**

Total assets of Islamic banking institutions in Pakistan to reach US$6.2 billion in the first half of 2011

Albaraka Türk Katılım Bankası seeks to raise US$200 million via Sukuk by the third week of December

London Stock Exchange Group to acquire 50% stake in **FTSE International**

Islamic banking plays an important role in solving GCC's economic woes, says **KFH-Bahrain**

Opportunities for Dubai to export Islamic finance expertise to Germany

Sukuk market set to heat up in Saudi Arabia in 2012 with potential sovereign Sukuk

Time for Arab Spring governments to plan long-term fiscal policies, says **IMF**

StanChart eyes launch of Islamic banking operations in Nigeria and Oman in 2012

S&P reviewing credit ratings of 50 banks in MENA under new criteria

Citigroup may cut jobs in the Middle East

Adoption of Islamic finance could have avoided current global economic woes, says Turkey's finance minister

Dubai's state-linked firms in solidarity over debt repayments

Malaysians invited to participate in Islamic finance in Kazakhstan

New problems weigh down the UAE's banking system, says **Fitch**

Oman's new Islamic banks due to commence operations in 2012 are expected to acquire about 20% of domestic market

Elaf Bank to work with **Bahrain Financial Exchange** to develop products for Islamic platform

Bank credit in the UAE declines by US$545 million month-on-month in October 2011

General Authority of Civil Aviation to issue Sukuk by February 2012 to fund US$7.2 billion Jeddah airport

Abu Dhabi Islamic Bank fully repays US$800 million five-year Sukuk

Global Investment House's creditors agree to delay repayment for principal of debt to the middle of 2012

Oman's **Capital Market Authority** prepares separate regulations for Takaful and Sukuk

Gulf International Bank issues US$300 million Sukuk via private placement

Nakheel will make Sukuk's profit payment on time

Sambacapital unveils Shariah compliant Al Nafees Global Commodities Equity Fund

Qatar Central Bank allows commercial banks to manage Islamic assets after deadline for window shutdown

Arab Banking Corporation joins **Bahrain Financial Exchange** as trading member

Financing from banks in Bahrain rises 12.9% in the first 10 months of 2011

Central Bank of the UAE amends liquidity regulation for banks in the emirates

TAKAFUL

BMI Bank and **Medgulf Allianz Takaful** in bancassurance deal

Barwa Bank in Takaful tie-up with **Allianz Takaful** – QFC Branch

Outlook for Malaysia's insurance market in 2012 is stable, says **Fitch**

RATINGS

S&P affirms long- and short-term 'A/A-1' foreign and local currency sovereign credit ratings on emirate of Ras Al Khaimah

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

Euro Arab Insurance Group's long-term financial strength and counterparty credit ratings lowered to 'BB' by **S&P**

Fitch affirms **National Commercial Bank**'s long-term issuer default rating at 'A+'

S&P affirms **Salama – Islamic Arab Insurance** and **BEST RE (Labuan)**'s ratings at 'A-'

Fitch assigns 'A(exp)' rating for series of guaranteed certificates under **Tamweel**'s US$1 billion Sukuk

Moody's withdraws 'Baa2' insurance financial strength rating of **Qatar Islamic Insurance Company**

MOVES

Ventje Rahardjo steps down as president director of **BRI Syariah**

BNP Paribas names **Jean-Laurent Bonnafe** as CEO

Chris Aylward to leave **SNR Denton Bahrain**

Abu Dhabi Investment Authority names **Benjamin C Weston** as global head of alternative investments

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Overview of accounting standards in Islamic finance

Asia		Middle East		Africa	
Malaysia	Local GAAP (IFRS based)	Bahrain	AAOIFI	Morocco	GAAP with IFRS permitted
Indonesia	Local GAAP (IFRS based, refers to AAOIFI)	Saudi Arabia	Local GAAP (with references to IFRS)	Tunisia	GAAP with IFRS permitted
Singapore	IFRS	UAE	IFRS	Algeria	GAAP with IFRS permitted
Australia	IFRS	Kuwait	IFRS & AAIOFI	Nigeria	IFRS not permitted
China	Local GAAP (IFRS based)	Qatar	IFRS	Ghana	IFRS
India	Local GAAP (IFRS based)	Pakistan	IFRS with local amendments	South Africa	IFRS
		Iran	IFRS not permitted		
		Israel	IFRS not permitted		
		Syria	IFRS not permitted		
		Egypt	IFRS		
		Jordon	IFRS		
		Lebanon	IFRS		

Source: PwC, July 2011

to form the basis for any future pronouncements to be developed. In addition, the Technical Release TR i-3 contains additional guidance on presenting financial statements of Islamic financial institutions, including information on the disclosure of unusual supervisory restrictions imposed on Islamic institutions, the disclosure of the distribution of investment accounts and their equivalent and the disclosure of the method of allocating income from various categories of deposits if the Islamic financial institutions co-mingles various types of deposit into a single pool of funds.

> *"There is a perception that Islamic finance transactions are not covered adequately by the standards"*

Due to the thorough preparation by MASB and the Malaysian supervisory authorities, most industry practitioners therefore believe that the new standards coming into force in January will have minimal impact on the industry in Malaysia.

MASB standards have been consistent with IFRS since 1978, meaning that the conventional finance industry is already in full compliance. And although previously "Islamic leases" (MASB 24 FI) and "transactions and events conducted on the basis of Islamic principles" (MASB 24 FI) were excluded from MASB FRS compliance, since 2005 there have been no exemptions for Islamic finance: reconfirmed by the issuance of SOP i-1 in 2009.

A reluctant Middle East

Many Middle Eastern countries have in contrast been reluctant to adopt IFRS. This is due to several reasons. AAOIFI has its headquarters in Bahrain and has a strong presence in the Middle East, and as Bahrain is one of the leading regional hubs for Islamic finance this has had an impact across the region.

In addition, the more rigorous Islamic interpretations in many Middle East countries along with (in some cases) weaker trade ties with key IFRS regions such as the UK and Europe have created resistance to adoption. There is a perception that Islamic finance transactions are not covered adequately by the standards, while

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CLOSING BELL

Sustaining Sukuk sales

MALAYSIA: The growth momentum of Malaysian ringgit-denominated Sukuk sales is expected to be sustained in 2012, boosted by the implementation of the government's economic transformation program (ETP) projects.

Rafe Haneef, the CEO of HSBC Amanah Malaysia, said that most the ETP projects are expected to be funded by Sukuk.

Government Sukuk re-opened

MALAYSIA: The government has re-opened the tender for its 3.51%, RM3 billion (US$941.33 million) profit-based government investment issues, sold in March this year and maturing on the 30th September 2014.

IT for Islamic banking

BANGLADESH: Islamic banking software company Millennium Information Solution is eyeing the expansion of its services in other Asian countries, said Mahmud Hossain, its CEO.

He also said that the company, in partnership with two global IT firms, has started positioning its flagship Islamic banking product, Ababil, in the Gulf countries.

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there has also reportedly been some discontent that Middle East countries were not adequately represented during the development of the standards themselves.

The impact on jurisdictions that are not fully prepared for IFRS could be significant, and could have serious implications for their global competitiveness. For countries using AAOIFI the impact could be considerable as their measurement and reporting standards will differ from the widely accepted global standards, which could mean that their financial reporting is regarded as less robust or is not recognized by potential trade partners.

In other countries, which use neither IFRS not AAOIFI, it is a matter of urgency that they address the reporting standards gap and start moving towards a standardized model that will allow them to interact with the rest of the world. Whether a country is or is not fully compliant with IFRS could make an eventual difference to its global competitiveness.

> ***"The Islamic finance industry is an ever-changing world, and as it develops it will need its reporting standards to develop alongside it"***

Although many countries prominent in Islamic finance are embracing IFRS, the reluctance of other countries to adopt the standards is is not to be dismissed, as it stems from very real concerns over the ability of the standards to meet Islamic reporting requirements.

Stumbling blocks

One of the most important issues in whether IFRS can meet Islamic finance requirements is that of substance over form. The IASB framework states that substance over form is an integral part of accurate financial reporting, insisting that: "Faithful representation means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form."

However, there is a school of thought that believes that substance over form renders a Shariah compliant transaction indistinguishable from its conventional counterpart. For example, in an Ijarah Muntahia Bittamleek transaction a Shariah compliant financial statement would recognize two separate transactions: the rental throughout the Ijarah period, followed by a sale based on the Aqad to transfer the Ijarah item.

However, in a substance over form approach the financial statement would recognize only one transaction, combining both contracts into a 'hire purchase' agreement. This holds obvious problems from a Shariah persective.

In addition to religious concerns, there are a number of practical reasons that could delay or deter the adoption of IFRS in Islamic countries. There is a serious lack of skilled finance professionals trained in the complex standards, who also have knowledge of Islamic finance.

The Islamic finance industry is already facing a talent crisis, and this further shortage could present a significant hurdle to IFRS adoption even in countries that claim to be prepared to meet the deadline.

Some companies have been capacity building for some time, and have already engaged consultants to train their accounting, finance and treasury staff in the new standards – and these companies will be the ones who gain a competitive advantage, through early investment in compliance.

Those who have not, however, will further struggle with another major issue of compliance: the cost factor. The cost of full convergence has been a considerable issue in countries aiming to comply by 2012, including Malaysia. Systems will need to be changed to capture new data; the reporting systems will need to be changed to accommodate the increased disclosure requirements; and a large amount of investment in training and education will be required to bring staff to a level where they are able to comply with and operate the new systems.

The US Securities and Exchange commission has estimated that conversion to IFRS could cost companies up to 0.1% of revenue. Going by market capitalization; this could run into millions of dollars for larger companies.

The need for dialogue

In addition, the Islamic finance industry is an ever-changing world, and as it develops it will need its reporting standards to develop alongside it. There has been concern that the IFRS was not developed with enough reference to the needs of Islamic finance, with no Islamic lobby groups participating in its development.

In November 2009 therefore, the Asian-Oceanian Standard-Setters Group (AOSSG) was formed, comprising 25 national standard-setters across the region. The AOSSG has set up a Working Group on Islamic Finance, chaired by Malaysia and including Saudi Arabia, Dubai, Pakistan, Indonesia, Australia, and Korea (although Indonesia withdrew in 2010).

The Working Group published a research paper in September 2010 on accounting issues relating to Islamic finance and IFRS. The group identified 15 key issues concerning the application of IFRS to Islamic finance, including:

- Transaction fees.
- Recognition of profit in sales with mark-up.
- Derecognition in sale and buy back agreements.
- Classification of Shirkah-based. placement and accounts.
- Profit equalisation reserves and investment risk reserve.
- Accounting treatment of Ijarah.
- Assets transferred to a special purpose entity for Sukuk.
- Sukuk valuation.
- Applying IFRS4 to Takaful.
- Classification and measurement of Qard.

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Proposed updates for Islamic application of IFRS

	Current requirement	Proposed requirement
IFRS 4 Insurance — measurement IFRS 9 FI — classification & measurement	Use local requirements — gross premium. Loans & receivables measured at amortised cost.	Building-block (component) approach. If not 'solely payments of principal and interest', measure at fair value.
IFRS 9 FI — impairment	Incurred losses.	Expected losses.
IFRS 11 — Joint Arrangements	Proportionate consolidation or equity method.	No proportionate consolidation.
IFRS xx — Leases	Operating lease or finance lease.	Right-to-use (and corresponding liability).

Source: MASB, July 2011

- Presentation of financial statements of Takaful entities.
- Possibilty of profit rate cap leading to embedded derivatives.
- Additional disclosures required for Shariah transactions.
- Terminology.
- Departures and exemptions from IFRS requirements.

In the third meeting of the AOSSG in Melbourne in November 2011, the group also considered research including surveys and presentations relating to the salient features of Islamic finance that need to be considered during the implementation of IFRS: resulting in a decision to form an Islamic Finance Advisory Group to provide input to the IASB and assist in the further development of IFRS.

There is no doubt that a globally recognized and accepted set of reporting standards is vital both for the financial industry as a whole, and in consolidating the position of Islamic finance within a globally accepted context. IFRS is not perfect, and it is clear that work still needs to be done both at a supervisory level and a corporate level to meet in the middle, and form a compromise that meets the requirements of both sides. IASB has also shown a willingness to do so, with two meetings already held (the 11-12th May 2011 and the 12-15th June 2011) to discuss Shariah compliance and Islamic leases.

The International Organization of Securities Commissions has also advised that instead of switching from AAOIFI to IFRS, the IASB should consider incorporating the one into the other. "Accounting disclosures should be based on internationally acceptable standards (such as IFRS).

Regulators, in considering their accounting requirements, should give due regard to the specific characteristics of Islamic securities markets. Standard-setting agencies such as the IASB may wish to consider the application of IFRS to Islamic financial instruments with other bodies (such as AAOIFI)." — *LM*

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Although most of us prefer to avoid conflict, an undeniable characteristic of any divergence in behavior or opinion is that it leads to change. Whether for better or for worse, sometimes it takes a little clashing of heads in order for an idea or a particular state of affairs to progress to the next level.

That conflict begets change has been much demonstrated in recent times; perhaps most starkly amid the Arab Spring and also in the aftermath of the 2007/2008 financial crisis. This week, Islamic Finance *news* explores some of the positive changes that have come out of recent crises, including in a contribution from legal firm Vinson & Elkins, which discusses the development of new restructuring expertise in the GCC following the recent — and arguably, ongoing — financial crisis.

Saif Ur Rahman Khalid Ahmadzai, a Chartered Islamic Finance Professional holder in Islamic Banking and Finance from INCEIF, looks at the Kabul Bank crisis and how it has impacted Afghanistan's Islamic finance industry; while Dr Hatim El-Tahir from Deloitte shares his views on the growth of Islamic finance in Lebanon, highlighting the effect of the country's political unrest on its Islamic banking system.

No stranger to conflict and crisis is Palestine, where Dr M Hisham Jabr, an associate professor at An-najah National University Nablus, writes on the background and progress of Islamic financial institutions in the country.

Meanwhile Daryl Roxburgh, the global head of BITA Risk, writes on private clients' changing needs for investing; and Cheryl Packwood, CEO of Business Bermuda, contributes this week's Takaful feature on efforts to develop the Takaful and re-Takaful markets in the island nation.

This week, our IFN reports cover Qatar's extended deadline on truncation; the performance of corporate as opposed to sovereign Sukuk over the past year; and the effect sanctions are having on an increasingly obstinate Iran, the world's largest Islamic financial system.

Our IFN Correspondents write on the potential for Islamic finance in Canada; the risks associated with Indonesia's recently issued global Sukuk; the opening of the Iranian capital market; Ireland's role as a springboard for Islamic ETFs; Sukuk Ijarah in Japan; Islamic retail banking in Mauritius and Oman's preparation to regulate its Takaful market. And on a regulatory note, our cover story explores the preparations for and potential impact of the new IFRS standards due to be launched in January 2012.

AFRICA

Temporarily shelved

MOROCCO: Banque Centrale Populaire (BCP) is planning to roll out a new range of Shariah compliant products in Morocco in the first quarter of 2012, following its move to suspend the marketing of its Islamic banking products earlier this year.

Laidi El Wardi, the deputy general manager of BCP, said that the suspension of its Shariah compliant products was due to technical problems it encountered in marketing the products.

Laidi added that the bank is also still considering whether to set up a separate Islamic subsidiary.

New Islamic bank

TANZANIA: The country's first Islamic bank, Amana Bank, which received a full commercial banking license from Tanzania's central bank in August 2011, has launched its operations in the city of Dar es Salaam.

The bank's shareholders comprise local prominent businesspeople. It will offer services including personal savings accounts, term deposits, current accounts and Ihsan accounts (for houses of worship).

Developing Islamic banking in Morocco

MOROCCO: Sheikh Dr Khalid Thani Abdullah Al-Thani, the chairman and managing director of Qatar International Islamic Bank (QIIB), has suggested that Moroccan and Qatari shareholders could partner up to further develop Islamic banking in Morocco.

Khalid, who is also the vice-chairman of the Qatari Businessmen Association, proposed the formation of an Islamic bank focusing on investment banking and an insurance company via a joint venture.

Any potential tie-up could see a 51% equity participation from Moroccan shareholders, with the remainder to be held by Qataris, he said.

He recently led a delegation to meet Abdelilah Benkirane, the newly appointed prime minister of Morocco, who noted that the country is keen to utilize QIIB's expertise in Islamic banking to boost its banking industry.

New income stream

EGYPT: Al Baraka Egypt will launch credit cards in Egypt for the first time in the second quarter of next year.

According to Ashraf Al Gamrawi, its vice-president and CEO, the new product is expected to contribute 15% to the bank's revenue.

ASIA

Inquiry unveiled

THAILAND: The finance ministry has reportedly launched an investigation into executives of the Islamic Bank of Thailand said to have approved financing worth THB1 billion (US$33 million) for eight projects for which collateral values were less than the facility amount.

The investigation is led by a committee chaired by Amnuay Preemonwong, the inspector-general of the finance ministry, and representatives from other state agencies including the office of the attorney general.

Findings of the committee, which must be completed in around three months, will be submitted to Thirachai Phuvanatnaranubala, the finance minister of Thailand. The facility has also been classified as non-performing.

Explore new territories

MALAYSIA: Banks and financial institutions offering Islamic financial services have been urged to make financing easier for new growth sectors to realize the country's plan of becoming a high-income nation.

Abdullah Ahmad Badawi, the chairman of the Institute of Islamic Understanding Malaysia (IKIM) and Malaysia's former prime minister, said that biotechnology, animation, information technology, green and renewable energy are among the new growth industries which should be given attention by these institutions.

Islamic finance for SMEs

AZERBAIJAN: Amrahbank, which is 49%-owned by Bahrain's International Investment Bank, has signed a US$1.5 million trade finance agreement with the

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Government prepares for debut sovereign Sukuk

SOUTH AFRICA: In a surprise move on the 6th December, South Africa's National Treasury invited banks to submit proposals to provide advisory services for the structuring and issuance of the country's debut sovereign Sukuk.

"There is a great interest in the Sukuk market and this is the first step towards meeting the growing appetite for government-backed Shariah compliant investments," said Lungisa Fuzile, the director general of the National Treasury.

The move is in line with the treasury's efforts to diversify its funding and investor base, with the department eyeing both the local and international markets for the potential issuance.

Interested banks have been asked to submit their proposals by the 21st December, with shortlisted bidders to be notified by the 20th January next year. The treasury will also set up an evaluation panel to consider the proposals.

The department has also issued guidelines for the request for proposals, asking banks to illustrate their commitment to the country via factors including their working relationship with the government, and labor and social issues.

Banks have also been asked to propose the structure of the potential sovereign Sukuk as well as present their expertise and skills in structuring Sukuk, including Shariah considerations.

In addition, proposing banks must recommend how they could support the transaction in the secondary market, provide a profile of possible investors and outline their capacity for conducting roadshows.

Although the country has several banks offering Shariah compliant services, the Islamic finance industry has remained small.

With plans for its potential Sukuk expected to be included in funding proposals for the country's 2012-2013 budget beginning in April next year, South Africa could issue its debut sovereign Islamic bonds sooner rather than later.

Emirates NBD shelves plans for Sukuk sale

UAE: Emirates NBD (ENBD) has reportedly shelved plans to issue a five-year Sukuk, which had originally been expected to come to market as early as the third week of December. The bank had been in talks with several banks to manage the transaction, although it had yet to issue mandates.

It has since emerged that the bank will not proceed with any plans for the issuance, with its subsidiary, Emirates Islamic Bank (EIB), now said to be looking at issuing the Islamic bonds.

EIB is reportedly eyeing a roadshow for a Sukuk next year depending on market conditions, with a sale hinging on investor appetite.

Rick Pudner, the CEO of ENBD, earlier said that the bank was considering issuing a five-year US dollar-denominated Sukuk, with the final decision on its funding options to be made within the first two weeks of December.

Although the emergence of its decision is consistent with this timeframe, it also coincides with weak investor sentiment for the bank's shares, which are listed on the Dubai Financial Market, following a report from Goldman Sachs that the bank may need to book up to AED8 billion (US$2.1 billion)-worth of provisions for bad debt by the end of 2013.

The report calculated a provisioning of between AED6 billion (US$1.6 billion) and AED8 billion between the fourth quarter of this year and the fourth quarter of 2013.

The bank, already one of the largest creditors to Dubai World, took over the troubled Dubai Bank in October this year, shortly after the Islamic bank was bailed out by the Dubai government.

Plagued with poor asset quality and weak investor sentiment, ENBD's decision to call off its Sukuk issuance may just have circumvented possible poor demand for its papers.

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International Islamic Trade Finance Corporation (ITFC).

According to Emil Mammadov Mahabbat, the chairman of the management board at Amrahbank, the agreement will create new opportunities and collaboration between the two institutions in finding new trade finance solutions for small and medium-sized enterprises (SMEs).

Absorbing liquidity

INDONESIA: Bank Indonesia (BI), the central bank, which recently announced that it is planning to allow the trade of Sukuk for reverse repo operations, has announced that it is offering reverse repo for Shariah banks and business units.

The mechanism is aimed at reducing bank liquidity in the financial system, with participating banks required to purchase at least IDR1 billion (US$110,000)-worth of government Sukuk.

According to BI, the reverse repo is designed specifically for banks with a finance-to-deposit ratio of at least 80% and those that participate in the central bank's Shariah monetary operations.

Islamic infrastructure financing for India

INDIA: The Indian Center for Islamic Finance (ICIF) has called for the utilization of Islamic finance to meet the country's funding needs for infrastructure development.

According to Shaikh Mudassir Siddiqui, a partner at SNR Denton's Dubai office and head of Islamic finance – Middle East, who also works closely with ICIF, India requires US$1 trillion to upgrade its infrastructure to achieve its annual growth target of 9%.

He said that Islamic banking can present an alternative to meet this requirement.

Shariah debt sold

INDONESIA: The central bank, Bank Indonesia (BI), has sold IDR382 billion (US$42 million)–worth of nine-month Islamic certificates at 5.04%.

BI also sold IDR27.29 trillion (US$3 billion) of conventional certificates at the same rate, lower than the 5.22% priced for its November auction, absorbing more liquidity than expected.

Extraordinary potential

PAKISTAN: Financial institutions in Pakistan are still not taking Islamic microfinance seriously despite its potential for growth in the country, said Ahmed Shuja Kidwai, the chief operating officer of AlBaraka Bank (Pakistan).

Ahmed also stressed that Islamic microfinance is particularly important for the country due to its developing economy and large untapped market.

Still in solid position

MALAYSIA: The outlook for Malaysian banks is expected to remain stable even if a new economic slowdown were to emerge from the growing global uncertainty, according to Fitch.

Although rating risks could occur should a downturn be sharp and long, leading to significant capital impairment risks for local banks, this probability is fairly low.

The ratings agency said that this is due to the domestic banks' satisfactory loss-absorption qualities and risk management, as well as a prudent regulatory environment.

However, it noted that global economic prospects are becoming increasingly weak, posing fresh downside risks to the Malaysian economy and banking system. Despite this, the impact of higher credit costs can be largely absorbed through the banks' earnings.

PIA gets US$90 million financing

PAKISTAN: National carrier Pakistan International Airlines Corporation (PIA) has raised US$90 million through a three-year Islamic syndicated financing facility, which will be used for general corporate purposes.

The transaction is expected to be upsized to US$100 million with Kuwait's Warba Bank, which will be joining the facility as a lead arranger. Abu Dhabi Islamic Bank, Al Hilal Bank, Citibank, and United Bank were mandated lead arrangers and joint bookrunners for the initial deal.

Clifford Chance and Haidermota & Co acted as legal counsel to the arrangers, while PIA was represented by Mandviwalla & Zafar.

Central Bank of Bahrain in push for consolidation of Islamic banks

BAHRAIN: The Central Bank of Bahrain (CBB) has urged CAPIVEST, Elaf Bank and Capital Management House to merge early next year in an effort to strengthen the banks' capital bases.

The news follows an announcement in August this year of merger talks between Al Salam Bank-Bahrain and Bahrain Islamic Bank. The banks have named KPMG Fakhro as advisor for the planned merger, which could see the creation of Bahrain's largest Islamic bank with US$4.5 billion-worth of assets.

According to Ahmed Abdulaziz Al Bassam, the director of licensing and policy at the central bank, the authority called for the mergers in a bid to see the banks strengthen their capital and balance sheets.

Both mergers are awaiting approvals from shareholders and are expected to take place in the first quarter of next year, he added.

The comments from the CBB confirms Islamic Finance *news*' Volume 8 Issue 48 cover story on the 7th December 2011, noting market talk that the central bank is encouraging consolidation in the industry in an effort to strengthen the domestic banking sector.

Twenty six Islamic banks are currently in operation in Bahrain, with local industry players commenting that while competitive, the industry remains fragmented.

Dr Abdullah Mansury, the CEO of Bahrain-based Allianz Takaful, said that consolidation in the domestic banking market is "imperative" to manage costs and achieve economies of scale, while losses incurred in the market have impacted banks' core capital positions.

Green light for Shariah banking

PAKISTAN: Silkbank has reportedly received a license from the central bank, State Bank of Pakistan, to commence Islamic banking operations in the country.

According to M A Mannan, a director at Silkbank, the bank already possesses an Islamic banking team and the appropriate infrastructure.

Financing for vessels

INDONESIA: Maybank Syariah Indonesia has granted US$12.5 million in financing to Global Niaga Bersama, a marine and offshore logistics company, through a five-year agreement.

The financing facility will enable the company, which serves Indonesia's oil and gas industry, to add to its fleet of vessels.

Rapid growth

PAKISTAN: Local Islamic banking institutions have registered a 17.5% growth in total assets to reach PKR550 billion (US$6.2 billion) in the first half of 2011, according to the central bank, the State Bank of Pakistan.

Earnings indicators of Islamic banks also outperformed those of the overall banking sector for the first time, as return on assets during the period grew from 0.8% to 1.6%, while return on equity climbed to 16.5% from 5.2% as at December 2010.

EUROPE

Albaraka Türk's Sukuk forthcoming

TURKEY: Albaraka Türk Katılım Bankası, the Turkish subsidiary of Bahrain's Albaraka Banking Group, is expecting to raise US$200 million through an Islamic bond by the end of the third week of December, according to Adnan Ahmed Yousif, the CEO of Albaraka.

Adnan said that the bank sees interest from Asian and Arab Gulf investors for the issuance, while adding that the Islamic bond will be priced in the 6% range.

Deutsche Bank, Emirates NBD, Noor Islamic Bank and QInvest are managing the sale.

Changing hands soon

UK: London Stock Exchange Group (LSE) has signed an agreement to acquire the 50% stake it does not already own in FTSE International (FTSE) from Pearson for GBP450 million (US$702 million).

The deal will help diversify LSE's business into indices, data and analytics, and creates new opportunities for its listed derivatives trading business. It will also increase access to buy-side firms and services and to key emerging and growth markets.

However, the transaction will not bring any changes to the FTSE's management team.

GLOBAL

Key role for Islamic banking

GLOBAL: Islamic banking has many advantages and capabilities that enable it to play an important role in solving the GCC's numerous economic problems, said Abdulhakeem Yaqoob Al-Khayyat, the managing director and CEO of Kuwait Finance House-Bahrain.

He also urged GCC governments to issue more Sukuk to provide short-term liquidity instruments. However, as legislation for Sukuk is lacking in some countries, Islamic bonds have been rendered obsolete; eroding efforts of Islamic banks to help markets overcome crises.

He added that Islamic banks can play an efficient role in solving the region's housing problem; through its role in construction projects and real estate development; and in providing financing to that sector.

Expanding Islamic finance's reach

GLOBAL: Opportunities exist for Dubai to export its expertise in Islamic finance to the German city of Hamburg, according to business leaders at the Dubai-Hamburg Business Forum.

Organized by the Dubai Chamber of Commerce and Industry and the Hamburg Chamber of Commerce, panelists noted that Dubai's financial sector could benefit from the German city's experience in the insurance sector, ship financing and corporate governance.

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Potential for sovereign Sukuk

SAUDI ARABIA: The country's Sukuk market is set to heat up next year with a potential issuance of sovereign riyal-denominated Islamic bonds.

According to reports, the kingdom's central bank, the Saudi Arabian Monetary Agency (SAMA), is in talks with several local and international banks on the details of a sale; which could come to market as early as the first quarter of 2012.

The news emerged just a day after its General Authority of Civil Aviation announced that it will issue a Sukuk by February next year to finance the construction of its new airport in Jeddah; a project that will cost US$7.2 billion.

Meanwhile, in a similar move to Bahrain's recent US$750 million sovereign Sukuk sale, Saudi's planned sovereign Islamic bond is also said to comprise part of the government's efforts to develop a local currency yield curve.

According to reports, Saudi's Sukuk has been in the works for more than a year, with the debt likely to be issued by a government agency or state fund rather than directly through the government. Plans for the sovereign Sukuk are also now said to be focused on details including the papers' maturity and profit rate structure.

In its annual report released on the 12th December, SAMA said that the kingdom's budget surplus is expected to reach 9.1% of its projected GDP of 5.1% in 2011. While clearly not lacking for public funding, market observers have noted that the lack of sovereign bonds from Saudi, as a result of the government's aversion to public debt, has hindered the growth of the kingdom's bond market due to the absence of a benchmark.

Paul Gamble, the head of research at Saudi-based Jadwa Investment, was quoted as saying that due to the prevailing lack of suitable government benchmarks, a series of Sukuk would be "very helpful" for the private sector. He also said that while some local firms have issued Sukuk, the lack of secondary trading in the existing papers do not provide the best guide to market conditions.

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Dubai can also explore the opportunities for exporting Islamic finance to Hamburg, where the growth of the Shariah compliant financial industry has been limited, although there is a perception that the industry is safer and more equitable.

Changing for the better

GLOBAL: The Arab Spring, under which the change in governments across the MENA region is anticipated to create opportunities for the growth of Islamic finance, has reached a critical juncture which must be managed in an orderly fashion to ensure that the change is beneficial, said Christine Lagarde, the head of the International Monetary Fund (IMF).

She noted that it is time for the new governments to develop long-term fiscal policies and reduce rising deficits, although resources must be used in a careful and targeted manner.

The IMF has offered US$35 billion for countries in the region requesting financing, and the institution is also currently providing technical assistance to those countries. This includes assisting in developing a more equitable tax system in Egypt, building up Libya's government payment system, improving Tunisia's financial sector and aiding fuel subsidy reform in Jordan.

StanChart Saadiq expansion

GLOBAL: Standard Chartered is targeting to commence Islamic banking operations in Nigeria and Oman next year, as part of a plan to expand its Shariah compliant business in the Middle East, Africa and Southeast Asia, according to Wasim Saifi, its global head of Islamic banking.

Meanwhile, Standard Chartered Saadiq, the bank's Islamic arm, also plans to focus on expanding its offerings in Islamic wealth management to take advantage of the market's potential for growth.

The bank is working closely with its external vendors to strengthen its Islamic wealth management offerings, said Wasim.

Active GCC Sukuk market

GLOBAL: S&P sees "interesting" Sukuk markets in the GCC as the fixed income space becomes more active amid expected slower bank lending from European banks due to the Eurozone crisis and higher capital requirements under Basel III.

According to Timucin Engin, an associate director of financial institution ratings at S&P, banking systems in the GCC could lack the capacity to fill the potential gap in financing, due to the funding and liquidity metrics of banks in the region, excluding Saudi Arabia.

Hence, financing via the debt capital markets, especially through Sukuk, could become more active.

Stuart Anderson, the managing director of S&P in the Middle East, also noted that many companies in the region will likely require additional capital, with more stable and longer-maturity bonds providing prudent options for their needs.

Meanwhile, S&P is also reviewing the ratings of 50 banks in the MENA region based on new criteria, with any change in the bank ratings to take place by the end of this year. The banks comprise 25 institutions in the GCC, with the remainder located in Egypt, Jordan, Lebanon and Tunisia.

Cutting costs

GLOBAL: Citigroup could cut hundreds of jobs in the Middle East as the bank implements a 4,500-headcount redundancy plan to reduce costs.

The redundancies will reportedly be implemented into early next year; and are expected to cost the group around US$400 million in redundancy payments and other related expenses.

Reliable and resilient

GLOBAL: Islamic finance could have helped the global economy avoid its current woes, with the Shariah compliant model proven to be more reliable in contributing to the real economy, said Mehmet Şimşek, the finance minister of Turkey.

The ongoing financial crisis has also shown that economic systems supported by a banking model giving priority to interest income are more vulnerable to external shocks, he said.

He also noted that Turkey's Islamic banks, known as participation

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Dubai's state-linked firms in solidarity over debt repayments

UAE: Markets in the UAE went into a tailspin in the second week of December after talk emerged on the potential restructuring of Dubai debt; and as ratings agency Moody's issued a report that the emirate's state-linked firms could need further financial support to repay obligations due next year.

However, perhaps in an unofficial show of solidarity, the firms and even Ahmed Saeed Al Maktoum, the chairman of Dubai's supreme fiscal committee, have reaffirmed their commitment to repaying the debt, around US$10 billion of which, according to Moody's estimates, is due next year.

Nakheel has emerged as the latest of the emirate's state-linked companies to report a paying down of its debt, announcing on the 8th December that it has paid nearly US$2 billion-worth of overdue payments to its trade creditors, marking "significant progress" in its recapitalization plan. The plan included the issuance AED4.8 billion (US$1.3 billion) in Sukuk, of which the first tranche, amounting to AED3.8 billion (US$1.03 billion), was issued in August this year.

"Nakheel has to date made payments of AED7.3 billion (US$1.99 billion) to its trade creditors," said the company in a statement, adding that this follows initial payments to creditors owed AED500,000 (US$136,117) or less, which commenced in March 2010.

Meanwhile, the firm will reportedly pay a 5% profit rate, as a first installment for its AED3.8 billion (US$1.03 billion) Sukuk, by the end of this year.

On the 7th December, Ahmed Saeed announced that the Dubai government is not considering restructuring debt of the state-linked firms, although it could refinance part of the financial obligations due next year if the need arose.

Jafza, a Dubai World subsidiary, also clarified that it is in discussions with financial institutions and "others" to refinance its UAE dirham-denominated US$2.04 billion Sukuk.

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banks, have not transferred money to "speculative fields" but rather shared profits with their customers.

He added that with assets totaling US$30 billion, these banks have extended 84% of their funds as financing, while only 63% of Turkey's conventional banking assets comprise loans.

Growing ties

GLOBAL: Malaysians have been invited to participate in business sectors in Kazakhstan, including Islamic finance, as the sector offers growth potential due to its large Muslim population.

Beibut Atamkulov, Kazakhstan's ambassador to Malaysia, also said that Malaysian products should enter Kazakhstan directly instead of from third parties.

MIDDLE EAST

Gloomy days ahead for UAE banks

UAE: The country's banking system will come under pressure as the global economic turmoil and Abu Dhabi's slowdown undermine asset quality and restrict liquidity, according to Fitch.

In addition to the continued fragile real estate sector and ongoing asset quality issues, the operating environment in the UAE has also not been spared from the global economic woes, threatening the recovery of the country's banking system.

Fitch also expects the core earnings of local banks to decline given low business volumes and the Central Bank of the UAE's new regulations for retail banking.

It added that a key challenge for the UAE banks will be their ability to raise long-term funding, which has become more costly, especially for Dubai-based banks, as liquidity in global markets declines.

Rapid growth

OMAN: The sultanate's new Islamic banks, due to commence operations in 2012, are expected to acquire about 20% of the domestic banking market within the next three years, said Dr Nasser Al Mawali, an assistant professor at the department of economics and finance at the Sultan Qaboos University.

He added that the growth of Islamic banking assets in the sultanate is projected to range between 15-20% annually, in line with global rates.

Some banks in Oman are also expected to convert to Islamic should they receive the necessary approvals, while the presence of conventional and Islamic banks in the domestic market will also promote competition and contribute towards the diversification of funding options, he said.

Elaf Bank joins Bait Al Bursa

BAHRAIN: Elaf Bank, the Islamic finance division of the Bahrain's Financial Exchange, which has registered as a user of Bait Al Bursa, will work with the exchange to develop products for the Islamic trading platform.

Dr Jamil El-Jaroudi, the CEO of Elaf Bank, said that among the bank's immediate aims is to streamline its Murabahah transactions through e-Tayseer, the asset trading platform of the Bait Al Bursa.

"In parallel, we will be working closely with the BFX Bait Al Bursa division in shaping the next stage of Islamic products that the exchange is planning to launch and to work jointly on developing the secondary market for better liquidity management in Islamic banks," he added.

Credit tightening

UAE: Local bank credit declined by around AED2 billion (US$545 million) in October 2011 after surging by nearly AED19 billion (US$5.2 billion) in September, indicating that banks operating in the UAE are still risk-averse despite a strong recovery in the domestic economy, according to the Central Bank of the UAE.

The country's 23 domestic banks and 28 foreign units also recorded an increase in allocations for bad debt provisions, which rose by around AED1.5 billion (US$408 million) in October compared with AED1.2 billion (US$327 million) in September.

Airport Sukuk for Saudi

SAUDI ARABIA: The General Authority of Civil Aviation will issue a Sukuk within two months to finance a US$7.2

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billion airport in Jeddah, said Prince Fahd Abdullah Mohammed Al-Saud, its president.

He also said that the Sukuk will be repaid with revenue from the aviation authority.

Construction of the new airport, slated to commence within the next two months despite a four-week delay of works related to the project, is expected to be completed in three years.

ADIB settles Sukuk payment

UAE: Abu Dhabi Islamic Bank (ADIB) has paid in full its US$800 million five-year Islamic bond which matured on the 12th December.

The Sukuk, which was issued in 2006, comes under a US$5 billion trust certificate program.

Creditor agreement

KUWAIT: The creditors of Global Investment House have agreed to postpone the repayment of the principal of the investment bank's US$1.7 billion-worth of debt to the 10th June 2012 to enable it to carry out a second restructuring.

Its creditors also agreed to delay an increase in interest and profit payments to the same date.

Global signed a deal with 53 creditor banks in December last year to reschedule the US$1.7 billion debt, which comprises conventional and Islamic facilities, over a three-year period.

New rules for Islamic instruments

OMAN: The Capital Market Authority (CMA) is finalizing a contract with a consultant to formulate a separate set of regulations for Takaful and Sukuk, said Abdullah Salim al Salmi, its acting executive president.

The consultant will review existing legislation and advise the CMA on whether the kingdom will require separate rules for Takaful firms or amendments to the current rules.

Abdullah said that the new regulations will be ready by the first quarter of 2012.

He also revealed that the regulator has issued approvals in principle to three companies, comprising one local firm and two from the GCC, for promoting Takaful firms.

GIB closes Sukuk

BAHRAIN: Gulf International Bank (GIB) has issued a three-year, US$300 million Sukuk via private placement.

The papers were priced at a rate of six-month US dollar Libor plus 130 basis points and will pay returns on a semi-annual basis.

JP Morgan was the sole manager for the placement, which saw the participation of a number of institutional investors, said GIB.

Dr Yahya Alyahya, the CEO of GIB, said that the funds will allow the bank to refinance its existing term-finance

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RATINGS

Strong standing

UAE: S&P has affirmed its long- and short-term 'A/A-1' foreign and local currency sovereign credit ratings on the emirate of Ras Al Khaimah (RAK). The outlook is stable. The transfer and convertibility assessment on RAK is 'AA+'.

Secured position

MALAYSIA: RAM has reaffirmed Maybank's long- and short-term financial institution ratings at 'AAA' and 'P1'. At the same time, RAM has reaffirmed the bank's RM1.5 billion (US$479 million) Islamic subordinated bonds (2006/2018) at 'AA1'.

Deteriorating credit

JORDAN: S&P has lowered the long-term financial strength and counterparty credit ratings on Euro Arab Insurance Group to 'BB' from 'BB+'; with a negative outlook.

Strong grade

SAUDI ARABIA: Fitch has affirmed National Commercial Bank's long-term issuer default rating (IDR) at 'A+' and viability rating at 'a', with a stable outlook on the long-term IDR.

Ratings withdrawn

QATAR: Moody's has withdrawn Qatar Islamic Insurance Company's 'Baa2' insurance financial strength rating.

Credit enhancement

UAE: Fitch has assigned an expected rating of 'A(exp)' for the portion of Tamweel's US$1 billion Sukuk program to be guaranteed by Dubai Islamic Bank (DIB). The ratings agency also assigned an expected rating of 'BBB-(exp)' for the unguaranteed certificates under the same program.

Strong profile

UAE: S&P has affirmed the 'A-' counterparty credit and insurer financial strength ratings of Salama – Islamic Arab Insurance and its subsidiary, BEST RE (Labuan) and BEST RE Family (Labuan), with a stable outlook.

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maturities, further diversifying its investor base. It also represented the bank's progress in aligning the maturity profile of its assets and liabilities and reduced its previous reliance on short-term wholesale deposits.

Promise to pay up

UAE: Real estate developer Nakheel has reiterated that it will pay the profit payment of 10% for its US$1.03 billion Sukuk, due on the 15th December, on time.

The firm added that necessary arrangements have been made to enable Deutsche Bank, the registrar and agent for the Sukuk, to make the payment.

New Islamic fund

SAUDI ARABIA: Sambacapital, the investment arm of Samba Financial Group, has launched the Al Nafees Global Commodities Equity Fund, a Shariah compliant, US dollar-denominated open-ended fund.

The fund will target global Shariah compliant equities that derive their main revenues from the production and distribution of basic commodities.

It will be benchmarked against the MSCI ACWI Islamic Select Commodities Related Capped Index and will invest in five categories of global commodity producers relating to agriculture, energy, base metals, precious metals and other commodities such as renewable energy, timber and water.

Good news

QATAR: Local commercial banks may continue to manage their existing Islamic assets after the 31st December deadline to shutdown their Shariah compliant units, said Abdullah Saud Al-Thani, the governor of the Qatar Central Bank.

He added that the affected banks have also been given the choice to transfer their assets to the country's Islamic banks.

New member on BFX

BAHRAIN: The Arab Banking Corporation has joined the Bahrain Financial Exchange (BFX) as a trading member.

The membership will enable the bank to maximize its trading opportunities and utilize the exchange to manage risk and facilitate investments.

Growing credit

BAHRAIN: Financing from Bahrain's banks is growing at the fastest level in three years, with overall bank lending rising 12.9% in the first 10 months of the year, compared to 3.5% in the first half, according to the Central Bank of Bahrain.

The central bank stated that personal financing increased 21% to BHD2.1 billion (US$5.6 billion), while business financing rose 11% to BHD4.1 billion (US$10.9 billion).

New rules

UAE: The Central Bank of the UAE has approved amendments to the liquidity rules for banks operating in the emirates.

The central bank said that it reviewed a proposed liquidity regulation for the banks and instructed the introduction of some amendments to the rules.

However, it did not reveal what the amendments entail.

Coming up...

Volume 8 Issue 50 — 21st December 2011

Meet the Head
Tarek El-Assra, global head of Islamic finance, Freshfields Bruckhaus Deringer

Features
Future of Islamic finance in Egypt between potential and challenges: By Mahmoud Fawzy Zaky, investment analyst, foreign investment and corporate finance at Faisal Islamic Bank of Egypt.

First Islamic agro bank in Sri Lanka — Yet to be seen: By Muath Mubarak, director of studies and corporate strategy at First Global Knowledge Center, Sri Lanka.

An overview of new Sukuk guidelines by the Securities Commission Malaysia: By Edib Smolo, researcher and coordinator, Islamic capital market, International Shari'ah Research Academy for Islamic Finance.

Inclusive finance in Islamic microfinance and pensions in Kyrgyzstan and Egypt: By Dr Gerd Kloewer, international financial regulation, microinsurance and Takaful consultant, European Union Project.

MOVES

BRISYARIAH

INDONESIA: **Ventje Rahardjo** has tendered his resignation as the president director of BRISyariah.

BNP PARIBAS

FRANCE: BNP Paribas has appointed **Jean-Laurent Bonnafe** as its CEO.

The bank has also named **Georges Chodron de Courcel**, **Philippe Bordenave** and **Francois Villeroy de Galhau** as its chief operating officers.

SNR DENTON

BAHRAIN: Islamic Finance *news* has learnt that **Chris Aylward**, the managing partner of SNR Denton's Bahrain office, will be leaving the firm at the end of December.

ABU DHABI INVESTMENT AUTHORITY

UAE: The Abu Dhabi Investment Authority has appointed **Benjamin C Weston** as its global head of alternative investments.

Weston was previously the CEO of Helvetica Wealth Management Partners.

Wealth protection strategy: Invest in copper the Islamic way

By Shan Saeed

The US has surpassed its debt over its GDP size. The country's debt stands at US$15.03 trillion while GDP size stands at US$15.03 trillion. As the co-founder of the Quantum Fund with George Soros, Jim Rogers, recently said: "There is a 100% chance of a crisis worse than that of 2008." Furthermore, he warned that: "We're certainly going to have more crises coming out of Europe and America and the world is in trouble. The world has been spending staggering amounts of money that it doesn't have for a few decades now, and it's all coming home to roost."

I agree with him. Last time, America quadrupled its debt. The system is much more extended now, and the US cannot quadruple its debt again. Greece cannot double its debt again. The next time around it is going to be much worse. It is simple common sense: you can't go on forever spending more than you make. Yet Washington remains oblivious to the historical fact that no country has ever carried on this kind of unbridled spending without meeting an abrupt and catastrophic end.

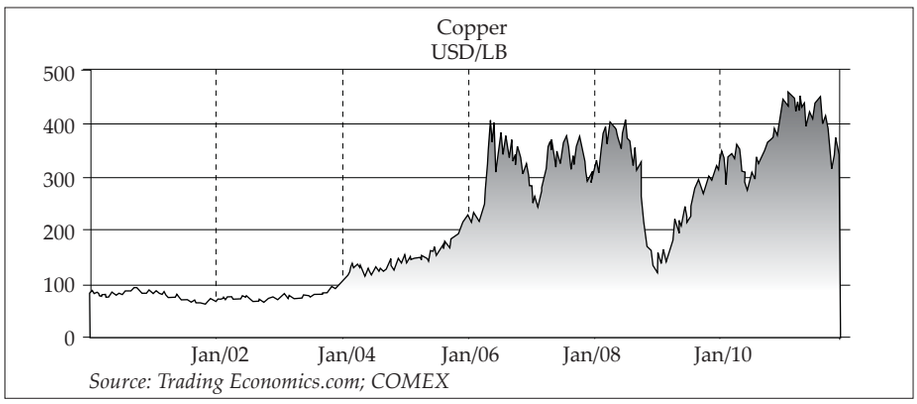
Europe crisis

Europe's debt crisis had shown a major flaw in the 17-member Eurozone system and it will take more than just words to fix it. It needs an action plan to see through the crisis.

It is no secret that most of Europe's major banks are insolvent. But it has only been in the past week that they have lost access to a large source of additional funding.

The key source of funds for many of these banks has been US money-market funds. But these funds are now leaving Europe as quickly as possible. This has created a virtual run on the European banking system.

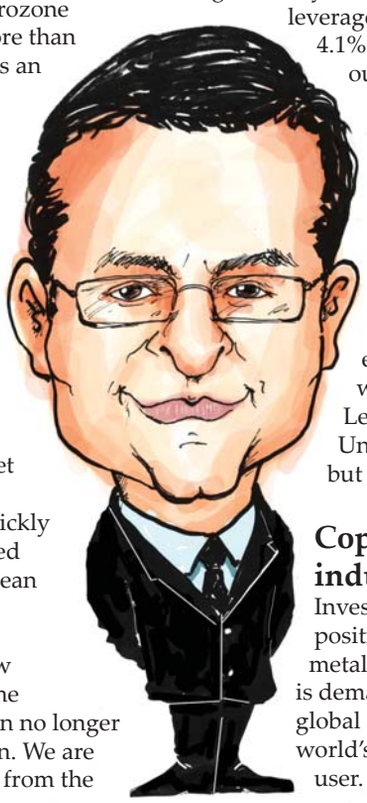
I believe this crisis has now reached the point where the European governments can no longer hope to repair the situation. We are likely now just days away from the first major bank failures. I believe Italy's UniCredit, one of the largest banks in Europe, will be the first catastrophic bank failure of the crisis.



Source: Trading Economics.com; COMEX

UniCredit has over EUR1.2 trillion (US$1.6 trillion) in assets. But it only has EUR74 billion (US$99 billion) in equity. This equity includes close to EUR24 billion (US$32 billion) in 'intangible' items such as goodwill and tax losses – equity that can't be sold or traded.

What this means is that UniCredit is leveraged at about 24 to 1. Leverage this high is risky for any bank, but when you consider that UniCredit owns considerable European sovereign debt that will have to be marked down significantly, it could be fatal. With 24 to 1 leverage, an average loss of just 4.1% will completely wipe out the bank. I estimate that UniCredit will experience average losses of at least 10% on its European debt, which would result in losses of more than EUR100 billion (US$134 billion): dwarfing its EUR74 billion in equity. This next phase will be far worse than the Lehman Brothers failure. UniCredit could be the first, but there will be many more.



Copper is the best industrial metal

Investors should take a position in the industrial metal copper. China is demanding 40% of global supplies and is the world's largest copper user. 'Financialization' of commodities is happening at a very fast pace. Major banks, hedge funds, sovereign wealth arms and big investors are all taking positions in copper reserves. Chile accounts for over one third of the world's copper production, followed by China, Peru, the US, Australia, Indonesia, Zambia, Canada and Poland. The biggest importers of copper are China, Japan, India, South Korea and Germany.

It was reported as long ago as July 2011 that major banks like Goldman Sachs and JP Morgan were accumulating copper reserves in large storage houses in the US and elsewhere. This is a huge development in industrial metals and proves my point when I coined the term 'financialization' of commodities in May 2011. It is happening quickly and financial investors beyond the major corporates have now got stakes in commodities. Copper is only traded four days a week at the London Metal and Shanghai Exchange.

Price changes for copper in the last 10 years:

- Price change in the last 12 months: 24.3% Positive
- Price change in the last five years: 39.3% Positive
- Price change in the last 10 years: 493.2% Positive

Happy investing in the copper market for wealth protection

Shan Saeed is a financial economist and commodity expert with 12 years of financial market experience. He graduated from the University of Chicago, Booth School of Business, US. He can be contacted at saeedshan@gmail.com.

Muddying the waters

The recent sanctions against an increasingly obstinate Iran are having a progressively negative impact on the perception of Islamic finance across the world. Iran remains the world's largest Islamic financial system, with assets estimated at approximately US$315 billion. Due to its economy's unique standing as the only economy run completely on Islamic principles, the country is also home to seven of the world's largest Islamic banks. As a result, Iran makes up a significant portion of the reputed US$1-1.3 trillion Islamic finance industry: take Iran out of the equation and this milestone remains some way off.

In 2009 Iranian banks accounted for over 40% of the total assets of the world's top 100 Islamic banks. The country also reportedly accounted for US$47 billion of the US$233 billion-worth of Islamic bonds published worldwide between 1994 and 2010. Iran is also the third largest shareholder in the IDB, with a 28% shareholding, and is one of its five main decision-makers; making it highly influential in the developing Islamic world.

It is these distorted figures that have created several misconceptions within the Islamic finance industry as a whole. Although sanctions have ostracized the Iranian economy from active participation in the greater financial universe, the political rhetoric emanating from the Islamic republic continues to hamper the image both of the emerging Middle Eastern economies and Islamic finance.

Calls for further sanctions against Iran have increased due to worries over its continued quest for a viable nuclear program. The French have recommended that the EU suspend the purchase of Iranian oil and recent protests at the British embassy in Tehran highlight growing tensions. Meanwhile the US is embarking on a diplomatic push to isolate Iran's financial infrastructure further and reinforce new sanctions imposed on the Islamic republic.

Last month, the US and UK applied stronger sanctions on Iran to try to slow its nuclear program, as the European Union expanded a blacklist of Iranian companies and individuals and threatened more sanctions targeting Iran's financial and oil sectors. The US Senate has also passed measures aimed at the Iranian central bank, which receives the country's oil export revenues.

The dizzying array of measures is creating a regulatory and legal minefield for the Islamic republic's main trading partners. At the same time, the stricter overseas banking measures are being echoed by stronger UAE rhetoric against Iran, whose nuclear program is considered a significant threat by other Persian Gulf states. Since last year, US sanctions have threatened to end US banking facilities to any bank that deals with designated Iranian institutions, or fails to carry out sufficient due diligence on its Iranian counterparties.

> ***"In 2009 Iranian banks accounted for over 40% of the total assets of the world's top 100 Islamic banks"***

Although never enforced against UAE institutions, these measures have played a leading role in impacting trade finance between the UAE and Iran. Last year, bilateral trade amounted to more than US$10 billion, US$7 billion of which consisted of goods shipped from or through Dubai.

Meanwhile, British banks based in the UAE are taking on board new sanctions, which bar all contact between British and Iranian financial institutions, including the central bank. Bankers in the UAE point out that, as members of the UAE clearing system, the sanctions could put British banks at risk of contravening either UAE or UK regulations. Western officials hope this more pragmatic approach from the UAE could allow for tougher measures and allow other banks to opt out of transacting with Iranian banks.

The UK Treasury said in a statement that Iran's banks "play a crucial role in providing financial services to individuals and entities within Iran's nuclear and ballistic missile programs, as companies carrying out proliferation activities require banking services".

"This measure will protect the UK financial sector from being unknowingly used by Iranian banks for proliferation-related transactions," it added. The sums of money involved are not yet clear, but being able to take part in the international financial system is clearly crucial for Iran, especially its petrochemical industry.

Iran immediately dismissed the new sanctions, saying they would only serve to unite Iranians and would not hurt the economy or force the country to halt its nuclear program. Ramin Mehmanparast, Iran's foreign ministry spokesman, dismissed the latest measures as empty propaganda.

"The sanctions will have no impact on Iran's trade and economic ties with other countries," he said.

The sanctions aim to punish Iran for clandestine nuclear weapons work, and follow dozens of earlier measures intended to make leaders choose between economic prosperity and its nuclear program. The move makes it difficult for any company that has banking operations with a western financial institution to trade with any company with banking operations in Iran.

However, increasing clandestine activities by Iranian banks to circumvent the imposed sanctions are having an impact on the perception of Middle Eastern banking in general. Barter deals in exchange for oil and significant money laundering activities are being reported, as Iran attempts to invest its oil wealth and hide its investment activities.

As a result of the sanctions, Iran's economy is becoming increasingly insular, creating greater self-sufficiencies for itself. However, with the twin advantages of high oil prices and foreign currency reserves, the republic is unlikely to cave easily to sanctions, which will therefore continue to impact negatively on the region's banking sector. — *SW*

No popularity contest?

The sentiment for corporate Sukuk has evolved into a more positive light this year compared to 2010. An increase in issuances on the corporate side has been seen in 2011, and an equally vibrant sovereign issuance market bodes well for both sectors moving forward. Although 2010 saw a higher preference for sovereign issuances by investors and relatively lackluster movement on the corporate issuance side due to choppy conditions all round, industry analysts observed a healthy corporate issuance market, particularly in the emerging markets of Turkey and Abu Dhabi, as well as by major players such as HSBC and Goldman Sachs.

Bahrain and Indonesia's sovereign issuances this year exhibited an equally healthy appetite amongst investors for sovereign Sukuk. Despite the political consternation in Bahrain and the Middle East, the kingdom's monthly BHD20 million (US$53.07 million) short-term Sukuk Ijarah saw oversubscription by 135%, whilst Indonesia's sovereign issuance via Perusahaan Penerbit SBSN Indonesia II achieved a tight pricing of 25 basis points below the initial price guidance of 4.25% and attracted over US$6.5 billion in book-orders from a diverse range of investors spanning the Middle East, Asia and Europe.

Commenting on the slump in corporate issuances in 2011 compared to sovereign Sukuk, a UK-based fund manager revealed: "The sovereigns are better quality, they are larger in size and they are more liquid. Investors prefer to hold sovereign debt because they are more comfortable with the ratings and market liquidity. The spectrum is quite wide when you come to the corporate side but corporate issuers were distressed."

However, analysts expect 2012 to be a good year on the corporate issuance side, with PLUS Expressways, Malaysia's biggest toll-road operator, setting the pace. PLUS recently revealed plans to issue a US$10 billion Sukuk to fund its expansion program next year. Recent corporate Sukuk issuances that have successfully closed include the US$500 million five-year Sukuk issuance by ADIB Sukuk Company on behalf of Abu Dhabi Islamic Bank in November 2011. The certificates, rated 'A2' and 'A+' by Moody's and Fitch respectively, have a tight profit rate of 3.78% and are listed on the London Stock Exchange. *—NH*

Qatar extends deadline on truncation

The deadline for all conventional banks operating in Qatar to wind down their Islamic windows or to transfer their Islamic assets to the country's Islamic banks has been extended by the Qatar Central Bank (QCB). The move, which was announced in February this year, was expected to be concluded by year-end, according to the QCB's initial deadline. However, this has been extended to an indefinite time beyond the end of the 31st December 2011.

With Islamic assets in the country estimated at between 23-27%, industry players believe that the move will have (at the very least) a slight negative impact on the country's conventional lenders: including Qatar National Bank, Al Khaliji and HSBC.

Al Khaliji reported a dip in net income from Islamic banking to QAR9 million (US$2.47 million) despite reporting an overall net profit of QAR359 million (US$98.6 million). A statement released by the bank in relation to its financial results read: "As expected, net income from Islamic banking activities has reduced in compliance with the Qatar Central Bank's directive on the cessation of conventional banks' Islamic activities."

A report by Moody's stated that the segregation will benefit the Islamic banks in Qatar as it will provide them with access to a larger pool of customers and enhance their franchise dynamics, as fewer institutions will be competing for the same business and potentially provide greater bargaining power with customers; resulting in better profit margins.

"Conventional banks will lose 8-16% of their deposit base, total assets, and profits. The biggest impact will be on Qatar National Bank (QNB), the largest commercial bank in Qatar; it has a 39% share of total banking system assets and a high 20% market share in Islamic banking assets. Islamic banking accounts comprised around 15% of QNB's net income during the nine months ending September 2010, and approximately 15-16% of its assets and deposits," the report added.

A Dubai-based analyst also commented: "The impact is negative for the conventional banks, although the opportunities are very large for Islamic finance." The rationale behind the QCB's decision for all conventional lenders to halt their Islamic banking activities is to prevent the utilization of conventional funds for Islamic loans.

The QCB has also tightened its regulations to protect the country's liquidity in light of the global banking crisis; reducing the amount banks can lend to Qataris and foreigners, and allowing an increase in interest rates for lenders to 1.5% higher than the bank rate at 5%, as well as taking proactive steps to increase capital adequacy ratios.

In a press release by the QCB earlier this year, it was explained that the move was also essential to properly manage and supervise risk for both Islamic and non-Islamic banks, to protect depositors' rights across the board, ease the process of financial reporting (as conventional and Islamic activities are subject to different international standards), to comply with the QCB's upcoming capital adequacy rules for Islamic banking, and to allow the QCB to develop a systematic liquidity management framework for regulated entities.

As the Qatari banking system braces itself for a relatively major overhaul, perhaps the QCB's allowance for a deadline extension beyond December 2011 is necessary. Among the greatest concerns voiced by industry players with regards to the move was the relatively short and drastic deadline.

"The QCB directives raise challenges for banks, especially with respect to timing, as the timetable for compliance is short. By way of contrast, Indonesia is reported to have a similar plan to segregate conventional and Islamic banking activities but has given banks until 2023 to comply," an analyst revealed. *—NH*

Great potential for Islamic finance in Canada

CANADA

By Jeffrey Graham, IFN Correspondent

The growing interest in Islamic finance in non-Muslim countries was very much in evidence at the recent World Islamic Banking Conference in Bahrain. Canada, along with the UK, France, Bermuda, Singapore, Luxembourg and Labuan were all visible at the conference.

The message to delegates from Canadian representatives was that the time was right for Islamic finance in Canada. Canadian representatives participated on two panels. Omar Kalair from UM Financial participated in a panel discussion focused on retail banking opportunities. At the time of the conference, UM Financial had issued a press release indicating that according to a recent Ipsos-Reid survey conducted by UM, 47% of Canadian Muslims would prefer halal financial products over conventional financial products if prices and features were similar.

Further, UM indicated that Canada represents a robust mortgage market. The latest annual report by the Canadian Association of Accredited Mortgage Professionals stated that Canada has 5.8 million mortgage holders from 9.55 million owner-occupied homes, representing over 60% Canadian home owners with a mortgage.

Across all homeowners, the average debt associated with homes — including mortgages and home equity lines of credit — is about $102,000 (US$99,556) for a total indebtedness of $982 billion (US$958 billion). Canadians have about $2.035 trillion (US$1.9 trillion) in home equity.

The Canadian mortgage market was largely unaffected during the recent credit crisis that originated from the US. Furthermore, the World Economic Forum has ranked Canada's banking system as the most sound in the world, four years in a row. For the past two years, Moody's Investor Service has ranked Canada's banking system as first in the world for financial strength.

A second panel provided a country focus, exploring new high growth markets for Islamic finance represented by Luxembourg, Bermuda, South Africa, Azerbaijan and Canada. During the panel, I myself outlined recent efforts to create a more favorable environment for Islamic finance in Canada, and noted the growing interest in Islamic funds in Canada by Canadian asset managers.

In my view there are good prospects for partnerships between Canadian assets managers and Islamic financial institutions with high net worth clients looking for a sound investment environment in a G-8 country in real estate, oil and gas, minerals or other commodities.

I also indicated to the panel that once changes to the domestic tax environment were implemented, a domestic Sukuk market would be a possibility. There are also prospects for more domestic Islamic retail financial services in the short to medium-term.

Given the optimism emerging from the conference, the next 12 months for Islamic finance in Canada promises to be very interesting.

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Construction funds in the Iranian Islamic capital market

IRAN

By Majid Pireh, IFN Correspondent

Construction funds play an important role in financing and facilitating construction and housing projects. It offers a new method for trustworthy constructors; to establish a construction fund in order to finance their extensive construction projects.

These funds also provide new opportunities to mobilize micro-savings in the construction sector. The investors may possess the constructed buildings at the end of the period or just make money from the construction process and secure themselves against inflation in the construction and housing sector.

Regarding the importance of the construction funds in developing the construction sector, the Shariah board of the Securities and Exchange Organization (SEO) has developed an agenda for surveying the nature and performance of these funds. The opinion of the board on construction funds is as follows:

- The construction fund mobilizes the people's funds under a Wakalah contract through issuing investment units at certain prices. Then, on behalf of the unitholders, the fund invests the collected money in the housing sector to construct and sell the houses. At the end of the project, after deducting the pre-determined fees, the fund gives back the principal and the profit of the investment to the unitholders.
- As the investors' Wakeel, the fund manager agrees to a guarantee contract with a separate third party. The third party guarantees the following terms against receiving a certain fee.
- The guarantor should guarantee the liquidity of the investment units: that is, if an investor wants to sell his units and the fund refuses to buy it, the guarantor should buy them.
- The guarantor should guarantee the principal of the investment units: that is, if the investment leads to a loss, the guarantor should compensate it.
- The guarantor should guarantee a minimum profit for the investment units: that is, if the realized profit is less than the minimum profit, the guarantor should pay the difference.

After the Shariah board of SEO approves the structure of these funds, their implementation instruction will be designed. The Iranian Islamic capital market will experience the initiation of five construction funds in the near future.

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Risks of global Sukuk in Indonesia

INDONESIA

By Rizqullah, IFN Correspondent

The government of Indonesia, through its special purpose vehicle Perusahaan Penerbit SBSN Indonesia II, has sold its US global Sukuk worth US$1 billion with a tenor of seven years. The price at par at yield or coupon rate is 4%.

In the bidding process, the global Sukuk was oversubscribed US$6.5 billion or as much as 6.5 times from 250 investors. The purpose of the global Sukuk issuance is to meet the target of the 2011 state budget, with a total gross issuance of government securities worth IDR201.5 trillion (US$22 billion). In addition, the global Sukuk was also issued to diversify the state budget financing instruments and develop the Indonesian Sukuk market in the international Islamic financial market.

The allocation of investors by region consisted of Middle Eastern (30%), Indonesian (12%), European (18%), Asian (32%) and the US (8%). Fund management firms made up 59%, while the remaining investors comprised various banks, central banks and sovereign wealth funds. This global Sukuk issuance is the second for Indonesia since 2009. The first global Sukuk was issued in April 2009 with a yield of 8.8% and a tenor of five years.

Risks of Sukuk

Investment through Sukuk has some risks. Prospective investors should understand the detailed provisions applicable to the scheme of the global Sukuk product. The performance of Sukuk in the past does not reflect the performance of Sukuk in the future.

There are several risks that must be observed, especially by prospective investors.

1. **Market risk**: Although price volatility can be considered to be relatively low, the price of Sukuk may go up or down rapidly due to several factors such as systemic risk, a variation of the frequency and magnitude of changes in interest rates and inflation forecasts.

2. **Key risk**: The government will sell the Sukuk at a nominal amount at maturity. If the Sukuk was purchased from the secondary market, the profits from sales at maturity or earlier sale may be lower than the initial investment amount, depending on the price paid during purchasing.

3. **Credit risk**: Prospective investors should understand that the admission number at maturity depends on the issuer credit risk. The investors assume the risk that the issuer cannot meet its obligations in accordance with the terms and conditions of the Sukuk. Credit rating of the issuer is an independent opinion of the rating agencies about the entities credit risk, but not a guarantee of the issuer credit quality. Decrease (downgrading) of an issuer's credit rating by rating agencies may result in falling value of the Sukuk. This can reduce the value of investment.

4. **Liquidity risk**: Investors may not be able to withdraw or sell Sukuk anytime or when required or in an amount equal to or more than the principal.

5. **Reward risk**: There is no guarantee that the Sukuk will generate more returns than other investments available or deposit products referred to in market interest rates.

6. **Re-investment risk**: If the Sukuk is liquidated prior to maturity, prospective investors are encouraged to weigh the capabilities in re-investing the principal investment amount plus the coupon (if paid) to the other products in accordance with the rate of return and a similar time period.

7. **Foreign exchange risk**: If the state of Indonesia Sukuk is in the form of a non-rupiah currency (e.g. US dollar), the risk of exchange rate fluctuations can lead to a decline in the principal value when converted into rupiah. Foreign exchange arrangements applied by the relevant authorities may also affect the exchange rate negatively and result in a decline in the principal received.

8. **Interest rate risk**: Investors face interest rate movements at the time of investment. Investors may receive less than the amount invested.

9. **Country risk**: Sukuk principal repayments may be dependent upon government. These risks include the risk of default from the government, or due to political or economic factors that result in an act of government, such as a moratorium on debt repayment or redemption by the issuer rescission liability. If such events occur, the investor may experience loss of some or all of the initial investment in the Sukuk.

10. **Inflation risk**: Investors are expected to consider the effect of inflation during the period of Sukuk with investment value at maturity.

Despite these risks, the government of Indonesia Sukuk remains eligible as an investment option, as it was issued by the government of a politically and economically stable economy and hence the possibility of default is minimal.

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Ireland as a launch pad for Islamic ETFs

IRELAND

By Ken Owens, IFN Correspondent

The role of exchange traded funds (ETFs) has gone from strength to strength within the asset management industry. According to Blackrock, there were over 2,800 ETFs with a combined value of over US$1.4 trillion as of end of October 2011. Nearly half of the asset management firms and one third of the institutional investors taking part in a recent Greenwich Associates survey have indicated their intention to increase their share of portfolio assets invested in ETFs over the next three years.

An ETF is an investment fund traded on stock exchanges. ETFs are traded throughout the day on exchanges and continuously re-priced, allowing for a greater degree of liquidity. ETFs generally provide the easy diversification, low expense ratios and tax efficiency of index funds while maintaining the features of an ordinary stock. An ETF holds assets such as stocks, commodities and bonds and trades close to its net asset value over the course of the trading day.

The idea of a Shariah compliant ETF has already been examined with the launch of a number of iShares Islamic ETFs in 2007. These ETFs are based around MSCI Indices. The MSCI World Islamic Index can be seen as an example of the resilience behind Islamic investment principles, returning an annualized 13.98% over the past three years.

Some of the most common types of ETFs are outlined in Table 1, with an assessment of the possibility of formulating equivalent Shariah compliant ETFs.

Table 1

Types of ETFs	Description	Shariah application
Index ETFs	Developed to track a specific index.	A number of Islamic indices have been launched to promote Shariah compliant index ETFs, such as the Dow Jones Islamic Market Index, MSCI Global Islamic Indices, FTSE Global Islamic Index Series and S&P. These benchmark indices were designed to track the performance of leading publicly traded companies whose activities are consistent with Shariah laws.
Commodity ETFs	These use a number of techniques to gain exposure to specific commodities.	Shariah compliant commodity ETFs can be set up to purchase different halal commodities for the purpose of reselling to generate profits.
Bond ETFs	These invest principally in bonds and allow users to effectively gain investment exposure to a broad range of bonds.	Shariah compliant bond ETFs can be set up to invest in different types of Sukuk.
Actively managed ETFs	All actively managed ETFs approved to date are fully transparent, publishing their current securities portfolios on their websites daily.	Shariah compliant index, commodity and bond ETFs can be formulated as actively managed ETFs. This provides a high degree of transparency and allows investors to have assurance over compliance with the requirements of Shariah by having daily access to the ETF's portfolio.

Why set up an Irish ETF?

Ireland is a leading European fund domicile for internationally distributed ETFs with 13 years experience in establishing and servicing this type of fund. Promoters can benefit from working with Irish service providers and a regulator who enjoys excellent knowledge, skills and state-of-the-art infrastructure for servicing ETFs.

- Leading European fund domicile for internationally distributed ETFs with 32% of all European ETFs domiciled in Ireland.
- Currently over US$103 billion in assets under management held by Irish-domiciled ETFs, according to the Lipper Ireland Fund Encyclopedia 2011/2012.
- An Irish ETF can be set up as a UCITS (undertakings for the collective investment of transferable securities) or non-UCITS fund – most ETFs are structured as UCITS to avail of the UCITS retail 'passport'. Structuring an ETF as UCITS also provides a high degree of protection due to the regulation of UCITS funds.
- Irish fund administrators have strong expertise and customized systems for servicing ETFs.
- A number of large ETF providers have already set up ETFs in Ireland: such as Amundi, Barclays, Blackrock (iShares), Credit Suisse, ETF securities, HSBC, Invesco, Pimco, Source and UBS.
- The Irish Stock Exchange is the leading exchange globally for listing investment funds and has an active market in listing and trading Irish ETFs.
- Irish-domiciled ETFs also stand to benefit from Ireland's extensive network of over 60 tax treaties with key international jurisdictions. Examples of this include the double taxation treaty with the UAE which came into force on the 21st July 2011 and the recent double taxation agreement signed between Ireland and Saudi Arabia on the 19th October 2011.

Conclusion

Given Ireland's endorsement and commitment to Islamic finance, its experience and position in the ETF industry, supportive tax and legal environment, easy access to the European market, highly talented workforce, state-of-the-art infrastructure and business friendly policies, the country is well positioned to support promoters in setting up Irish Shariah compliant ETFs.

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Sukuk Ijarah in Japan

JAPAN

By Serdar Basara, IFN Correspondent

Japan's Asset Liquidation Amendment Act went into effect as of the 24th November 2011. This amendment makes it possible for non-resident Islamic investors to issue Sukuk Ijarah in Japan without taxation and legislative disadvantages.

Islamic investors can leverage this amendment in two ways. They can either wait for investment proposals from institutions resident in Japan or proactively seek lucrative investment opportunities.

A third way would be to set up Japanese Sukuk Ijarah funds jointly with Japanese financial institutions, utilizing their established distribution networks and credit databases.

Building direct partnerships with local municipalities would also provide access to infrastructure projects, which could be structured as Sukuk Ijarah.

Especially, the earthquake and tsunami-hit Tohoku region needs enormous amounts of investment to be used for reconstruction, as well as for the development of new energy sources. For example, a Fukushima entrepreneur recently asked me about financial structuring for a solar energy facility.

I hope that this amendment will provide a solid base for the future development of Islamic finance in Japan.

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Islamic retail banking soon for Mauritius

MAURITIUS

By Sameer Tegally, IFN Correspondent

A group of dedicated local and foreign professionals is working, in collaboration with the Islamic Development Bank, Saudi Arabia and other international Islamic financial institutions, on a project to launch the first fully-fledged Islamic retail bank in Mauritius.

An application for an Islamic banking business license has already been lodged with the central bank, Bank of Mauritius. The Mauritius banking arena comprises 20 banks as at June 2011, including Century Banking Corporation, which is primarily an Islamic investment bank. None of the banks are currently engaged in Islamic retail banking.

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Oman prepares to regulate Takaful

OMAN

By Anthony Watson, IFN Correspondent

The Oman Capital Market Authority (CMA), with input from the Oman ministry of Awqaf and Islamic affairs, has established a policy committee and retained consultants to advise the CMA on the regulation of Takaful providers in the sultanate. In accordance with the recommendations of the policy committee and the consultants, the CMA will issue regulations that will govern the establishment and licensing of Takaful providers.

According to Mohammed Al-Jamalani, the CMA's vice-president for insurance operations, the CMA is debating whether to establish its own Shariah compliance board, require each Takaful provider to establish a Shariah compliance board, or establish a Shariah compliance board in conjunction with other Oman government agencies, such as the Central Bank of Oman.

The justifications for establishing a Shariah compliance board — either under the auspices of the CMA alone or in conjunction with other Oman government agencies — are twofold.

First, the CMA's establishing a Shariah compliance board will contain costs for Takaful providers. If the CMA establishes a Shariah compliance board, then each Takaful provider that is licensed by the CMA will not be required to establish its own Shariah compliance board.

The second justification is to avoid situations where a fatwa issued by the Shariah compliance board of one Takaful provider is in conflict with a fatwa issued by the Shariah compliance board of another Takaful provider. If the CMA establishes a Shariah compliance board, all Takaful providers in Oman would be subject to its fatwa, eliminating the possibility of conflict.

In the meantime, the CMA has already granted its initial permission for one conventional insurance company to convert to a Takaful insurance company. The CMA is also considering applications from other Takaful providers. Until the CMA finalizes regulations that are specific to Takaful providers, they will be required to comply with all other applicable insurance regulations, including the OMR10 million (US$26 million) capitalization requirement.

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Lebanon: A veteran regional financial center full of promise

The country has seen rapid and positive expansion of the Islamic sector. However, political unrest may reduce the flow of foreign investment and could affect the expansion of Islamic banking. DR HATIM EL-TAHIR shares his insight into the development of Islamic finance in the country.

In recent years, Lebanon has increasingly focused on efforts to promote Islamic finance. The government, represented by Banque du Liban (BDL), the central bank of Lebanon, has introduced several regulatory and practice-related policies including Law No.575 of 2004, which regulates the industry.

In September this year, the International Monetary Fund (IMF) reported that Lebanon's real GDP growth for 2011 will remain low at 1.5%. Inflation is estimated at 5.9%, which remains in line with inflation rates in the MENA region. It should be noted that economic growth has remained positive despite the regional unrest and Lebanon's domestic political issues.

The country's competitive edge as a leading business and tourism hub rests mainly on its banking sector. This has been further enhanced by the introduction of Islamic banking services. The country hosts four fully-fledged Islamic banks: namely the Arab Finance House, Al Baraka Bank Lebanon, Lebanese Islamic Bank, and Blom Development. BDL does not allow conventional banks to offer Islamic windows. The country's consistent efforts to introduce a sound and prudential regulatory environment coupled with the introduction of internationally-accepted best practices will boost the flow of investments into the country.

Over the past year, the service-based economy enjoyed growth in almost all sectors and industries. The services sector, which accounts for two thirds of the country's GDP, led the growth engine. This growth was driven by three main sectors: trade, tourism and banking. Other sectors that contributed to growth were agriculture, education and health services. In effect, the growth was largely driven by the private sector.

The government's management of the economy can perhaps best be measured by the level of success in meeting targets set by the IMF's Emergency Post-Conflict Assistance program. Key to these was the overarching goal to reduce the debt-to-GDP ratio, which was successfully cut to about 130% in 2011 from 150% in 2009. Each year, about 10% of the annual GDP — currently estimated at US$40 billion — goes to service the country's debts.

In September 2011, the total assets of the banking sector reached US$154 billion: an increase of 7% from the same period last year, when they totaled US$143.8 billion. In contrast, the capitalization of the Beirut Stock Exchange recorded a slight drop to US$12.8 billion in April 2011, according to BDL.

Islamic banking

In general Islamic banking grew steadily over the past year, with more bank branches opening across the country and an increase in the customer base, which expanded to include small and medium-sized enterprises in several sectors of the economy. This trend is likely to continue in the years to come.

The outlook for Islamic banking is optimistic and Islamic banks operating in Lebanon will likely take the lead in financing service sectors and investment projects. Projections for GDP growth, estimated at 4% for 2012, boost confidence in the economy and the banking sector in particular. Government support for Islamic banking is paramount and will give more assurance to potential investors in this important emerging sector. One area of industry growth potential lies in leveraging the country's reputation as a fiduciary service center and developing Shariah compliant asset and wealth management services.

However, this growth cannot take place without challenges and, needless to say, will hinge on domestic and regional political stability. Lebanon offers a viable investment growth opportunity for bigger Islamic banks with bigger balance sheets to invest. In its favor, the country offers an abundance of professional talent and reasonable operational costs. This is crucial for a competitive and efficient Islamic financial sector.

The current regulation of Islamic banks stipulates that: "Investments and placements in Lebanon must account [for] at least 50% of assets and rights included in the balance sheet items in each Islamic bank." This guidance will ensure that Islamic banks operating in Lebanon will continue to invest and finance local industries and play an important role in economic growth.

Restriction on Islamic windows
Nevertheless, the restriction on conventional banks preventing them from offering Islamic windows poses challenges and may impede the growth of Shariah complaint banking services in the country. This means that licensed Islamic banks will have to expand efficiently to accommodate the rising demand for Islamic financing. Similar regulatory changes have been made in Qatar, which also restricted conventional banks from operating Islamic windows, effective from 2012.

Conclusion

The broader global economic and political unrest may reduce the flow of foreign investment in the country and delay the Gulf-led initiatives of Islamic banking expansion into Lebanon. However, the government should continue its support of the emerging Islamic banking sector in the country and nurture its growth. Regulatory reforms should provide a level playing field for Islamic banks. Issues such as double taxation, Zakat, land registry, tax incentives for foreign investors in the sector and the establishment of leading practices in arbitration and business disputes, to name just a few, should be tackled.

The views expressed are the personal views of the author and do not represent the views of Deloitte.

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Islamic finance in Palestine: An overview

DR M HISHAM JABR discusses the historical background and progress of Islamic financial institutions in Palestine.

Islamic finance in Palestine goes back about two decades, when the Palestinian Finance House Corporation was established in 1994, as the first Islamic financial institution in the country. After the mid-1990s, the following Islamic banks were established: Palestine Islamic Bank, Arab Islamic bank and Islamic branches of Cairo Amman Bank and Al–Aqsa Islamic Bank. During the last decade, Islamic banks in Palestine have seen several developments for. For example, Palestine Islamic Bank acquired the Islamic branches of Cairo Amman Bank in 2005, and of Al-Aqsa Islamic Bank in 2010.

Another Islamic bank was established in Gaza in 2009, called the National Islamic Bank, which currently has three branches with a capital of US$20 million. Sanctions from the US treasury on this bank were imposed on the 18th March 2010.

Takaful was introduced in Palestine in 2007. The first Takaful company was established as a shareholding company called Al Takaful Al Filistinia for Insurance in the West Bank; and AlMultazem for Insurance as a shareholding company in Gaza, on the 17th February 2008, with a capital of US$8.5 million.

Table 1 shows some of the Islamic financial institutions operating in Palestine.

Table 1: Islamic financial institutions in Palestine

Institutions	Type of institution	No. of branches	Operating in	Notes
The Palestine Islamic Bank	Islamic bank	15	W. Bank & Gaza	
The Islamic Arab Bank	Islamic bank	10	W. Bank & Gaza	
National Islamic Bank	Islamic bank	3 branches	Gaza	Not licensed by the Palestinian Monetary Authority
Arab Banking Group	Commercial bank	West Bank	Tried Islamic financing In the first half of 2011	
Al Takaful Al Philistinia	Insurance company	5	West Bank	
Al Multazem	Insurance company	3	Gaza	Not licensed by the Palestinian securities exchange commission
Islamic Development Bank	Devp. program		Jeddah	
Faten	NGO	10	W. Bank & Gaza	28.1% of its activities are Islamic finance
Asala	NGO	10	W. Bank &Gaza	13% of its activities are Islamic finance to women
UNDP	NGO		W. Bank & Gaza	

The main institutions which provide Islamic finance are two Islamic banks and two insurance companies. The following is a brief summary of Islamic finance in Palestine as provided by these institutions:

Islamic banking: To provide Islamic finance according to Shariah in the form of two programs targeting individuals, employees, self-employed, professionals, and low income people. This group can get financing to buy automobiles and consumer goods up to US$50,000 for each individual and for a period up to 60 months, mainly in the form of Murabahah.

Islamic banks' total assets represent about 8% of the total banking system. Their deposits represent about 8% of total bank deposits and their credit facilities represent about 8.5% of the total credit facilities of the banking sector. Branches of Islamic banks represent about 12% of bank branches in Palestine. The Palestinian Monetary Authority (PMA) pays great attention to the organization of Islamic banking activities in the country.

> ***"Islamic banks' total assets represent about 8% of the total banking system"***

A separate chapter in the Palestinian Banking Law No.9 of 2010 was allocated to determine the regulation and controlling of Islamic banks' activities. Moreover, the PMA is in the process of establishing a Shariah controlling committee for Islamic banks, for coordination among Shariah committees of Islamic banks and to ensure that Islamic banks use unified work forms.

The PMA makes periodic inspections of Islamic banks. Some of the rules that are applied for Islamic banks are:

- Control of Islamic banks' operating risks.
- Imposing a cash reserve requirement of 9% on deposits.
- Imposing a minimum capital requirement on these banks of US$50 million for each bank. This has led the Palestine Islamic Bank to acquire Al-Aqsa bank, with the minimum capital requirement as one of the main reasons for the acquisition.
- Each bank must have a department or a committee for risk management.

Financial statements are prepared according to the Islamic financial accounting and auditing rules. The PMA issued Instruction No.46 in January 2008 directing banks

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to maintain an investment risk provision of about 1.5% of direct financings and 0.5 % of indirect financings, and this provision cannot be reduced without prior consent of the PMA. Capital adequacy of the banks is monitored by the PMA. The PMA's instructions on January 2008 instructed all banks to re-evaluate their credit facilities portfolio each three months and make provisions for bad debt.

Table 2 and Table 3 are some financial indicators of the two Islamic banks: Islamic Arab bank and Palestine Islamic Bank.

Palestine Islamic Bank: This is a Palestine-based bank that offers banking, financial and investment services in accordance with Shariah principles. The bank offers its services through its four main divisions, the primary of which is individual services: which includes current and savings accounts, deposits, personal, housing and commercial financing and car financing, among others. Palestine Islamic Bank operates from its headquarters in Gaza and has a network of 15 branches and one representative office across the Palestinian territories. In Table 2 are some financial indicators of the bank.

> ***"The new Islamic National Bank is regarded as a sign of a divide between the Palestinians"***

Arab Islamic Bank: This is a Palestine-based bank engaged in providing financial solutions and services in compliance with Shariah. The bank operates in three market sectors: commercial financing, retail banking and finance, and treasury and investment banking. The bank's commercial financing sector offers project finance such as Murabahah and Mudarabah, real estate financing based on Ijarah and Istisnah, Musharakah, and trade finance such as import/export letters of credits and letter of guarantees. The retail banking and finance sector includes current accounts, saving accounts, investment deposit accounts, and personal financing. The treasury and investment banking sector focuses on trade deals, Sukuk and commodities. Arab Islamic Bank operates through 10 branches in additional to its head office in Al-Bireh, Ramallah. Table 3 displays some financial indicators of the bank

Table 2: Palestine Islamic bank *(US$ million)*

Indicator	First nine months of 2011	2010	% increase
Net profit before tax	1.5	0.68	116.2
Total assets	378	357	5.6
Total liabilities	127	110	15
Unrestricted investment account holders (Deposits)	202	199	1.4
Ownership equity	49	48	1.8

Table 3: Arab Islamic Bank *(US$ million)*

Indicator	First nine months of 2011	2010	% increase
Net profit before tax	1.6	1.4	6.6
Total assets	297.5	285.7	1.1
Total liabilities	92.3	90.7	1.7
Unrestricted investment accounts (Deposits)	148.6	147	1.4
Ownership equity	56.6	48	17.8
Paid in capital	47.7	40.7	17.2

The new Islamic National Bank is regarded as a sign of a divide between the Palestinians. The PMA refused the license, being the recognized body (according to the Oslo agreement of 1993 and the Paris economic agreement of 1994) between the Palestinians and Israelis. However, the bank has sent its establishing papers to the prime minister's office in Gaza and they have given it authorization to start banking activities in Gaza.

Unlike other banks, it has no global serial number (SWIFT code), which makes it impossible to work with other banks around the world or even in the Palestinian territories. The main clientele of the bank are Gaza government employees, which amount to approximately 31,000.

NGOs

Several Islamic finance activities are performed by microfinance institutions: mainly NGOs like Faten, Asala, UNDP, UNRWA, and others. Most of their Islamic financing is Murabahah-based but Islamic finance provided by NGOs is a very small percentage.

Insurance companies

Al Takaful Al Filistinia Insurance Company: This provides several types of insurance including auto insurance, marine, transportation insurance and fire insurance. The company has five branches and 17 agents in the West Bank of Palestine, and has a Shariah jurisdiction commission which consists of three specialists who verify all insurance policies, company accounts and reinsurance Takaful treaties from an Islamic perspective.

Sukuk

In an attempt to develop a Shariah compliant finance industry, the PMA is encouraging local banks to issue Islamic bills. The largest Shariah compliant bank in the territories, the Palestine Islamic Bank, is expected to submit a bid of up to US$10 million, in which the Arab Islamic Bank has also said it will probably participate. The PMA intends to sell up to US$50 million-worth of Sukuk. The Islamic notes will probably be US dollar-denominated because the PMA does not have a separate currency.

Dr M Hisham Jabr is associate professor of finance and banking at An-najah National University Nablus, Palestine. He can be

Emergence of Shariah compliant restructurings in the GCC region

AMAR MEHER and AMANJIT KAUR FAGURA believe that while there have been challenging times for the GCC economies since the 2007 financial crisis, the aftermath has paved the way for new restructuring expertise to develop in the region.

The economic activity in the GCC region has been dominated by government and family-owned conglomerates and there has been a tendency to avoid public failure of businesses (through government support and the reluctance of banks to take provisions to cover losses). Thus, until recently, there have been very few public restructurings in the GCC. The financial crisis of late 2007 left no one unscathed and the GCC was no exception.

Indeed, some of the most highly profiled defaults and restructurings worldwide had their roots in the GCC, and the continuation of such restructurings is expected in the future. In comparison to their conventional counterparts, Shariah compliant restructurings have generated a lot of attention not only because their large-scale nature was unprecedented but also because of the requirement for a majority of these restructurings to remain Shariah compliant, which has added a new dimension to the process.

Some of the more visible examples of Shariah compliant restructurings in recent times include those of The Investment Dar and Global Investment House in Kuwait, and Dubai World in the UAE. These restructurings, and others on a smaller scale, have highlighted some pivotal issues to be considered and addressed when arranging a Shariah compliant restructuring. They also offer some lessons for the future.

Issues in Shariah compliant restructurings

1) Restructuring options and insolvency regimes in the GCC

A company may consider a number of restructuring options including:

(a) Formal bankruptcy protection, either in their home jurisdiction or abroad
(b) A consensual restructuring process
(c) A government bail-out scheme
(d) Seeking new investors
(e) A merger with another company
(f) Liquidation

The best option will clearly depend on the circumstances of each company, its creditor profile, the nature of its creditors, where its assets are located and the long-term viability of its business. Regardless of the method used, the company will generally need to keep government and regulatory authorities on-side, given their broad authority over companies in financial distress.

Before selecting any restructuring options, proper due diligence and evaluation should be carried out by management. Below are a few common first steps taken by companies in financial distress.

(a) Management should consult with financial and legal advisors and, when appropriate, begin dialogue with company's creditors and other stakeholders.

(b) If a creditors' committee is formed, the company should ensure that this committee is broadly representative of its creditor pool.

(c) Directors should consider appointing separate advisors for themselves given their exposure to personal liabilities and the fact that their duties are likely to change once the company enters the zone of insolvency, which could mean that their interests may differ from those of the shareholders.

(d) The company should ensure that transparent lines of communication are in place to interact with all parties involved, including regulators, as creditor support will be essential in facilitating a smooth insolvency process.

(e) Management should prepare for a comprehensive due diligence exercise, as well as any potential lawsuits and/or payment demands.

In almost all cases of restructuring in the GCC, banks and financial institutions have opted to enter into consensual restructuring arrangements rather than making use of an existing insolvency regime. These arrangements typically attempt to be binding on all creditors and stay any litigation that may have been initiated in connection with a default under an existing financial arrangement. This distinct reluctance to rely on any existing insolvency regime lies in the fact that the region's current legal and regulatory structures related to these matters tend to be viewed as inadequate for the following reasons:

(a) They were designed many years ago when the economic landscape was simpler.

(b) They principally address traders' insolvencies but do not cover those of complex, multinational organizations (whose financing arrangements may be both conventional and Shariah compliant, thus further complicating the issue); therefore, there is too much uncertainty as to how long complex corporate proceedings would take and what the results of such proceedings would be.

(c) They lack detailed implementation regulations that could clarify the scope and operation of any insolvency arrangement.

(d) They focus on liquidation rather than promoting restructurings so that there is no 'rescue culture', which is a key feature of international restructuring models such as the US Chapter 11 law and UK company voluntary arrangements/schemes of arrangement.

There also seems to be a general lack of faith in the courts' ability to effectively oversee and render judgment in respect of these large-scale corporate insolvencies, given the complexities of the insolvency matters themselves on the one hand and the limited experience of the courts on the other.

Subsequently, until a sufficiently robust and sophisticated insolvency regime that accommodates the complexities inherent

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in a diverse creditor-base insolvency situation (often coupled with Shariah compliant financing arrangements) is established, a consensual process seems likely to be the preferred method of restructuring in the GCC despite the fact that it is a time-consuming process and may potentially be subject to claims by non-consenting creditors (given that there is currently no legal process to allow for the 'cramming down' of creditors).

2) Classification and ranking of claims
As the nature of Shariah compliant financing arrangements may not necessarily be indicative of the claim they purport to create, classifying the nature and ranking of the claims may be a difficult task in Shariah compliant restructurings. For example, in the case of an asset-backed Sukuk (akin to a securitization), legal title to the underlying asset will have been transferred by the obligor to the issuing vehicle against which the certificateholders in a default scenario would have recourse. However, in the case of an asset-based Sukuk, the certificateholders in a default scenario would have no recourse to the issuing vehicle because only title under Shariah (as opposed to a legal title or equitable title) to the underlying asset will have been transferred to it by the obligor.

Questions of preference and whether such claims are secured or unsecured are also complicating features. In some of the recent restructurings, it was found that some obligors had created a security interest in favor of financiers under their existing financing arrangements, but had failed to take steps to perfect such security interest. This has meant that in some cases, financiers who are now looking to enforce such security interest have been faced with a cumbersome court process to recognize the creation of that interest.

3) Relationship with conventional facilities
Matters are further complicated where companies have entered into both conventional and Shariah compliant financing arrangements. While the positions of the financiers in both the conventional facility and the Shariah compliant financing arrangement will be aligned commercially, there are some principal areas in which disparities frequently emerge and need to be addressed when planning the restructuring at hand.

(a) ***Documentation*** — It is often possible to include many of the usual representations, undertakings, events of default and boilerplate provisions in a single document, such as a common terms agreement, to which both sets of financiers are a party. However, the documentation setting out the terms of utilization and prepayment along with the repayment mechanisms for both the conventional facility and the Shariah compliant financing structure will need to be kept separate.

(b) ***Equal treatment*** — Payments are often made in accordance with a common cashflow waterfall with funds being applied at a particular level of the waterfall towards payment of principal and interest under the conventional facility and the deferred purchase price/base rental and profit on the Shariah compliant financing structure on a pro rata and pari passu basis. A minor exception to this principle is that although certain amounts may be claimed by financiers on the conventional facility on an immediate indemnity basis (for example, increased costs), financiers on the Shariah compliant financing structure may only be able to claim the equivalent amount at a later date because they will be factored into the deferred purchase price/rental payable by the obligor in a subsequent period.

(c) ***Security structure*** — The Shariah boards generally tend not to get involved in the security structure for a financing, although there have been circumstances where some financiers object to the English law concept of a floating charge on the basis that the assets which are the subject of the relevant security interest are not specifically identifiable. This can raise inter-creditor issues because the other financiers will want as extensive a security package as possible

(d) ***Sharing of enforcement proceeds*** — The typical approach in relation to enforcement proceeds is that the same are held by a designated security agent/trustee and applied in discharging the amounts outstanding under the conventional facility and the Shariah compliant financing arrangement in accordance with a pre-determined order of priority. In some co-financing transactions, financiers may require that the portion of the enforcement proceeds earmarked for the Shariah compliant financing arrangement be held in a separate account so as not to be tainted by the proceeds that are to be used to repay the conventional facility. Issues can arise where the enforcement proceeds include an element of interest (for example, interest accrued on cash balances in an account of the security agent/trustee or a court judgment). Financiers which are Shariah compliant may be unable to share in these amounts, in which case they may require an equalization payment mechanism to uphold the principle of equal treatment.

4) Involvement of Shariah boards
A key element to the success of Shariah compliant restructurings is the involvement, and ongoing dialogue with, the relevant Shariah boards from the outset. It is clear from recent Shariah compliant restructurings in the region that Shariah boards are willing to revisit the fundamental principles of current Shariah compliant financing arrangements and are open to considering other innovative structures. While the structures themselves are yet to be tested in the courts, the key to them has been balancing the interests of multiple Shariah boards with sometimes competing interests of a diverse creditor group.

Conclusion

While there have been challenging times for the economies of the GCC in a variety of ways since the financial crisis of late 2007, the aftermath has paved the way for new restructuring expertise to develop in the region, with many important lessons learned along the way. The recent restructurings in the GCC have certainly caused many authorities to revisit their various insolvency regimes and encouraged the Islamic finance industry to reassess the salient principles on which Shariah compliant financial arrangements are based. The biggest hurdle going forward will be to ensure that a robust insolvency regime is established in the GCC before another wave of credit defaults hit. The UAE government has recently announced that a new insolvency law is imminent, which seems an excellent start.

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Kabul Bank crisis: An appraisal of Islamic banking

SAIFUR RAHMAN KHALID AHMADZAI explains how the crisis of Kabul Bank has dramatically affected the overall Islamic financial system in Afghanistan.

Kabul Bank is the largest leading commercial bank in Afghanistan. It was established on the 27th June 2004 by Sherkhan Farnood with initial capital of only US$5 million. As at 2011 its capital now stands at US$1.5 billion. Kabul Bank serves around 1.3 million customers through its 130 branches; of which only 44 branches are located in Kabul city. Kabul Bank acts as the main financial intermediary for the payment of government officials' salaries as well as other financial transactions both domestic and abroad. It is also the primary medium for the receipt of international aid and assistance to Afghanistan from friendly donor countries.

Since the inception of Kabul bank, there have been some irregularities and mismanagement in its internal systems which have caused some serious dilemmas, the repercussions of which the bank is still suffering. These issues have affected the entire banking infrastructure of Afghanistan; and have been the catalyst for significant changes in the senior administration of Da Afghanistan Bank (DAB), the central bank of Afghanistan.

Kabul Bank was taken over by the central bank in September 2010. The subsequent resignation in June 2011 of the governor of DAB, Dr Abdul Qadeer Firtar, has been cited as another critical issue for the banking sector. According to news reports, the main shareholders of the bank are accusing each another of the fraudulent embezzlement of millions of dollars. All these factors are strong signals that indicate the growing weakness of the government of Afghanistan.

On the 3rd July 2011 the attorney general's officer, Rahmattullah Nazari, said: "A number of top officials from DAB and non-governmental organizations were involved in the case of Kabul Bank. Eight individuals have been detained, three of them are Indian citizens who worked for the bank and the remaining are former staff of the bank." The critical issue is that the former chairman of Kabul Bank, Sherkhan Farnood, and the CEO of the Bank, Khalilullah Frozi, were also arrested in Kabul.

Recently news reports have also suggested that the issue has led to hesitation from donor countries reluctant to extend assistance to a government which is incapable of effectively preventing problems such as these.

> ***"The financial instability of Afghanistan has been considered as the key factor for the spiraling poverty and low economic growth"***

The banking sector in Afghanistan

According to Professor Abbas Mirakhor, the former executive director of the IMF and first chairholder of the International Center for Education in Islamic Finance (INCEIF), the effective economic development of developing countries such as Afghanistan should implement some instrumental strategies in order to stabilize the economy and the financial sector.

The government of Afghanistan may take the following steps:

1. Avoid debt-creating flows as much as possible.
2. Rely mostly on foreign direct investment.
3. Ensure borrowings do not exceed 25% of the GDP.
4. Encourage the economy of Afghanistan to produce a large enough primary surplus to meet their obligations.
5. Implement strong governance and avoid moral hazards from the economy.
6. Maintain a transparent balance sheet mechanism and other financial statements.
7. Closely and efficiently regulate and supervise domestic financial institutions. The periodic auditing should be closely monitored and the role of the central bank should be widespread all over the banking industry.

In the context of Afghanistan's banking industry, the implementation of good governance is urgently needed. After 30 years of war and disaster the banking sector has been badly damaged and very little has been done to restore it since 2001. The lack of an effective and efficient management system is the main barrier to the progress of Afghanistan's reconstruction and the development of the banking industry. For instance, considering the top management of Kabul bank, we can observe the dangerous presence of under-qualified people, who have neither banking knowledge nor experience in the management of banks, controlling the banking works.

The financial instability of Afghanistan has been considered as the key factor for the spiraling poverty and low economic growth. The lack of fair production, allocation and distribution of the resources has increased the economic instability. Millions of dollars have been donated for the reconstruction of Afghanistan but have had minimal effect on the ground. This is very clear

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to the Afghans, who acknowledge that the primary reason behind all these adversities is the dishonesty of the leadership in Afghanistan.

According to surveys and research from the United Nations Office on Drugs and Crime, 59% of Afghans view public and government dishonesty as a bigger concern than insecurity and unemployment. This unethical culture has negatively affected the overall situation in many organizations in Afghanistan: one of the most visible and well-known of which is the recent Kabul Bank crisis.

> ***"Al-Hisbah technically means enjoying good deeds and forbidding evil doings"***

Regulatory framework from an Islamic perspective

One of primary reasons for the dilemma in the banking sector of Afghanistan is the lack of a strong and dynamic regulatory and supervisory framework. This framework has been clearly and successfully practiced in the history of Islam: called 'Al-Hisbah'.

Al-Hisbah technically means enjoying good deeds and forbidding evil doings. The institution of Al-Hisbah demonstrated rapid economic growth and financial stability during the caliphates period of the Islamic civilization, whereby the rights and responsibilities of each civilian were preserved.

The main functions of an Al-Hisbah institution are to implement and enforce the rules and regulations imposed by authoritative bodies; monitor and supervise financial transactions; penalize those who violate the rules and regulations imposed in the economy; and educate people on the Islamic economic system, its rules and regulations and its implementation.

In the context of Kabul Bank, there are many aspects and issues which violate some of the basic norms and disciplines of the conventional banking industry as well as the Islamic banking industry. The institution of Al-Hisbah is the fundamental pillar of Islamic banking and finance.

Based on Al-Hisbah, first of all, regulatory bodies should comprise of government authorities who are professionals and experts in the field of banking as well as of Al-Hisbah. Currently there is a big deficiency in human capital in Afghanistan who are professional, patriotic and have positive intentions. Unfortunately, the top authorities are more biased towards self interest instead of public interest.

Secondly, monitoring and supervisory authorities should consist of those people who have strong integrity in carrying out responsibilities and accounting standards.

According to Dr Fitrat, the former governor of DAB, the recording of wrong details of transactions and many more illegal accounting and trade activities in Kabul Bank resulted in the embezzlement of almost US$900 million. These withdrawals were reportedly invested in the Dubai luxury villas of Palm Jumeirah, Dubai Airport, Pamir Airline, the presidential election of 2009 in Afghanistan in the favor of one candidate and many other uses based on fraud and corruption. The destructive culture of bribery is one of the key elements holding back the development of Afghanistan.

Thirdly, there should be clear and tough punishment for those who violate the rules and regulations of the banking system. In the institution of Al-Hisbah, the authorized person who has full autonomy is called Al-Muhtasib.

This authorized person has the power to execute punishment to the violators of the law through prosecution and due judicial procedures.

In the case of Kabul bank most of the violators involved in the crisis — including both internal and external shareholders involved in embezzlement — are still at large without any fear of prosecution.

Educating the nation

Last but not least, there should be dynamic educational master plans to promote awareness among the public about the Islamic economic system. From the Islamic economic point of view there is a hierarchy of the consumer's needs: necessities, followed by conveniences, followed by beautification. From these three levels, necessities are the first elements to be fulfilled in society by the Islamic state.

The second level is the Hajiyyat, which means the conveniences of life. These elements bring quality of life and remove hardships and difficulties in society. Every citizen should strive for a good quality of life, which is strongly encouraged by the Islamic economic system.

If a Muslim society implements the Islamic economic system, there should be no poverty and financial instability. In an ideal Islamic economic system there are many institutions through which poverty reduction can be guaranteed. These institutions encompass the notion of Zakat, Waqf, Takaful, Kharaj (agricultural tax), and many other socio-economic institutions.

Conclusion

Afghanistan is a rich country by nature and it is the responsibility of the Afghans to work hard in order to preserve these natural resources, which are estimated to be worth more than US$3 trillion. If this huge amount of capital is utilized effectively and efficiently poverty could be brought to a minimum level in Afghanistan.

The crisis of Kabul Bank is a vital example that the Afghan people must learn from, in order to begin taking real steps towards the implementation of an Islamic economic system which could bring political, economic and social stability to the country.

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Suitability and risk: A cyclical approach

DARYL ROXBURGH offers an understanding of a private client's needs when it comes to investment. These needs are changing rapidly globally, and these changes are as relevant for Islamic wealth management as they are for conventional investing.

Until the client understands the risks that they could be taking when investing, the firm cannot really understand what is most suitable for the client. Therefore, a best practice process should seek to achieve three objectives: 1) An up-to-date record of the client's overall position and investment objectives; 2) Whether the portfolio is consistent with the client's attitude to risk; and 3) Whether the portfolio is consistent with the client's investment objectives, investment horizon and mandate. In other words, the firm must understand the client's objectives, set a portfolio to meet them and ensure it keeps in line with its mandate and objectives.

1. Know your customer and risk questionnaire: Most will know the 'know your customer' (KYC) requirements only too well, and there will inevitably be some overlap with a risk questionnaire. The ability to take risks and the willingness to do so must both be considered: the former in the context of the client's goal. An established time horizon is critical to understanding whether the client may accommodate periods of loss before the goal is reached. A short time horizon, or the potential for unexpected drawdowns from a portfolio, may result in not being able to take that risk.

For client segmentation and goal definition in firms providing Islamic wealth management, particular consideration needs to be given in terms of understanding the client's requirement for Shariah compliance and using this to drive the appropriate structure. The risk questionnaire should be educational, using illustrations of potential loss and gain relevant to the firm's investment offering so that the client responds in context. It should explain these risks and the illustrations clearly, comprehensibly and consistently, forming the basis of a consistent risk assessment conversation between the client and the firm. It is important to note that this is not a 'menu' of how the client's portfolio will perform, but the basis of a risk assessment. It should include questions designed to filter out clients with no desire for market risk; as well as questions on experience, understanding and willingness with respect to each asset class. I am frequently asked how many questions should be asked. It depends on the complexity, breadth, and segmentation of the investment offering. Importantly, enough information needs to be captured in a variety of ways to ensure consistency of understanding and responses.

> ***"The risk questionnaire should be educational, using illustrations of potential loss and gain relevant to the firm's investment offering so that the client responds in context"***

2. Profile and suitability: A questionnaire answered and filed, but not scored and not used to drive the investment approach for the client, is as good as useless. Consistency in interpretation is as important as checking that the client has answered in a consistent way. Following up inconsistencies with the client is vital. The scoring outputs should be validated against the client's overall situation and ability to sustain loss, and where necessary overridden by the advisor with a suitable explanation. Having derived the client's profile, which must be more than a single risk score, this then needs to be applied in selecting the suitable investment offering. Before that, however, the offering of the firm has to be understood and placed in context. Think of this in two ways: 1) How has a model performed in the past, and 2) Given what it is currently holding, how would it have performed?

One is the characteristics of the managed fund, the other the characteristics of its current asset allocation or holdings. Both are relevant, the latter perhaps more so as it is what the client is buying today and not what was held and managed in the past. How flexible is your offering? Against which parameters is it managed? What is the point of selling a downside managed range of portfolios if you only consider return, or offering the option to exclude an asset class if it is in all your models? How would you accommodate the industry and interest-yielding restrictions of Islamic wealth management (IWM)? These considerations must be reflected in the way an IWM asset allocation structure is defined, along with any index proxies associated with it. However aggressively the client has answered the questionnaire, suitability filtering should rule out asset classes on grounds of risk aversion, time horizon, illiquidity or yield. Even if there is one answer indicating aversion to loss, this should be initially taken as precluding a riskier portfolio, before the answer is discussed with the client.

3. Portfolio construction: An extensive subject, in the context of this article, it is best summarized by a client's CEO, who described it as "freedom within a framework". The firm's investment policy should decide that framework and its parameters. This could be a model asset allocation, a set of allocation ranges or complete freedom, but in each case it should be set within the boundaries of a defined risk budget. The client must be made aware of how this framework works in the context of their portfolio, what changes they can expect within it through time, and how their answers have been influenced by constraints in this framework. Parallel asset hierarchies for Shariah and non-Shariah compliant model allocations should be used as part of this framework. Much ill-informed

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comment has been posted regarding optimization. If the process, need for constraints, risk and return inputs are understood, it is a very powerful tool for working on the construction of a portfolio to a risk budget. As a chief information officer once commented: "Optimization is a very sharp tool: used unwisely it will cut you." Reliance on it without understanding, unless set up specifically for your firm, is foolhardy. Whatever construction approach is used, the selection of individual investments must lie with the firm.

The manager's understanding of the risks beyond market risk is vital and could lead to segregation of the firm's buy lists, according to suitability by client segment. Shariah compliant equivalents of non-compliant asset classes may well have different risk and return characteristics should be taken into account when constructing asset allocations. Filtering of compliant equities and other investible instruments needs to be based on the principles of appropriateness backed by due diligence, disclosure and transparency, as defined by the firm's Shariah compliance board. That filtered list can then be applied as appropriate to the client's asset allocation.

4. Investment proposal: The investment proposal report should then bring the profile and portfolio together, illustrating to the client the characteristics of the portfolio, in the context of the firm's offerings. The client should be in no doubt as to the trade-offs they have to make in terms of risk and return, and be clear that there is no certainty and that the illustrations are just that — illustrations only. Ideally, these points will tie back to the questionnaire, which should be included in the report for completeness. Clear illustration in simple terms, presented in different ways to help client understanding, is essential.

> ***"Consistency in interpretation is as important as checking that the client has answered in a consistent way"***

5. Monitor: With a defined framework for the portfolio that meets the client's profile, the portfolio needs to be regularly and more frequently monitored. It is entirely possible to run analytics nightly across entire client bases. Firms can run exception reports, gaining an understanding of the range of risk being taken and enabling them to drill down to individual accounts and positions outside their mandate. This type of process also enables many checks to be simultaneously applied: such as Shariah compliance, concentration, holding size, buy-list percentage, and active weights, as well as different risk measures.

6. Review: To close the suitability cycle, it is not sufficient simply to monitor the portfolio. The client should also be monitored and their changing preferences and circumstances fed back into the cycle. This can be accomplished through a review report including their stated aims, essential KYC information, basis of portfolio management and the main portfolio characteristics. Where the client has imposed restrictions, these should be reiterated along with the impact that they have. Overall, this risk suitability cycle needs to be an end-to-end integrated approach designed to ensure efficiency, completeness and integrity. Integrated with the firm's portfolio and trade order management systems, this process for a continuous, rigorous, comprehensive and practical approach serves the interests of the firm and clients alike, and creates a strong foundation for a long-term investment relationship.

Overall, this risk suitability cycle needs to be an end-to-end integrated approach designed to ensure efficiency, completeness and integrity. It should be integrated with your portfolio management system and trade order management system (such as BITA Risk's partner Advent's APX and Moxy) for a continuous, rigorous, comprehensive and practical approach that serves the interests of the firm and client alike, and creates a firm foundation for a long-term investment relationship.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

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Commodities gaining prominence

Cover Story

Last week Sambacapital, the investment arm of Samba Financial Group, launched the Al Nafees Global Commodities Equity Fund in Saudi Arabia. The US dollar-denominated Shariah compliant fund will invest in the equities of commodity-related companies relating to agriculture, energy, base and precious metals as well as renewable energy, timber and water.

According to Eisa Al Eisa, the chairman of Sambacapital, commodity-related companies are capitalizing on growing global demand due to rising population, rapid industrialization and increased consumption. He added that the contribution of this sector to global GDP currently stands at around 15%.

SambaCapital has joined the likes of Al Rajhi Capital, Riyad Capital and HSBC Saudi Arabia, which have all launched commodity funds in Saudi Arabia. Funds of this asset class in the Islamic funds industry normally invest in the equities of commodity-related companies. The HSBC Amanah Commodity Index Fund invests in commodities and is aimed at tracking as closely as possible the performance of the HSBC SA Enhanced Commodity Index.

From the range of funds available in the Shariah compliant space, hard commodities - particularly precious metals funds - are popular with fund managers and investors alike. Examples include the DWS Noor Precious Metals Securities Fund as well as the DSAM Kauthar Gold Fund, which was the first in the DSAM Kauthar Fund series of commodity-linked funds as well as the first Shariah compliant hedge fund of its kind. The volatility of commodity prices in 2011 has caused these funds' returns to thread into negative territory, however, with the DSAM Kauthar Gold Fund registering -5.3% yield-to-date (YTD) returns as at the 1st November 2011 while the DWS Noor Precious Metals Securities Fund recorded a YTD return of -15.69% as at the 30th December 2011.

Apart from mutual funds, investors – retail or institutional – are also now taking to precious and industrial metals exchange traded funds (ETFs). In 2008, ETF Securities (ETFS) launched what is believed to be the world's first Shariah compliant precious metal exchange-traded commodity (ETC) based on physical platinum, palladium, silver and gold as well as a basket of the previously mentioned metals. An ETC, although similar to an ETF as it trades and settles similar to equities, it is not a fund. Instead it is a security structure allowing investors access to commodities markets through a priced security listed on an exchange.

According to Eurekahedge, ETFS Physical Gold has seen a 23.37% return, placing it in the top spot of YTD returns among the 660 global Islamic funds that the data provider tracks. In 2011, assets under management of this ETC surged from US$5.98 billion on the 3rd January to US$7.51 billion as at the 8th December, a clear sign that investors' attraction toward this commodity has not waned.

Little is known of South Africa's Absa Capital NewGold ETF, declared Shariah compliant in 2008, four years after its initial listing. The ETF showed an impressive 43.27% for its one year returns as at the 31st October 2011. NewGold ETF is the first and only product in South Africa that allows institutional and retail investors to directly invest in physical gold bullion.

As investor demand grows exponentially in this sector, asset management companies should realize the potential opportunities to launch more physical metals ETFs, particularly due to the current absence of this investment tool in the Shariah space. In August another conventional ETF provider, Source, had its physical Platinum ETC and physical palladium ETC certified Shariah compliant on the back of increasing demand from Islamic investors.

In general, commodities have a low correlation to traditional equity markets as they do not always fluctuate in tandem with market movements. Investors must look to such alternative asset classes when seeking to diversify their portfolios, particularly in such testing times. Islamic fund managers have to play catch-up fast if they want a piece of the pie or they might end up missing out on this opportunity. — *RW*

In this issue...

Managing money as a non-Muslim

TOBY BIRCH discusses why being a non-Muslim supporter of Islamic finance can be a benefit rather than a disadvantage, but argues that the industry is not yet in a strong enough position to effect global change.

As a non-Muslim it may seem strange that I should be fascinated with Islamic financial principles. However, perhaps the strength of my argument is that my words carry more weight as a neutral. This means that I cannot be pigeonholed by western financiers as someone biased due to spiritual persuasion.

Religion nevertheless played a significant role in my formative years and many have noted that my articles are littered with biblical allusions. In 2007 I wrote a book forecasting the credit crisis called 'The Final Crash: Addictive Debt and the Deformation of the World Economy', which some religious groups took to be a portent for Armageddon.

Some have accused me of smugness or a degree of schadenfreude in identifying the cause, effect and consequences of the crash before it even happened. Allow me to reassure readers that I do not delight in the poverty and suffering caused by our parasitic banking system. Nevertheless, these events may well be happening for a good reason. To achieve reformation we must see deformation and a public rejection of the monetary mechanisms which governments seem so desperate to save, albeit at the cost of generations of taxpayers to come. This will not be an easy task given the ever-present power of lobby groups.

The most positive outcome of the so-called credit crisis has been a revelation over the falsehood of interest-based, fractional reserve banking. Banks have been shown not to be protectors of depositor assets but financial sorcerers: creating loans from thin air and repackaging them into toxic products. Not only are such sleights of hand inflationary but they are directly responsible for the multiple booms, busts and financial turmoil of the last four decades. The eventual outcome is asset confiscation through bankruptcy and the decimation of the middle class in the west.

With the abandonment of real money in the form of precious metals the current economic seizure was as inevitable as it was avoidable. This was proved with the Guernsey Experiment of the 19th century, which dragged the island from the depths of a debt trap to widespread prosperity by bypassing the banking system. The State of Guernsey issued its own interest-free money which with good stewardship prevented a permanent increase in the money supply by adding maturity dates to its notes. A century of public works was achieved without inflation and without a penny paid in interest.

Many wonder why my forecasts have proved to be so accurate. While writing this article I just happen to be in France so it is appropriate to quote Napoleon Bonaparte: "If I always appear prepared, it is because before entering an undertaking, I have meditated long and have foreseen what might occur. It is not genius which reveals to me suddenly and secretly what I should do in circumstances unexpected by others; it is thought and preparation."

The great general also had an insight for finance. When he scrutinised an interest table which showed the escalation of debt through the snowball effect of compounding he said: "The deadly facts herein revealed, lead me to wonder that this monster, interest, has not devoured the whole human race. It would have done so long ago if bankruptcy and revolutions had not acted as counter poisons."

Moving away from theory to practicalities: the reality of fund management in the arena of Shariah compliant investing is not straightforward. There are many obstacles which require big money, influence and patience. These include the necessity of paying scholars significant sums to gain approval; partnering with an Islamic bank for distribution; obtaining software or consultancy services for stock screening; and of course having the time and funding to overcome the numerous legal and regulatory hurdles. Even then there is no guarantee of gathering assets. Small fund sizes bear witness to the frustration of taking many risks but gaining few rewards. There are queues of lawyers, bankers, brokers, custodians, fund administrators and consultants waiting to take their (large) fixed fees; but there is a dearth of service providers willing to share the risk side of the equation with the entrepreneur.

On a personal level I have decided to use Islamic principles and apply them to a conventional fund. This has been derided as 'Shariah-lite'. My only defence is that I am attempting to adapt similar principles without hiding behind corporate euphemisms such as 'innovation'.

At the risk of sounding naïve I have just launched the Gaia Opportunities Fund with Islamic principles in mind. It invests in areas that counteract three core mega trends which stem from population growth, environmental degradation and currency devaluation: all of which are inter-related. It boils down to investing in alternative energy, precious metals and natural resources, especially food production. The catchy strapline is 'green, gold and edible'.

Inevitably this means holding futures contracts, which are which are of course forbidden in Shariah compliant finance. The conundrum boils down to this: real assets are illiquid and expensive to store, own and trade, while electronic securities are liquid, low cost and convenient. The closest our fund comes to the core philosophy of Islam is what it does with the performance fees. We donate a quarter of our fees to philanthropic foundations devoted to sustainable projects which align with our philosophy.

Sadly we are forced to use conventional finance to effect change, as we believe the obstacles for Shariah compliance are simply too great to overcome without greater cooperation and expertise. This is in direct contrast to Islamic principles, which are the definition of simplicity and transparency: qualities that are sadly lacking in an industry heavily influenced by western investment banks.

Toby Birch is the managing director of Oppenheim & Co in Guernsey. He has been a fund manager for 20 years and is a chartered fellow of the Chartered Institute for Securities & Investments, and holds the Islamic Finance Qualification. He can be contacted at t.birch@oppenheim.gg.

BLME Light Industrial Building Fund

The fund aims to achieve a cash-on-cash yield of 8% per annum and a target return of 10-15% by acquiring high-yielding portfolios of UK light industrial buildings.

Could you provide an overview on the asset / asset class which this fund is investing in?

Light industrial buildings in the UK. This is a multi-billion pound sector characterized by industrial units leased to small and medium-sized companies and used for storage, light assembly, printing and distribution activities.

These assets have a low obsolescence risk and have not changed materially in design for 20-30 years. These assets are located throughout the country and are leased to a wide variety of companies, thereby providing significant cashflow and geographical diversification for investors.

What are the factors that were considered prior to launching this fund?

BLME was looking for a fund that could provide investors with access to a section of the property market that is currently untapped. From our market intelligence we knew that investors were looking for low volatility, diversification, a good yield and potential capital growth.

The light industrial building sector has less volatile income return than office or retail property. The sector provides greater diversification both through the wide range of companies renting these buildings and rental income from a large number of companies with sector and geographical diversification.

In September 2011 IPD/Colliers International forecast an average total annual return of over 8% for the industrial building sector during the next two years.

Please elaborate on the driving factor(s) of the main sector(s) selected in this fund's portfolio.

The driving factors for the light industrial building sector are:

a) Job creation in the private sector – virtually all tenants are private sector companies.

b) Growth of SMEs – they employ more people than any other type of business in the UK and are the mainstay of light industrial property.

c) There is increasing occupier demand which has helped prompt the IPD (Investment Property Databank) to forecast positive rental growth for the next five years. Market uptake in square metres was up 18.5% in 2010.

What is the short term and long term outlook of sector(s) / industry(ies) in this fund?

The PMA 2012 Autumn Forecast anticipates average income returns on industrial property at around 7% for each of the next five years. This averages 1-1.5% higher than for office and retail property over the same period.

Capital values for higher yielding properties are close to the low point for the last 10 years, indicating that this could be the right stage of the cycle for investment. Currently there is not much new build in this sector, as property can be acquired, along with the attached land, at below its replacement cost.

How does the theme of the asset class(es) of this fund fit with investors today?

Our investors tend to hold a high proportion of real estate assets in their portfolios and the UK, with its robust legal system and strong connections to the Middle East, remains a popular location.

How often will you review this fund?

Performance will be reviewed quarterly and reports provided quarterly to investors.

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

The fund invests purely in light industrial buildings, where the ongoing income, potential for capital gains and ability to diversify provide a compelling story for investors.

What is the projected rate of return of this fund?

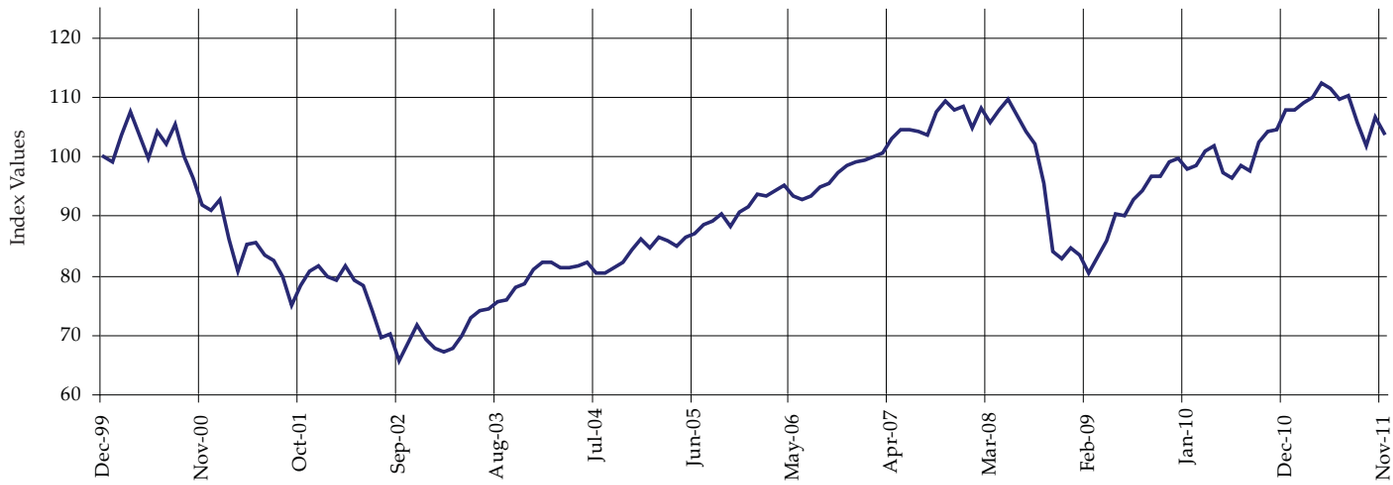
Anticipated cash-on-cash dividend yield is anticipated at 8-10% per annum, and the projected IRR is 10-15%.

What is the market outlook for this fund?

We are at a strong point in the economic and property cycle. There is an opportunity for capital growth as well as income.

Fact sheet	
Fund Manager	Asset Manager is BLME. Property Advisor is COBA Asset Management
Trustee	N/A
Shariah Advisor	Sheikh Dr Abdulaziz Al-Qassar Sheikh Dr Esam Khalaf Al-Enezi
Benchmark (Index)	N/A
Domicile	Luxembourg
Inception date	18th August 2011
Fund characteristics	**Fund Type – Open / Closed** Closed-ended **Fund Size** Anticipating GBP50-100 million (US$78.1-156.3 million) equity **NAV per share** Currently GBP1,000 (US$1,562.99) **Minimum / Subsequent Investment** GBP equivalent of EUR125,000 (US$166,700) **Management Fee** 1.25% per annum **Dividend policy** Dividends paid quarterly at the end of April, July, October and January
Industry Allocation	100% UK light industrial buildings
Fund Portfolio Composition	Three properties have been acquired to date, both UK light industrial buildings
Performance Summary	The fund is only recently launched, so does not have any performance data currently. However the margins on the purchased properties are within the fund objectives.

Eurekahedge Global Islamic Fund Index



Top 10 Monthly Returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	CIMB Islamic Small Cap	CIMB-Principal Asset Management	2.09	Malaysia
2	Public Islamic Sector Select	Public Mutual	1.81	Malaysia
3	Al-'Aqar KPJ REIT	AmMerchant Bank	1.80	Malaysia
4	CIMB Islamic Global Equity	CIMB-Principal Asset Management	1.77	Malaysia
5	Prudential Dana Al-Ilham (PRUdana al-ilham)	Prudential Fund Management	1.56	Malaysia
6	ETFS Physical Gold	ETFS Metal Securities	1.36	Jersey
7	Islamic Certificate on the LLB Top 20 Middle East TR Index (EUR)	ABN AMRO Bank	1.35	Netherlands
8	Public Islamic Select Enterprises	Public Mutual	1.34	Malaysia
9	Mega Dana Obligasi Syariah	Mega Capital Indonesia	1.22	Indonesia
10	Meezan Tahaffuz Pension- Money Market Sub	Al Meezan Investment Management	1.17	Pakistan
	Eurekahedge Islamic Fund Index		**-1.78**	

Based on 63.45% of funds which have reported November 2011 returns as at 13th December 2011

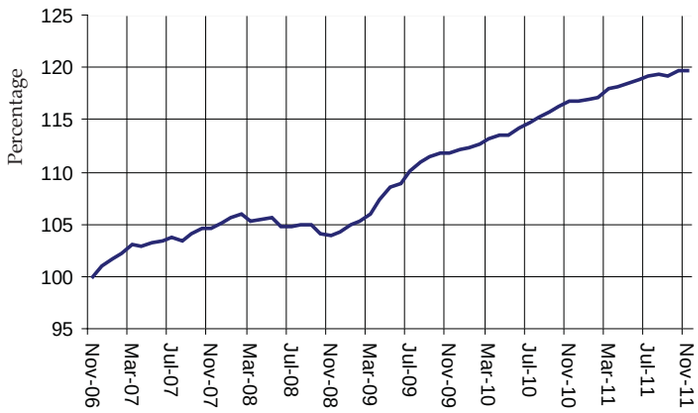
Top 10 Monthly returns for Global funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	CIMB Islamic Global Equity	CIMB-Principal Asset Management	1.77	Malaysia
2	ETFS Physical Gold	ETFS Metal Securities	1.36	Jersey
3	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	0.40	Malaysia
4	Oasis Crescent Balanced High Equity Fund of Funds	Oasis Crescent Management Company	0.35	South Africa
5	Oasis Crescent Balanced Stable Fund of Funds	Oasis Crescent Management Company	0.15	South Africa
6	Watani KD Money Market	National Bank of Kuwait	0.10	Cayman Islands
7	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	0.09	Saudi Arabia
8	Al Rajhi Commodity Mudarabah - SAR	Al Rajhi Bank	0.08	Saudi Arabia
9	Watani USD Money Market	National Bank of Kuwait	0.07	Cayman Islands
10	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.07	Saudi Arabia
	Eurekahedge Global Islamic Fund Index		**-2.76**	

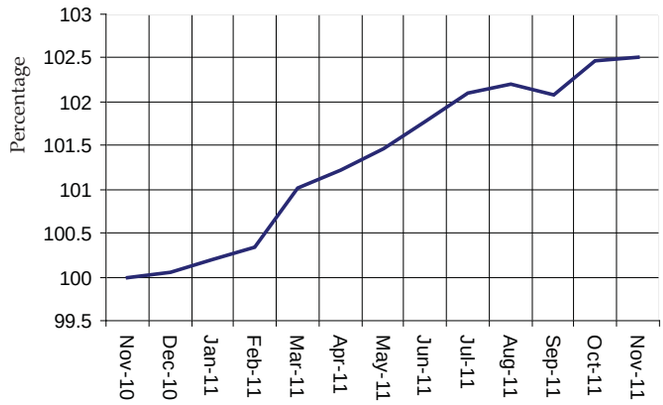
Based on 75.00% of funds which have reported November 2011 returns as at 13th December 2011

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 Fixed Income Index over the last 5 years



Eurekahedge Islamic Fund Fixed Income Index over the last 1 year



Top 10 Islamic Fixed Income Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Mega Dana Obligasi Syariah	Mega Capital Indonesia	2.74	Indonesia
2	PB Islamic Bond	Public Mutual	1.65	Malaysia
3	Public Islamic Bond	Public Mutual	1.50	Malaysia
4	AMB Dana Arif	Amanah Mutual	1.45	Malaysia
5	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	1.36	Pakistan
6	Public Islamic Enhanced Bond	Public Mutual	1.26	Malaysia
7	Public Islamic Select Bond	Public Mutual	1.23	Malaysia
8	CIMB Islamic Sukuk	CIMB-Principal Asset Management	1.01	Malaysia
9	Prudential Dana Wafi (PRUdana wafi)	Prudential Fund Management	0.82	Malaysia
10	ASBI Dana Al-Fakhim	BIMB UNIT Trust Management (BUTM)	0.71	Malaysia
	Eurekahedge Islamic Fund Fixed Income Index		**0.30**	

Based on 64.71% of funds which have reported November 2011 returns as at 13th December 2011

Top 10 Annualized Sortino Ratio for ALL Islamic funds

	Fund	Fund Manager	Annualized Sortino	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	12.40	Pakistan
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	11.93	Pakistan
3	Commodity Trading - SAR	Riyad Bank	9.04	Saudi Arabia
4	Public Islamic Bond	Public Mutual	3.49	Malaysia
5	PB Islamic Bond	Public Mutual	3.40	Malaysia
6	Public Islamic Select Bond	Public Mutual	2.41	Malaysia
7	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	2.35	Pakistan
8	Public Islamic Select Enterprises	Public Mutual	2.28	Malaysia
9	Global Sukuk Plus	QIB (UK)	1.76	Luxembourg
10	Oasis Crescent Balanced Stable Fund of Funds	Oasis Crescent Management Company	1.61	South Africa
	Eurekahedge Islamic Fund Index		**0.02**	

Based on 63.45% of funds which have reported November 2011 returns as at 13th December 2011
Based on reporting funds with at least 12 months of returns till Noevmber 2011 as at 13th December 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

EUREKAHEDGE

Takaful news

Brought to you by Takaful IKHLAS

14th December 2011

Updating Takaful rating methodology

Cover story

AM Best, noting that Takaful uptake across the Middle East and South East Asia is clearly on the rise, has issued its draft proposals for updating its Takaful rating methodology. The report highlights the main issues that arise when applying AM Best's rating methodology to Takaful companies, on the assumption that despite the similarities with conventional mutual operating structures, Takaful companies offer distinctive issues that need to be highlighted, observed and rated separately.

What is clear with AM Best's methodology is that although Takaful companies are given special dispensation for their overall operations regarding their adherence to the principles of Shariah; the Best's Capital Adequacy Ratio (BCAR) methodology still takes precedence in AM Best's overall analysis and credit rating of each operator. Utmost in AM Best's consideration is an assessment of the company's overall financial strength ratio (the operator's ability to meet their financial obligations), the current underlying domestic and regional market conditions and the regulatory environment.

Dispensation is given on the understanding that Takaful products and operators are still in the earliest stages of development and have not yet reached sufficient capacity to compete on a level playing field with conventional insurance companies and their offerings. As with conventional mutual insurance, Takaful insurers have several limiting features inherent to their business model, such as a relative lack of financial flexibility in investments, or increased risk concentration. Given the comparatively restricted investment policy of a typical Takaful company, their higher levels of counterparty risk, geographical concentration, and higher than average proportion of stock holdings, capital requirements in many cases are significantly larger than for a conventional company of similar size.

The limited classes of invested assets have long been a barrier to the growth for the Takaful industry, as well as a limitation on the development of more long-term products, due to the difficulty in addressing asset-liability management issues. The current situation has improved as the capital markets in Islamic countries have begun to mature and more Shariah compliant investment products are available in the market. However, demand is still higher than supply, resulting in increased expense for such investment products.

One of the key characteristics of a Takaful operation is the existence of two separate funds: the Takaful fund and the operator fund. This creates a situation whereby any analysis of a company must be taken as a two-stage risk-based capital approach. By comparing the Takaful fund's surplus to the capital required to support the fund's obligations to the participants an assessment of a Takaful company's balance sheet strength can be reached. Meanwhile, the operator's fund is subject to a second-tier capital assessment comparing the surplus position of the operator's fund to the capital required to support the fund's obligations.

As with conventional insurance operations, an important driving factor in the rating decision for a Takaful company is its degree of financial flexibility (i.e. the company's ability to raise equity capital). Restrictions in the operator's financial flexibility and limited investment profiles are critical in this aspect.

Overall, one of the unique challenges facing Takaful companies is the need to ensure that the objectives set by an operator's Shariah board are consistent with key performance indicators based on conventionally sound financials and risk management. That includes establishing processes to address all material risks, despite challenges presented by the limited capacity of re-Takaful, and including concentration risks presented by restrictive investment guidelines and the limited diversity of the current Takaful marketplace.

Going forward, AM Best believes that the main opportunities and challenges for the sector overall are the development of more robust life insurance platforms and compulsory lines such as third party motor and health liability. Critically, its analysis has not yet ascertained whether Takaful companies offer any competitive advantage with the market environment, suggesting that it is debatable whether there is actually any untapped demand (especially in the Family Takaful business) due to strictly religious beliefs – and whether this can be unlocked easily through the greater availability of Takaful products. — *SW*

In this issue...

Bancassurance for BMI Bank

BAHRAIN: BMI Bank has entered into a strategic partnership with Medgulf Allianz Takaful which will allow the bank to offer customers life and non-life insurance and Takaful products.

The service will be offered via the bank's recently formed bancassurance umbrella.

Takaful tie-up

QATAR: Barwa Bank has entered into a partnership with Allianz Takaful – QFC Branch to offer Takaful products to its customers.

The new products include children's education, retirement, Life Takaful and investment plans denominated in Qatari riyals and US dollars.

In good hands

MALAYSIA: The rating outlook for Malaysia's insurance market next year is stable, supported by sound operating profitability, steady market growth and manageable exposure to investment risks, according to Fitch.

The report added that the entry of new Family Takaful operators will create competition for conventional Life insurers.

Bermuda seizes Takaful opportunity

Bermuda is keen to attract Middle Eastern Takaful and re-Takaful companies as part of its strategy to bolster the island's stature as a leading Islamic finance center. CHERYL PACKWOOD discusses.

Bermuda has grown into the world's largest insurance and re-insurance center. The island is constantly alert to changes in the organization of global business that may have implications for how companies choose to organize their insurance requirements. As a result, Bermuda has the world's most supportive legal and regulatory framework, an established captive insurance and reinsurance market and all the support services that a business may need.

Bermuda's Islamic finance sector is large and growing fast. Its working partnerships with the financial centers in the Middle East such as Bahrain have been diligently fostered in order to develop synergies and mutually beneficial partnerships. Business Bermuda, Bermuda's promotional organization for finance and business, was a participant at the recent World Islamic Finance Conference held in Bahrain in November 2011.

Bermuda has invested resources and expertise in providing a highly supportive framework for the Takaful and re-Takaful industry.

This talent and expertise has enabled Bermuda to become an increasingly trusted jurisdiction for structured financial transactions, such as Sukuk and Shariah compliant funds, including private equity funds.

The island has become a global pace-setter for Sukuk issuance for aircraft financing. It is the first international financial center integral to the first issuance of a Sukuk by a Fortune 500 company.

Takaful opportunities

The next logical step is to achieve the same central role in Takaful. Although the global downturn slowed the growth of Takaful, as it affected every aspect of the insurance industry, this has not offered a visible deterrent, and evidence still overwhelmingly suggests that Takaful is set to continue as the fastest accelerating area of insurance.

Growth for Takaful companies

Bermuda is well placed to welcome Islamic financial structures, not least in Takaful and re-Takaful. The government of Bermuda signed a double taxation agreement with Bahrain in 2010 which opened up structural opportunities for both conventional and Shariah compliant investors eager to access the oil and gas rich nations of the GCC.

> ***"Bermuda has invested resources and expertise in providing a highly supportive framework for the Takaful and re-Takaful industry"***

Bermuda's traditional links with a range of different regions enables it first to identify and then supply the requirements of a remarkably diverse range of users of Takaful and other Islamic products and services. In spite of a widespread assumption that Takaful on any large scale is confined to the GCC markets, the reality is much more interesting.

It is certainly true that Takaful remains a strong market in Saudi Arabia because of the continued roll out of compulsory medical insurance. But, as measured by regions, the latest comparative figures for 2011 indicate that Takaful contributions in the Indian subcontinent grew by no less than 85%, making it the world's fastest growing Takaful market.

Following some way behind has been the Levant (comprising Lebanon, Syria, Jordan, Israel, Palestine, Turkey and Iraq) with 40%. The GCC, at 31%, comes in only third - barely ahead of Southeast Asia and Africa. In terms of individual countries, Indonesia topped the Takaful market, closely followed by Bangladesh and with Saudi Arabia in third place. In future, the GCC could be the most competitive market in the world, with the largest number of players and the greatest capacity for growth.

Challenges

But as the market grows, problems will arise that will preclude many jurisdictions from benefiting to the degree they might expect. For instance, the primary Takaful market cannot keep growing – and be truly compliant, in the judgment of many Islamic scholars – unless it is matched by the development of a reasonably sized re-Takaful market.

This is where Bermuda is ahead of the competition, because it already has in place the legislative and regulatory structures to accommodate re-Takaful as well as primary Takaful structures.

These structures are practical, realistic, and responsive to industry needs as they are the result of cooperation between the Bermuda Monetary Authority and the industry. As a result, Takaful and re-Takaful operators can tap into Bermuda's resources to leverage access to capital as well as expertise, products and systems.

This can be done without the risks of uncertainty, excessive profit, usury and gambling that can be problematic for conventional insurance.

The Bermudian authorities appreciate how important it is to honour the key distinction between conventional insurance and Takaful – namely the relationships between the insurance company and the policyholders.

Bermuda is also sensitive to the fact that there is no 'one-size-fits-all' approach to Takaful and the most suitable structure will depend on the particular product in question.

Cheryl Packwood is the CEO of Business Bermuda and she can be contacted at cpackwood@businessbermuda.org.

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

A While there will be volatility, Islamic finance is at a point where this will be overcome. There are investment and financing opportunities in many parts of the world, particularly Asia and Africa, that would benefit from Islamic finance and I believe that despite the current crisis, these will be financed and an increasing proportion of them will be financed in accordance with Shariah.

DAUD VICARY ABDULLAH
President & CEO, INCEIF

A There is indeed much uncertainty in the global economy deterring cross-border flows. Islamic banks have little exposure in the Eurozone or the US, but within the Middle East the Arab Spring continues to have adverse financial consequences.

The volatility in global markets may however encourage some in the Islamic finance industry to focus on their home markets or in their home region. The election of parties favoring Islamic finance in Tunisia and Egypt may create opportunities for Gulf investments in those countries. The new Tunisian government is already considering tax concessions to encourage Islamic finance. Although cross-border investors face increased risk, there are also new opportunities. As always the challenge is to achieve the optimal balance between immediate and short-term risk in volatile markets and laying the foundations for longer-term returns.

PROFESSOR RODNEY WILSON
Director of postgraduate studies, Durham University

Next Forum Question:

"What were the key developments in the Islamic finance industry in 2011? What major issues were raised and what lessons we can learn from them? What is in store for the industry in 2012?"

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.

Srikandi Utami, vice-president and head of Shariah, Sun Life Financial Indonesia

Srikandi Utami is the vice-president and the head of Shariah at Sun Life Financial Indonesia, where she is responsible for building individual and group Takaful business through the distribution channels of the agency, including bancassurance, worksite marketing and telemarketing, as well as developing new Takaful products for all distribution channels.

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

I started my career in an insurance company in 1992 whereby I was responsible for marketing the life insurance products.

In 2005, I had the opportunity to build the Takaful unit in my previous company, including building the distribution channel.

I have worked in the life insurance industry for more than 19 years, focusing on marketing management.

Over the past six years, I have gained experience developing Takaful business in several multinational companies.

I am an active member of the Shariah Association of Indonesia and Islamic Center Forum of Indonesia.

What does your role involve?

Implementing business strategies for the Takaful business through the agency distribution channel; building the Takaful brand for Sun Life; ensuring that the products, operations and financial reporting comply with Shariah principles; acquiring new business partners; and building and maintaining a good relationship with the ministry of finance, Shariah National Board and Shariah Supervisory Board.

What is your greatest achievement to date?

My greatest achievement is receiving the 'CEO's Award of Excellence' for building the Takaful business in Indonesia in 2010.

Which of your products/ services deliver the best results?

Our regular unit-linked product with riders has contributed to 95% of the total Takaful business.

What are the strengths of your business?

At present we are still using the agency force as a channel to sell our Takaful products.

In 2012, we are planning to sell our products through telemarketing since the infrastructure is already in place.

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

Our sales team has a good knowledge of Takaful and they are experienced in selling Takaful products and marketing our company brand.

What are the obstacles faced in running your business today?

The Takaful and the conventional business unit use the same agency force to market both the products.

Hence we need to have a strategic plan to sell our Takaful products efficiently, as most of the agency forces are not very experienced in selling Takaful products.

We are currently building a Takaful bancassurance sales academy to ensure that we have good quality trainers with which to build the sales team.

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

The Islamic finance industry will be able to significantly contribute to the banking system compared with its conventional counterpart over the next five years.

The industry has a bright future ahead with a growing recognition globally.

> ***"It is important for Islamic banking to be part of the global banking system and banks should use Islamic finance as a model in their efforts to increase consumer confidence and build a better future"***

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

It is important for Islamic banking to be part of the global banking system and banks should use Islamic finance as a model in their efforts to increase consumer confidence and build a better future.

Abu Dhabi Islamic Bank's five-year US$500 million Sukuk

Abu Dhabi Islamic Bank (ADIB) successfully returned to the Sukuk market with the issuance of their US$500 million five-year Sukuk (Reg S fixed rate trust certificates) issued at a profit rate of 3.78%. The transaction marks the third such benchmark deal by ADIB under its US$5 billion trust certificates issuance program, initiated in 2007.

The transaction followed a series of investor meetings across Asia, the Middle East and Europe. Books opened in London on the 21st November 2011 with a pricing thought to be in the region of the mid-200s. A pricing guidance of 250 +/- 5 basis points (bps) was released on Tuesday 22nd November at the London opening. Accounts reacted positively, allowing ADIB to close the books and price on the same afternoon at the tight end of the price guidance, at a spread of 245 bps over midswaps.

The ADIB Sukuk was well-received by investors, accumulating an order book of over US$2 billion across 122 investors. The book was driven by broad demand across three regions, with allocations of 57% to Middle East investors, 29% to Europe and 13% to Asia. By investor type, the split was 52% to banks, 28% to fund managers, 16% to central banks and agencies, 2% to private banks and 2% to other investors.

The maturity date of the Sukuk, rated 'A2' (stable outlook) and 'A+' (stable outlook) by Moody's and Fitch respectively, is the 30th November 2016. ADIB last tapped the debt markets when it issued its debut five-year US$750 million Sukuk with a 3.745 per cent coupon in October 2010.

Commenting on the Sukuk issuance Tirad Mahmoud, CEO of ADIB, said: "We are pleased with the strong support from investors for ADIB's third benchmark Sukuk issuance. This transaction reflects the strong demand from investors for our rare and highly rated credit and proves that investors around the globe remain highly receptive to our institution. This Sukuk has further strengthened ADIB's balance sheet and delivered our primary aim of diversifying and lengthening the average maturity of our funding sources. It will allow us to better manage our successful customer-centric growth strategy."

The certificates will be issued by ADIB Sukuk Company and are expected to settle on the 30th November 2011 and to be listed on the London Stock Exchange.

ADIB, Citibank, HSBC, National Bank of Abu Dhabi, Nomura and Standard Chartered Bank were the joint lead managers and bookrunners for the offering.

> ***"This transaction reflects the strong demand from investors for our rare and highly rated credit"***

Having reported a record quarterly profit in the third quarter ended the 30th September 2011, ADIB appears to have largely recovered from the downturn; although the bank continues to maintain a cautious stance for next year due to prevailing global economic uncertainty.

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

While some concerns remain over aspects of its balance sheet, the bank has been able to build up other areas of its business to offset these weaknesses while moving to plug the gaps where it remains vulnerable. — *SW*

ADIB Sukuk Company

30th November 2011

Issuer	ADIB Sukuk Company
Obligor	Abu Dhabi Islamic Bank
Issuance price	US$500 million
Issuance date	30th November 2011
Tenor	Five years
Coupon rate / return	3.78%
Purpose of issuance	To strengthen ADIB's balance sheet as well as diversifying and lengthening the average maturity of its funding sources.
Payment	30th May and 30th November of each year
Currency	US dollar
Maturity date	30th November 2016
Joint lead managers and bookrunners	Abu Dhabi Islamic Bank, Citigroup Global Markets, HSBC Bank, National Bank of Abu Dhabi, Nomura International, Standard Chartered Bank
Senior co-lead manager	Al Hilal Bank
Co-lead managers	Qatar International Islamic Bank Sharjah Islamic Bank
Governing law	English
Investor breakdown	57% to Middle East investors, 29% to Europe and 13% to Asia. By investor type, the split was 52% to banks, 28% to fund managers, 16% to central banks and agencies, 2% to private banks and 2% to other investors
Listing	London Stock Exchange
Rating	'A2' by Moody's and 'A+' by Fitch
ISIN code:	XS0711035286
Common code:	071103528
Face value / minimum investment	US$200,000 and integral multiples of US$1,000 in excess thereof

ISSUER	SIZE	DATE ANNOUNCED
General Authority of Civil Aviation	US$7.2 billion	11th December 2011
South Africa	TBA	6th December 2011
KMCOB Capital	RM343.1 million	5th December 2011
Emirates NBD	TBA	29th November 2011
Solum Asset Management	TBA	27th November 2011
Indonesian finance ministry	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

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partner, Mallesons Stephen Jaques

BANGLADESH: Md Shamsuzzaman
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EGYPT: Dr Walid Hegazy
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head of Islamic finance, Paris Europlace

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president director, BNI Syariah

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Shariah funds assurance partner, PwC Ireland

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

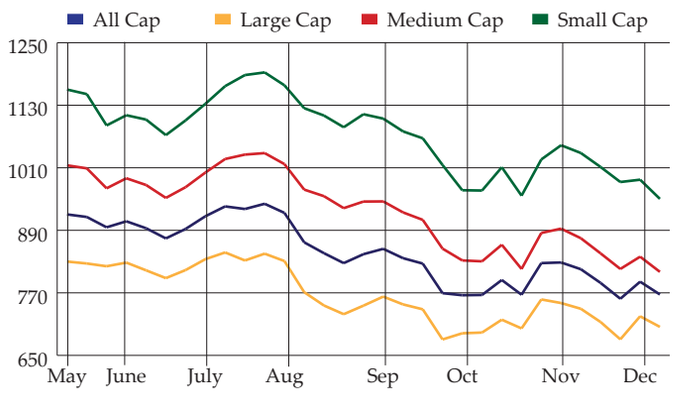
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

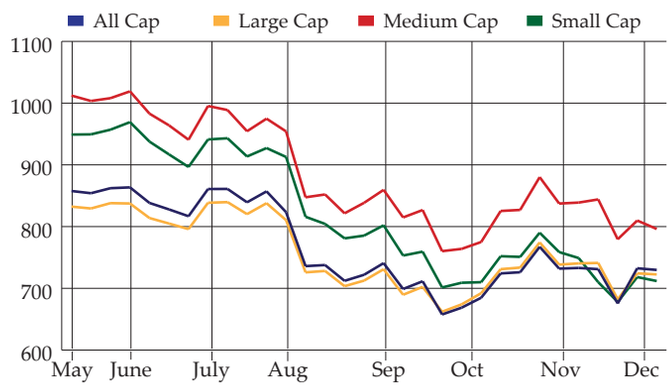
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

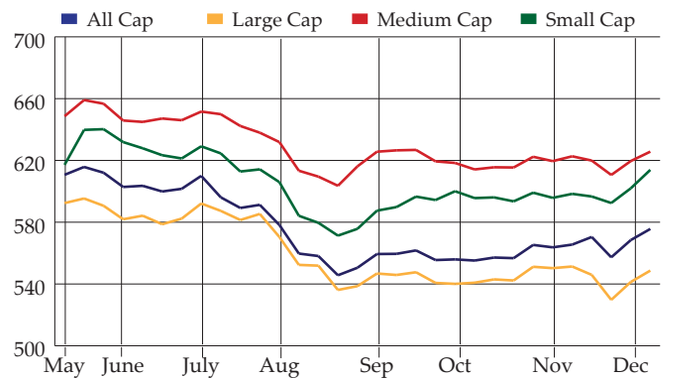
REDmoney Asia ex. Japan *6 Months*



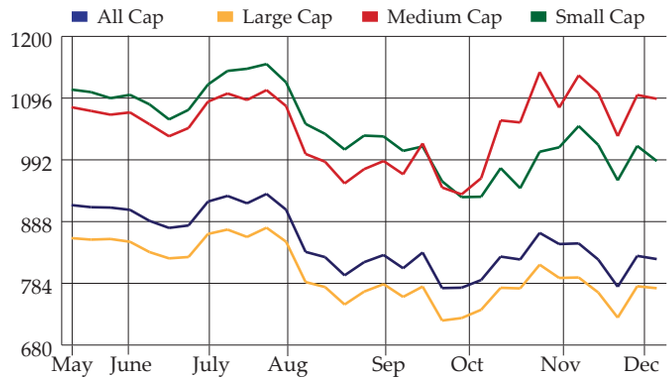
REDmoney Europe *6 Months*



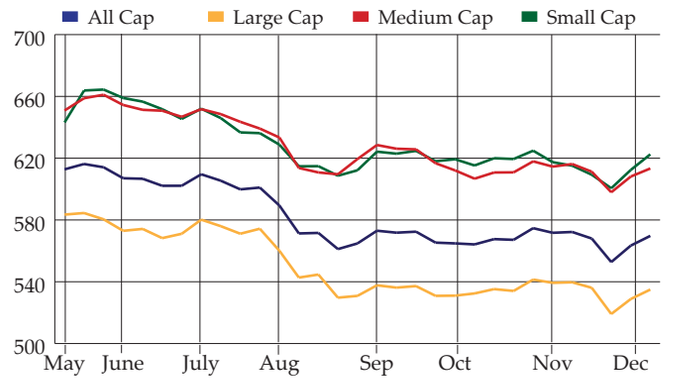
REDmoney GCC *6 Months*



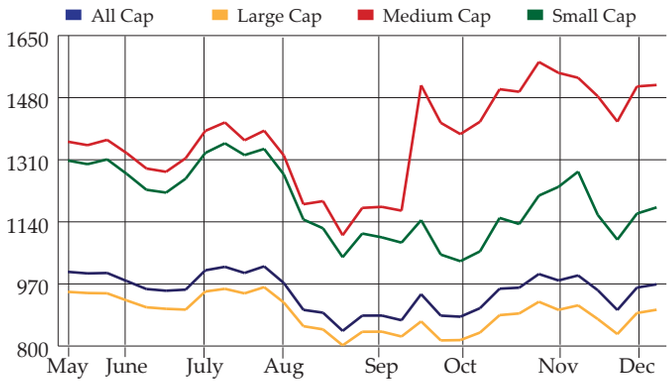
REDmoney Global *6 Months*



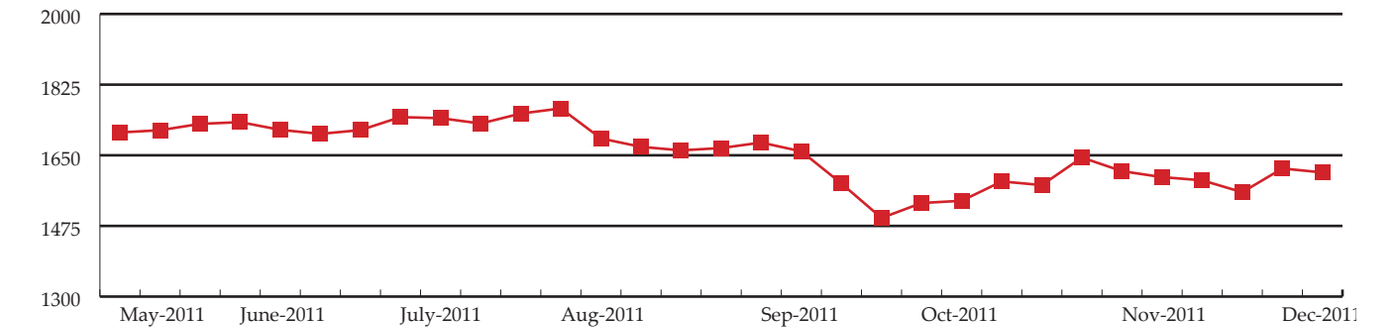
REDmoney MENA *6 Months*



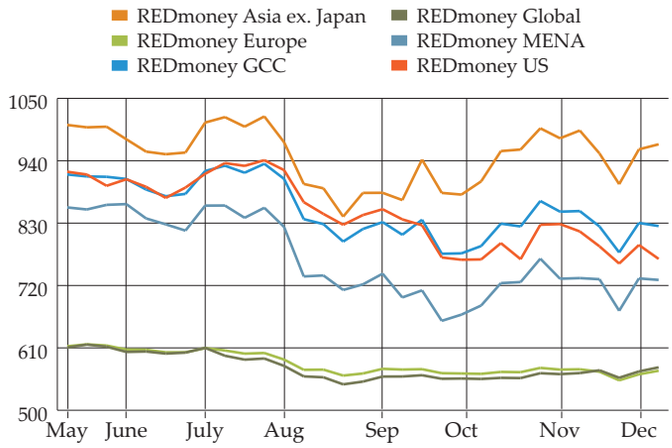
REDmoney US *6 Months*



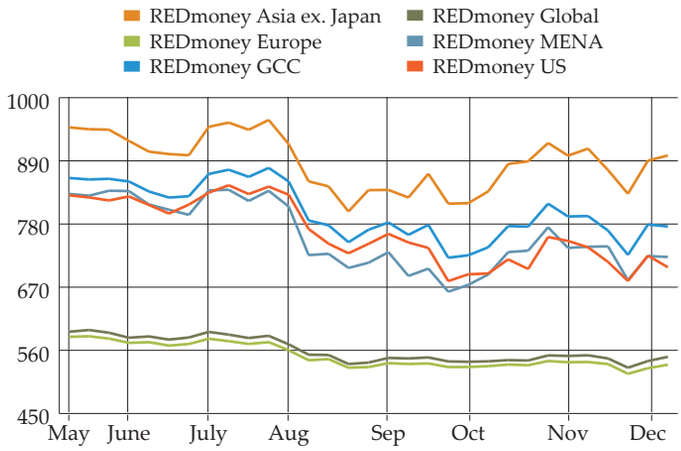
SAMI Halal Food Participation (All Cap) *6 months*



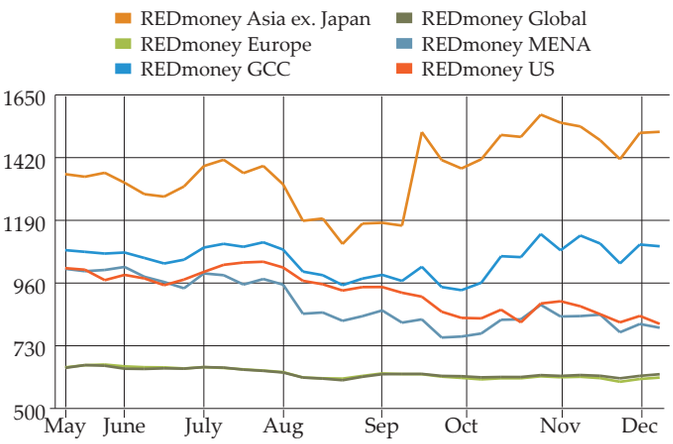
REDmoney Global Shariah Index Series (All Cap) *6 Months*



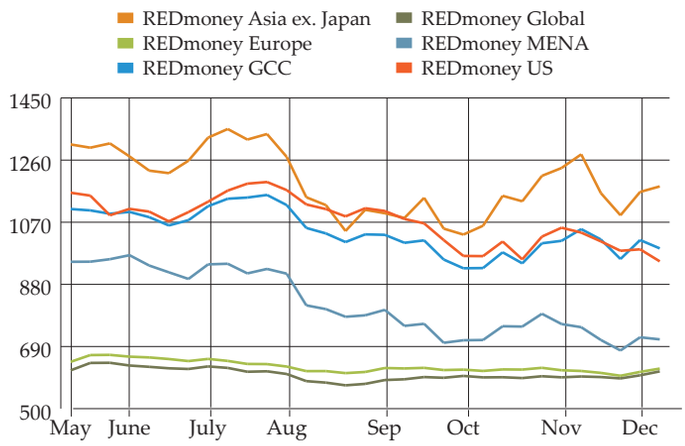
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



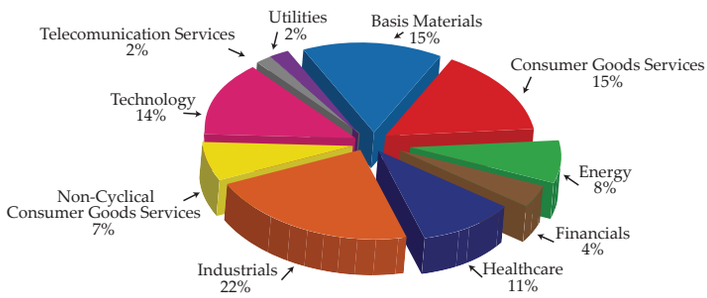
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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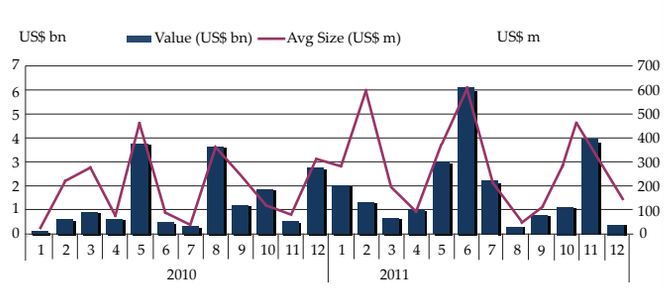
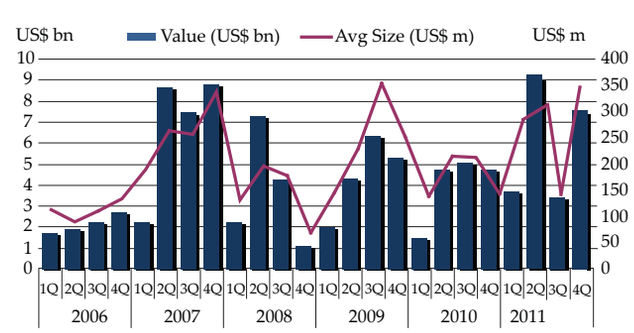
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
5th Dec 2011	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	JPMorgan
28th Nov 2011	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	132	Maybank Investment Bank
28th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	194	CIMB Group
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	770	CIMB Group, Maybank Investment Bank
22nd Nov 2011	ADIB Sukuk	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	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, Abu Dhabi Islamic Bank, Commerzbank Group
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	190	Public Bank, AmInvestment Bank
14th Sep 2011	MISC	Malaysia	Sukuk	Domestic market public issue	263	HSBC, CIMB Group, AmInvestment Bank
13th Sep 2011	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	101	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Aug 2011	Kencana Petroleum	Malaysia	Sukuk	Domestic market private placement	167	AmInvestment Bank
26th Jul 2011	Syarikat Prasarana Negara	Malaysia	Sukuk	Domestic market public issue	667	CIMB Group, Maybank Investment Bank
26th Jul 2011	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	Standard Chartered, HSBC, Citigroup
21st Jul 2011	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	AmInvestment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	3,598	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	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
5	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
6	GovCo Holdings	Malaysia	Sukuk	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
7	ANIH	Malaysia	Sukuk	Domestic market private placement	964	2	CIMB Group, Maybank Investment Bank
8	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
8	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
10	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	732	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
11	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
12	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
13	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
13	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
13	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
13	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
17	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
18	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	409	11	CIMB Group, AmInvestment Bank, Maybank Investment Bank
19	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
20	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	374	2	Maybank Investment Bank, CIMB Group
21	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
22	Maybank Islamic	Malaysia	Sukuk	Domestic market private placement	330	1	Maybank Investment Bank
23	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	1	JPMorgan
24	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
25	Bank Aljazira	Saudi Arabia	Sukuk	Domestic market private placement	267	1	JPMorgan, HSBC
26	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
27	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	263	3	CIMB Group, AmInvestment Bank, Maybank Investment Bank
28	MISC	Malaysia	Sukuk	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				**23,760**	**92**	

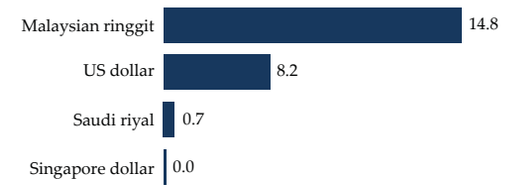
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	5,367	35	22.6
2	Maybank Investment Bank	4,719	30	19.9
3	HSBC	3,468	15	14.6
4	AmInvestment Bank	1,943	27	8.2
5	Standard Chartered Bank	1,689	10	7.1
6	Citigroup	1,383	5	5.8
7	RHB Capital	1,018	6	4.3
8	Lembaga Tabung Haji	919	3	3.9
9	JPMorgan	558	3	2.4
10	BNP Paribas	438	2	1.8
11	Deutsche Bank	427	2	1.8
12	Riyad Bank	240	1	1.0
13	RBS	220	2	0.9
14	OCBC	168	6	0.7
15	Abu Dhabi Islamic Bank	153	2	0.7
16	Bank of America Merrill Lynch	125	1	0.5
16	Abu Dhabi Commercial Bank	125	1	0.5
18	DRB-HICOM	123	2	0.5
19	Public Bank	118	4	0.5
20	Affin Investment Bank	111	3	0.5
21	KFH	109	2	0.5
22	Nomura	83	1	0.4
22	National Bank of Abu Dhabi	83	1	0.4
24	Commerzbank Group	70	1	0.3
25	Hong Leong Bank	46	3	0.2
26	Malaysian Industrial Development Finance	40	1	0.2
27	OSK	13	2	0.1
28	Mitsubishi UFJ Financial Group	1	1	0.0
	Total	**23,760**	**92**	**100.0**

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

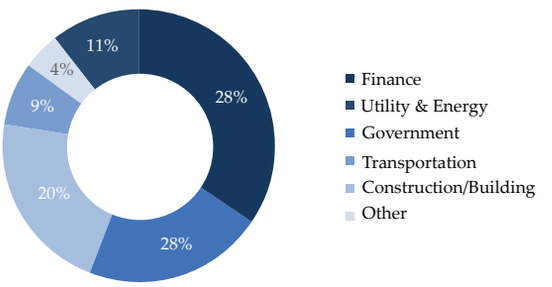
	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	596	2	24.3
2	Arab National Bank	138	1	5.6
2	Public Investment Fund	138	1	5.6
2	Riyad Bank	138	1	5.6
5	Samba Financial Group	128	2	5.2
6	Boubyan Bank	86	1	3.5
6	National Bank of Kuwait	86	1	3.5
8	Emirates NBD	86	2	3.5
9	Al-Rajhi Banking & Investment	68	1	2.8
9	Alinma Bank	68	1	2.8
9	Bank Al-Jazira	68	1	2.8

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

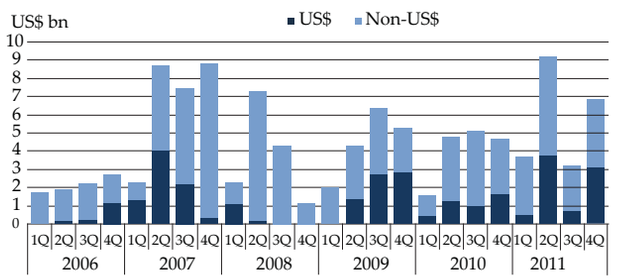


Sukuk Volume by Issuer Nation US$ (billion) *12 Months*

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	1,200	1	26.3
1	Baker & McKenzie	1,200	1	26.3
1	Clifford Chance	1,200	1	26.3
4	Afridi & Angell	267	1	5.8
4	Herbert Smith Gleiss Lutz Stibbe	267	1	5.8
4	Latham & Watkins	267	1	5.8

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	887	4	13.7
2	Samba Capital	586	3	9.0
3	Abu Dhabi Islamic Bank	581	5	9.0
4	Citigroup	425	6	6.5
5	Saudi National Commercial Bank	333	1	5.1
5	Banque Saudi Fransi	333	1	5.1
7	Standard Chartered Bank	280	6	4.3
8	RBS	233	1	3.6
9	CIMB Group	216	2	3.3
10	Bank of America Merrill Lynch	180	3	2.8
11	RHB Capital	164	1	2.5
11	Maybank Investment Bank	164	1	2.5
11	Lembaga Tabung Haji	164	1	2.5
11	AmInvestment Bank	164	1	2.5
15	Arab Banking Corporation	162	3	2.5
16	Deutsche Bank	150	1	2.3
17	Noor Islamic Bank	147	2	2.3
18	Dubai Islamic Bank	108	1	1.7
18	Barwa Bank	108	1	1.7
20	Emirates NBD	106	2	1.6
21	Bank of China	93	1	1.4
22	WestLB	70	2	1.1
23	Bank Al-Jazira	68	1	1.1
23	Alinma Bank	68	1	1.1
23	Al-Rajhi Banking & Investment	68	1	1.1
26	National Bank of Abu Dhabi	61	1	0.9
26	Commerzbank Group	61	1	0.9
28	Mizuho	53	1	0.8
29	Bank Muamalat Malaysia	52	1	0.8
30	Bank Syariah Mandiri	51	2	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	24.1
2	Abu Dhabi Islamic Bank	718	5	11.1
3	Citigroup	524	6	8.1
4	RBS	233	1	3.6
4	HSBC	233	1	3.6
6	Dubai Islamic Bank	215	1	3.3
7	Standard Chartered Bank	165	3	2.6
8	Bank of China	93	1	1.4
9	National Bank of Kuwait	87	1	1.3
10	PT Bank Syariah Mandiri	51	2	0.8

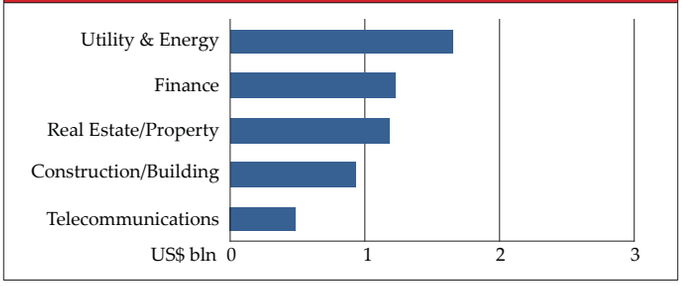
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2010	Saudi Electricity	Saudi Arabia	1,333
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World - DP World	UAE	850
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
31st Mar 2011	National Central Cooling (Tabreed)	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

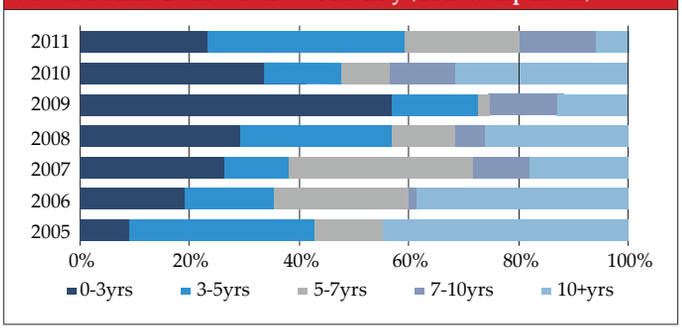
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	UAE	1,984	9	30.6
2	Saudi Arabia	1,748	3	26.9
3	Turkey	988	5	15.2
4	Malaysia	926	2	14.3
5	Indonesia	501	3	7.7
6	China	93	1	1.4
7	Kuwait	87	1	1.3
8	Pakistan	60	2	0.9
9	Russian Federation	60	1	0.9
10	Bahrain	45	1	0.7

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

27th – 28th March 2012
2nd Annual World Islamic Finance Conference
London *(Fleming Gulf)*

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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