Islamic Finance news

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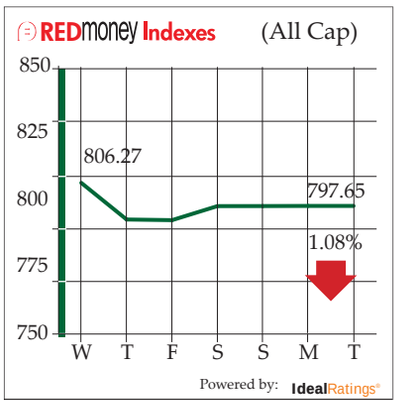

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2011: A year in review

Cover Story

As yet another year rolls to a close, we take a look back at the past 12 months to see who were the big winners, who trailed behind, and what we can expect for 2012. Using exclusive data from our partners at Dealogic and EurekaHedge, Islamic Finance *news* brings you a yearly round-up of the key issues, controversial topics, hot deals and vital statistics of 2011, to give you a comprehensive overview of the industry in figures over the last year.

Bringing you the hottest topics

One of the biggest issues affecting the Islamic finance industry has been the Arab spring and ensuing political turmoil ricocheting through some of the leading hubs for Islamic finance in the Middle East and Africa: including Bahrain, Saudi Arabia and Egypt.

Following the launch of our celebrated new format in June 2011, the all-new Islamic Finance *news* featured its first cover story on the prospects for the Middle East Islamic finance industry following the political upheaval. In our usual genre-defining style, IFN focused on the positive aspects rather than jumping on the popular bandwagon of gloom, pointing out that the markets were still buoyant, Sukuk was still selling, and money was still moving.

We have continued to focus on supporting the industry throughout the year, with our recent December cover (Vol 8 Issue 48) exploring the surprisingly good state of the Bahrain markets following its year of crisis.

Other hot topics over the year have included the serious crisis in human capital for the industry; the urgent issues of risk management and tax reforms; the dangerous topic of derivatives and how the industry can hope to handle them; the prospects for sovereign Sukuk and the urgent need for more countries to start issuing benchmarks; the controversy surrounding commodity Murabahah; the new world of political risk insurance and its opportunities for Islamic finance; and the enduring popularity of property.

In country-specific reports, we have brought to the fore the strong potential of Turkey as a center for Islamic finance; the issues inherent for the sector in the US; the competing hubs of Europe (with the UK, France, and Luxembourg all dancing to be first); the impact of the Eurozone crisis on the industry; the increasing attractions of CIS countries such as Kazakhstan; and the challenges facing Iran as it struggles to deal with sanctions.

Malaysia dominates deals

In 2011 Malaysia was once again the biggest issuer of Islamic bonds by country by a considerable margin, accounting for 68.1% with a total deal value of US$15.46 billion. The UAE trailed behind a distant second with 11.2% and a total value of US$2.55 billion, less than a sixth of Malaysia's total. Saudi Arabia came third with 6.6% of deals and a total deal value of US$1.49 billion, while Bahrain and Indonesia accounted for 4.6% and 4.4%, at US$1.05 billion and US$1 billion, respectively. The UK was the only

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Until next year...

Editor's Note

With 2011 drawing to a close, we have reached this year's final issue of Islamic Finance news. This year, our publication has grown and evolved in tandem with the growth of Islamic finance, as we reinforce our commitment to remain at the forefront of assessing and reporting on the industry's ups and downs.

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NEWS

Introduction of Islamic financing to complete Tunisia's financial and banking landscape, says **Amen Bank**

National Bank for Development joins hands with **ADIB** to unveil Daily Investment Account

Banco Pine completes maiden Islamic funding operation with **Al Rajhi Bank**

Outlook for Pakistan's banking system remains negative, says **Moody's**

Sarawak Energy to sell US$469 million-worth of Sukuk in January 2012

Indonesia's banking system outlook is stable, says **Moody's**

Goldman Sachs remains confident of US$2 billion Sukuk's Shariah compliance

GCC corporate banking profitability in recovery mode from 2008 crisis

Indonesia's local Islamic banking industry will not be hit by global economic crisis, says central bank

Raub Australian Gold Mining in US$6 million Murabahah financing agreement with **Alkhair International Islamic Bank**

IDB inks US$60 million Ijarah financing deal with **Star Hydro Power** for hydropower project

Islamic banking asset market share in Malaysia could reach 25% in 2012, says **IBFIM**

Indonesia's central bank sees US$21.78 billion in local Islamic banking assets by the end of 2012

Scomi Group gets **Securities Commission Malaysia** greenlight for US$107 million Sukuk

PLUS said to price US$6.17 billion Sukuk to yield 5%

Bank Islam seeks third IPO to boost non-fund based income

Qatar Central Bank means business in separation of Islamic and conventional banking assets

Indonesia regains investment grade status after 14 years

Pakistan to hold auction for US$558 million Sukuk Ijarah

Bank Syariah Mandiri indicates 10% yield for US$55 million subordinated Sukuk

India must reconsider stand on Islamic finance, say experts

Emery Oleochemicals Group delays plan to issue US$151 million Sukuk to the second quarter of 2012

Amana Takaful gives up bid for universal health insurance partnership with government

Friends Life and **AMAB Holdings** in Takaful joint venture

HSBC Amanah to focus on Middle East and Asian emerging markets

Albaraka Türk Katılım Bankası delays planned issuance of US$200 million Sukuk

More Arab banks eye Turkey's Islamic banking market, says **Union of Arab Banks** chief

UK's decision to delay sovereign Sukuk is stumbling block for local Islamic finance industry

IIFM expects templates for key risk mitigation products to be completed in early 2012

Islamic financial institutions vulnerable to potential risk and liquidity shocks, says the **Central Bank of Bahrain**

Saudi Binladin Group signs US$2.3 billion syndicated Islamic facilities with 12 banks

HSBC plans to grow Islamic banking presence in Malaysia and Indonesia

The **Gulf Bond and Sukuk Association** has published a compendium of nascent of markets for local currency government issued instruments

StanChart sees slow growth in the Middle East

Islamic banking seen as key export from the UAE to Spain

Qatar Petroleum completes funding for US$10.4 billion Barzan gas project

Saudi Arabia replaces the UAE and Bahrain as the Gulf's top financial center, says **World Economic Forum**

Emirates NBD likely to witness decline in capital if **Amlak** takeover emerges

BankMuscat to set up Islamic banking window

Conventional banks can carry on offering Islamic financial services, says **Qatar Central Bank**

Emaar Properties inks Islamic and conventional financing facility worth US$980 million with three banks

Qatar Central Bank has no plans to revoke decision to shut down conventional banks' Islamic windows by year-end

Orascom Construction Industries hired for **Palm Hills-Burooj Properties**' Egypt project

INVESTOR

Nikko AM Asset Management enters into a JV with **Ambit Holdings** to provide investment management and advisory services in India

ASM Investment Services seeks to convert seven conventional funds into Islamic by the end of 2013

Public Mutual launches Public Islamic Savings Fund

Employees Provident Fund reports 18.32% year-on-year growth in investment income in the third quarter of 2011

Malaysia's Islamic investment industry must dispel misconceptions of Muslim exclusivity

HSBC Saudi Arabia launches HSBC Amanah Saudi Freestyle Equity Fund

RATINGS

RAM reaffirms enhanced 'AAA(s)' rating of **KL International Airport**'s US$1.27 billion Islamic notes

Fitch downgrades **Commercial Bank of Dubai**'s viability rating to 'bb+' from 'bbb-'

MARC affirms 'AAID' rating on **Instacom SPV**'s Murabahah medium-term notes program

S&P reviews ratings on 17 Arab Mediterranean banks and related subsidiaries

Moody's assigns 'Ba1' insurance financial strength rating to **National Takaful Insurance Company**

S&P upgrades **Gulf Bank**'s long-term credit rating from 'BBB-' to 'BBB'

MOVES

European Islamic Investment Bank names **Zulfi Caar Hydari** as CEO

Saudi Arabian Monetary Agency appoints **Fahd Abdullah Al-Mubarak** as governor

StanChart names **V Shankar** as group executive director with effect from the 1st January 2012

Social Islami Bank names **Md Aminul Haq** as chairman

2011: A year in review

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Top 10 Islamic Bonds by Country — 2011 YTD

Rank	Deal Nationality	Deal Value ($) (m)	No.	% share
1	Malaysia	15,468	71	68.1
2	UAE	2,550	5	11.2
3	Saudi Arabia	1,497	3	6.6
4	Bahrain	1,050	2	4.6
5	Indonesia	1,000	1	4.4
6	UK	500	1	2.2
7	Turkey	350	1	1.5
8	Kuwait	250	1	1.1
9	Singapore	42	1	0.2

European nation to appear in the top 10 with 2.2% of deals valued at US$500 million, while Turkey, Singapore and Kuwait rounded the list out with 1.5%, 1% and 0.2%.

CIMB Group was the leading bookrunner for Islamic bonds, accounting for 21% of 2011 deals to a value of US$4.75 billion from 32 transactions. Maybank Investment Bank was a close second with 28 deals amounting to US$4.4 billion, taking 19.4% of the market. HSBC completed the Big Three, taking 15% in 14 deals to a value of US$3.4 billion. Following behind these players came AmInvestment Bank with 8.5%, Standard Chartered with 7.4% and Citi with 6.1%. Malaysian banks unsurprisingly dominated, although JP Morgan and BNP Paribas made it in at 9th and 10th with 2.5% and 1.9% respectively.

Corporates catch the big fish

Interestingly, despite the reports of depressed corporate Sukuk issuances this year due to the global financial crisis, sovereign bonds accounted for just four of the top 20 deals in 2011, highlighting the need for countries to issue benchmark deals to set standards for the industry, especially in up-and-coming jurisdictions (as discussed by Islamic Finance *news* in September: see Vol 8 Issue 35, 'Sovereign Sukuk: Is it all just talk?')

Having said that, three of the top 10 deals of the year were indeed sovereign issuances. The largest deal of 2011 was Malaysia's sovereign Wakalah Global Sukuk in June for US$2 billion, arranged by CIMB and Maybank. Coming in fourth was Indonesia's November US$1 billion Perusahaan Penerbit 144a/RegS Ijarah issue, while Malaysia's US$985 million GovCo Holdings Sukuk Murabahah in February came in sixth and Bahrain's US$750 million RegS Sukuk issuance on the 16th November came in 10th.

Malaysia accounted for 10 of the top 20 biggest deals in 2011, with the UAE issuing five, Saudi Arabia two, and the UK and Bahrain one each. The largest corporate deal came from Malaysia's Pengurusan Air SPV in June, with a US$1.9 billion private placement; closely followed by Manjung Island Energy's US$1.5 billion issuance in October. The only non-Malaysian corporate issuance in the top 10 came from the IDB, with its US$750 billion Sukuk in May. Aside from this, non-Malaysian corporates put on a relatively poor showing, with the largest deals coming from Bahrain with First Gulf Bank's US$650 million Sukuk Wakalah in June, and the UAE with Emaar Sukuk's US$500 million issuance in January. HSBC Middle East achieved the only European offering in the top 20, issuing a US$500 million Sukuk in the UK in May.

UAE top for loans

In contrast to Islamic bond deals, Malaysia trailed behind the UAE in 2011 when it came to Islamic finance-related loans, accounting for 23.6% at a total value of US$1.19 billion compared to the leading lender, the UAE, which captured 31.8% at a value of US$1.6 billion.

Demonstrating its impressive growth potential, Turkey was the next biggest lender with US$988 million-worth , or 19.6%, while Indonesia accounted for 9.9% with US$501 million and Indonesia for 8.2% with US$415 million. Distantly

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CLOSING BELL

KING & SPALDING

GLOBAL: Legal firm King & Spalding has added five lawyers to its Middle East practice, all of whom will be involved in the firm's Islamic finance business.

The lawyers include **Phillip Sacks**, who will be involved in the firm's investment funds practice, including Shariah compliant investment funds. Sacks was previously attached to law firm Walkers in the Cayman and British Virgin Islands.

Good market for mortgages

INDONESIA: Bank Muamalat Indonesia (BMI) sees high demand for mortgages from retail banking customers next year.

The bank recently signed a MoU with Sarana Multigriya Financial to expand its mortgages, offering IDR100 billion (US$10.96 million)-worth of financing.

For the third quarter of this year, Islamic mortgages accounted for 28%, or IDR3.6 trillion (US$395 million), of BMI's IDR119.4 trillion (US$13.09 million) retail financing portfolio.

Highway-backed Sukuk

PAKISTAN: The government will reportedly issue PKR50 billion (US$588.19 million)-worth of domestic Sukuk to finance its budget deficit.

The Sukuk will be backed by the M-2 Motorway, connecting Lahore and Islamabad, valued at PKR250 billion (US$2.78 million).

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following these top five came some more surprising participants. China flexed its muscle, despite seeing relatively slow growth in its domestic Islamic finance indsutry this year, coming in sixth with US$93 million or 1.8%.

Kuwait and Pakistan also made the top 10 with 1.7% and 1.2% respectively, while the Russian Federation made its entry with 1.2% or US$60 million in loans. Bahrain, showing the effects of its political troubles, came in 10th with 0.9% or US$45 billion.

Saudi Arabia was home to the biggest transaction of 2011, with Maaden Bauxite & Alumina Co's US$929 million loan in October, followed by the UAE with Dubai Ports World's US$850 million loan in September.

Malaysia saw only one loan make it into the top 10 of 2011 with Pembinaan BLT's US$822 million construction loan in July, while Turkey accounted for three of the top 10 loans: from AlBaraka Türk, Bank Asya, and Turkiye Finans, demonstrating the strength and growing size of its finance sector.

Citi headed the loans bookrunners with 10.4% of the market, to a value of US$524 million, followed by Abu Dhabi Islamic Bank with 6.7% or US$340 million. In comparison HSBC was the biggest lead arranger, accounting for 11% of deals to a value of US$553 million, followed by Citi with 8.4% or US$425 million. Interestingly no Malaysian bank made the top 10 bookrunners this year for loans, while only Maybank crept into the top 10 lead arrangers, in joint ninth place with 3.3% to a value of US$164 million.

Fixed income funds shine

Islamic fixed income funds performed the best of all fund classes in 2011, with the Eurekahedge Islamic Fund Fixed Income Index showing a YTD return of 2.45% in December 2011; one of the few indexes which saw a positive return.

The Pakistan-based Meezan Tahaffuz Pension Fund — Debt Sub Fund from Al Meezan Investment Management saw the strongest performance, with a 9.45% return, while Malaysia's Public Mutual also put on a strong showing with its PB Islamic Bond Fund returning 8.04% and the Public Islamic Bond Fund returning 6.83%.

Top 10 Islamic Funds for Islamic Equity Funds (2011 YTD Return)

Fund	Rank**	Fund Manager	Fund Domicile	2011 YTD return (%)
Eurekahedge Islamic Fund Equity Index				*-7.77*
BIMB Growth	1	BIMB UNIT Trust Management (BUTM)	Malaysia	16.67
Atlas Pension Islamic Fund — Equity Sub Fund	2	Atlas Asset Management	Pakistan	12.21
Meezan Tahaffuz Pension Fund - Equity Sub Fund	3	Al Meezan Investment Management Limited	Pakistan	8.01
Futuregrowth Albaraka Equity Fund	4	Futuregrowth Specialist Asset Management	South Africa	6.24
Azzad Ethical Mid Cap Fund	5	Azzad Asset Management	US	4.68
Prudential Dana Dinamik (PRUdana dinamik)	6	Prudential Fund Management	Malaysia	3.17
AlAhli US Trading Equity Fund	7	The National Commercial Bank	Saudi Arabia	2.64
Public Islamic Dividend Fund	8	Public Mutual Berhad	Malaysia	2.11
iShares MSCI USA Islamic	9	Barclays Global Investors Ireland	Germany	1.77
CIMB Islamic DALI Equity Theme Fund	10	CIMB-Principal Asset Management	Malaysia	1.66

*** - Based on 70.45% of funds which have reported November 2011 returns as at 19th December 2011*

Money market funds also put on a reasonable showing, which along with the strong fixed income performance suggests a flight to safety over the past year during the volatility of the global markets.

The Eurekahedge Islamic Fund Money Market Index returned 0.67% in 2011, with Pakistan's Al Meezan once again dominating performance: with its Meezan Tahaffuz Pension Fund — Money Market Sub Fund bringing in 10.34%. Pakistan's Atlas Asset Management's Atlas Pension Islamic Fund — Money Market Sub Fund also performed well with a 9.46% return, while Kuwait's Al Dar Money Market Fund by ADAM saw an annual return of 7.77%.

In contrast, Eurekahedge's Islamic Fund Balanced Index struggled somewhat in 2011, with an annual return of -3.94%. Indonesian Trimegah Securities' TRIM Syariah Berimbang fund performed the strongest with a return of 5.97%, while Malaysian AmInvestment Management's AmIslamic Balanced fund brought in 2.7%. However, many other funds struggled to see positive returns, with Saudi Al Rahji Bank's Al Rajhi Multi Asset Balanced Fund showing -0.22% and Malaysian Public Mutual's Public Islamic Balanced Fund giving a return of -0.53%.

Equities unsurprisingly volatile

The equity space was unsurprisingly the worst overall performer, with the Eurekahedge Islamic Fund Equity Index seeing an annual 2011 return of -7.77%. However, this asset class also

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displayed (once again, unsurprisingly) the highest volatility, with some players making big gains while smaller funds struggled. Malaysia's BIMB UNIT Trust Management brought in a return of 16.67% with its BIMB Growth fund, while Pakistan's Atlas Management achieved 12.21% with the Atlas Pension Islamic Fund — Equity Sub Fund.

Some of the top performers also came from less predictable regions, with South Africa's FutureGrowth Specialist Asset Management bringing in 6.24% with the Futuregrowth Albaraka Equity Fund, and US-based Azzad Asset Management seeing returns of 4.68% from its Azzad Ethical Mid Cap Fund.

Strong performance

Despite the relatively low average returns over the past year, and against the odds given the financial crises that have rocked the markets, performance has in fact been extremely positive compared to the conventional sector. According the Farhan Mumtaz, an analyst with Eurekahedge: "Islamic funds have performed exceptionally well in 2011. The average Islamic fund is down only 4.5% November year-to-date, while the MSCI World Index is down 9.57% over the same period — an outperformance of 5%.

> ***"Islamic funds have performed exceptionally well in 2011"***

"The returns also compare favorably to long-only absolute return funds which are down 13.67% and are comparable to hedge fund returns of -3.9%. These numbers show that the Islamic funds industry has developed significantly over the last two to three years and has attracted talented managers who can utilize the increasingly diverse range of products to deliver absolute returns, similar to hedge funds, but at a fraction of the cost. Going forward we expect the funds to attract greater attention from investors given their performance as well as increasing diversity in terms of asset classes and strategies."

Happy new year

Islamic Finance *news* constantly strives to bring you the most relevant and cutting edge issues, covering the widest range and reported in the most detailed and independent way possible. We have brought you the best and brightest in Islamic finance news over the past 12 months, along with the most comprehensive and accurate market data in the industry, and we will continue to do so throughout 2012. We hope you have had a prosperous 2011, and we wish our readers all the best for 2012.

See you in the new year! — *LM*

Until next year...

Editor's Note

With 2011 drawing to a close, we have reached this year's final issue of Islamic Finance *news*. This year, our publication has grown and evolved in tandem with the growth of Islamic finance, as we reinforce our commitment to remain at the forefront of assessing and reporting on the industry's ups and downs.

Our cover story takes a retrospective look at those developments, taking you down memory lane with a round-up of the industry in 2011. We are also pleased to present you with a bumper issue of features and contributions, including articles on some of the hottest emerging markets for Islamic finance: Africa and Indonesia.

In Kenya, Mohammad Haris of Gulf African Bank analyzes the country's Islamic collateral financing transactions; while Basheer Oshodi, a member of the Nigerian Islamic Finance Working Group, critiques the industry's ability to play a role in reducing poverty in Africa.

Meanwhile, Ferzana Haq of Norton Rose (Asia) looks at the reasons behind limited cross-border Islamic finance activity in Indonesia, despite its government's recent landmark global Sukuk issuance.

We also have a feature by Zaid Hamzah, a technology lawyer and legal expert, who explores the landscape for Islamic private equity and venture capital; as well as an article by Muath Mubarak, the director of studies and corporate strategy at Sri Lanka's First Global Knowledge Center and a fixture at IFN, who highlights the opportunities for Islamic agriculture financing in Sri Lanka.

EU insurance and financial market regulation expert Dr Gerd Kloewer discusses Islamic microfinance and pensions in Kyrgyzstan for our Takaful feature. We return to Africa with Insider, which takes a trip to the land of milk and honey in an interview with South Africa's Absa Islamic Banking head, Amman Muhammad.

This week, IFN reports look at the vulnerability of the Canadian market for Islamic finance following UM Financial's bankruptcy, and the headwinds affecting banks in the UAE.

Our IFN Correspondents write on dispute resolution for Islamic banking in Brunei; the bright prospects for Takaful in Jordan; Islamic debt restructuring in Kuwait; the role of the International Shariah Research Academy; as well as developments in the industry in France, India, Iraq, Kazakhstan and Pakistan.

We trust that you will enjoy 2011's final issue of IFN and we look forward to bringing you more groundbreaking industry news and analysis in the year ahead. We would also like to take this opportunity to thank you, our valued readers, for your continued support and wish you a Happy New Year.

AFRICA

Contributing to growth

TUNISIA: The introduction of Islamic financing will complete the country's existing financial and banking landscape and contribute to the revival of economic growth, said Ahmed El Karam, the CEO of Amen Bank.

He added that such financing will also encourage saving and attract foreign investments.

Meanwhile, Ahmed also urged the next government to establish a legislative and regulatory framework favorable to the development of Islamic finance in Tunisia.

New Islamic investment account

EGYPT: The National Bank for Development in cooperation with Abu Dhabi Islamic Bank has launched its latest product, the Daily Investment Account, which offers profit calculated on a daily basis based on a tier system.

AMERICAS

First step in Islamic financing

BRAZIL: Banco Pine, a local wholesale bank that specializes in corporate banking, has announced the conclusion of its first Shariah compliant borrowing transaction, amounting to US$37.5 million, with Saudi-based Al Rajhi Bank.

ASIA

Pessimistic outlook

PAKISTAN: The outlook for the country's banking system remains negative due to a weak operating environment and expectations that banks will increase "already high" exposures to the Pakistan government, according to Moody's.

Additionally, credit and business conditions will possibly remain fragile, spurred by the government's weak fiscal position and a subdued investment climate.

Furthermore, the escalation of ongoing political instability and potential deterioration in business sentiment following the recent termination of the IMF's standby arrangement may further weigh on banks' operating environment.

As a result, and coupled with a projected budget deficit equivalent to 5.4% of GDP in the 2012 fiscal year, Moody's believes that the banking sector will increase its already significant exposure to the government and public sector, which the rating agency estimates at 31% of total assets as at the end of 2010.

However, despite these material risks, Moody's does not expect significant further deterioration in asset quality over the outlook period. Under Moody's central scenario, short-term economic growth, lower interest rates and de-risking of the banks' loan books will drive a stabilization in asset-quality metrics.

Another round of Sukuk

MALAYSIA: State-owned power producer Sarawak Energy will issue RM1.5 billion (US$469 million)-worth of Sukuk in January 2012 under its RM15 billion (US$4.69 billion) Sukuk Musharakah program.

The proposed Islamic bond follows the success of its RM3 billion (US$937 million) issuance of Sukuk in June this year, which was oversubscribed three times.

Proceeds from the issuance will be used to fund progress payments on power plants and transmission lines under construction; and other capital requirements.

AmInvestment Bank, Kenanga Investment Bank and RHB Investment Bank are the joint lead managers/joint bookrunners for issuance, while RHB Investment Bank is also the principal advisor/lead arranger of the Sukuk.

Positive outlook

INDONESIA: The outlook for the country's banking system remains stable, reflecting the strong local economy that has shielded the industry from potentially destabilizing external shocks, said Moody's.

Moody's forecasted that financing at the nation's 120 commercial banks will rise 27% in 2012, up from an expected 24% this year. However the weakening economic growth will cause the pace of bank financing to moderate to 18-20% in 2012 from 20% in 2011, due to marginally slower economic expansion and as banks tighten liquidity.

Goldman Sachs remains confident of US$2 billion Sukuk's Shariah compliance

GLOBAL: Goldman Sachs (GS) has reiterated that its planned US$2 billion Sukuk Murabahah to be listed on the Irish Stock Exchange (ISE) is Shariah compliant, following an ongoing debate in the market regarding the facility's structure, first raised in Islamic Finance *news*, (Vol 8, Issue 47) on the 30th November.

In a response to IFN, GS said that: "We are entirely confident in the opinion we received that our program is in compliance with Shariah law." The bank has appointed Dar Al Istithmar as Shariah advisor for the program.

The impending issuance has grabbed headlines since it was announced in October this year; not just because it will mark the western banking giant's first foray into the Islamic debt market, but also due to questions raised on the Shariah compliance of the facility's structure, including the much-publicized comments by IFN contributor and Islamic finance expert, Mohammed Khnifer.

Arguments against the Sukuk's structure include that it comprises a reverse Tawarruq transaction, which most of the Islamic finance industry, including the International Council of Fiqh Academy, see as impermissible according to Shariah.

Additionally, there exists speculation that proceeds from the Sukuk will be used to fund Goldman Sachs' activities, which are conventional. As noted by AAOIFI: "Monetization should not be performed for the benefit of conventional banks when it is discovered that such banks are going to use liquidity for interest-based lending instead of Shariah compliant operations."

Furthermore, the listing of the Sukuk on the ISE has raised doubts as to how the stock exchange operator will ensure the trading of the securities at par value, as the change in its yield upon trading signals the trading of debt and is prohibited under Shariah.

The Sukuk will be issued through Goldman Sachs' Cayman Islands-based special purpose vehicle, Global Sukuk Company. An issuance date for the program has yet to be revealed.

GCC corporate banking profitability in recovery mode from 2008 crisis

GLOBAL: GCC corporate banking profitability is poised for a recovery from the 2008 financial crisis as loan loss provisions continue to decline from their peak in 2009, according to a report by The Boston Consulting Group (BCG).

"This has resulted in a corporate banking profitability increase of over 40% from 2009 levels even as revenues have remained flat throughout 2009-2010 and the first half of 2011," said Markus Massi, a partner and managing director at BCG and its regional leader for wholesale banking and capital markets.

The upward trend has emerged despite only Saudi Arabia and the UAE reporting a yearly increase in corporate banking profitability, with other GCC countries showing flat growth and Bahrain recording a declining trend.

Saudi Arabia and Bahrain represented the best and worst performers in the region, respectively; with Saudi showing the highest annual increase, at 45% a year since 2009. Data from Bahrain showed a downward trend in profitability since 2007, decreasing at 24% annually up to the first half of this year.

BCG's report also showed that the profitability trends are mainly driven by the varying annual decreases in loan loss provisions in each country, while transaction banking, deposits and structured finance/bonds are also expected to boost growth.

Mohamed Turra, the principal of BCG's Dubai office, also noted that key risks still loom in the GCC, including regional instability, insufficient government infrastructure spending and events in world markets, especially in the Eurozone.

He also said that the impact of new regulations or compliance with Basel III is expected to be minor, as most banks in the GCC possess high capital adequacy ratios and have "cleaned up" their investment portfolios since 2008.

Shielded from crisis

INDONESIA: The current global economic crisis will have no significant impact on the country's Islamic banking industry, according to Halim Alamsyah, the deputy governor of the central bank, Bank Indonesia.

He explained that this is because the local Islamic banks have focused their financing activities on local businesses.

RAGM secures financing

AUSTRALIA: Raub Australian Gold Mining (RAGM), a subsidiary of Malaysia-based gold mining company Peninsular Gold, has entered into an agreement with Alkhair International Islamic Bank for a Murabahah financing facility of up to US$6 million.

RAGM will use the financing as additional working capital over a one-year period.

US$60 million electricity financing

PAKISTAN: The IDB has signed a US$60 million Ijarah financing agreement with independent power producer Star Hydro Power for the development of the Patrind hydropower project in the district of Muzaffarabad.

The project is expected to add a net generation capacity of 147MW to the national grid once it is completed in 2016.

Optimistic on growth

MALAYSIA: The market share of local Islamic banking assets is expected to increase to about 25% next year from 22% in 2011, according to Zukri Samat, the chairman of the Islamic Banking and Finance Institute Malaysia (IBFIM).

Meanwhile Dr Adnan Alias, the CEO of IBFIM, said that all Islamic finance players in the country have recorded encouraging performances, indicating good growth, which will enable the industry to maintain its double-digit growth next year.

Maintaining growth

INDONESIA: Bank Indonesia (BI), the central bank, expects local Shariah banking assets to reach IDR200 trillion (US$21.78 billion) at the end of 2012, driven by a growth in financing and third party funding.

As for financing, BI has set a moderate growth target of around 60%, or IDR170 trillion (US$18.7 billion).

For the third party funding, BI has targeted growth of between IDR171.5 trillion (US$18.9 billion) to IDR198.6 trillion (US$21.9 billion), 55-79% higher than this year's amount.

Sukuk on the cards

MALAYSIA: Oil and gas service provider Scomi Group has received approval from the Securities Commission Malaysia to sell Sukuk worth RM343.1 million (US$107 million), maturing between one to seven years.

Hong Leong Investment Bank has been appointed lead manager and principal advisor for the transaction.The Islamic bond will be issued through the group's indirect subsidiary, KMCOB Capital.

Sukuk priced

MALAYSIA: PLUS, which is taking over the local highway operations of PLUS Expressways, has reportedly issued 19-year Islamic bonds worth RM19.6 billion (US$6.17 billion) to yield at 5%.

The company is also said to have issued RM11.3 billion (US$3.53 billion) of Shariah compliant notes with maturities ranging from five-19 years, and privately placed RM8.3 billion (US$2.61 billion)-worth due in 20-25 years. An additional RM11 billion (US$3.45)-worth of government-guaranteed debt is also expected to be sold later.

Meanwhile, the issuance is speculated to have attracted investments from insurance firms eyeing above-average yields and long maturities.

Michael Chang Wai Sing, the senior manager and head of fixed income at MCIS Zurich Insurance (Malaysia), said that PLUS' Sukuk will be in demand among insurers, both Islamic and non-Islamic, adding that the issuance will also help deepen the local Islamic bond market.

"It's rare to see an 'AAA'-rated company issuing Islamic bonds with such long maturities," he added.

Keeping busy

MALAYSIA: Bank Islam Malaysia, which completed the listing of two

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Qatar Central Bank means business

QATAR: Although some conventional banks in Qatar have yet to decide how to dispose of their Islamic windows in accordance with the Qatar Central Bank (QCB)'s directive issued earlier this year, the authority stands firm on its decision to prevent the co-mingling of the country's Islamic conventional banking assets.

Following the Qatar Central Bank (QCB)'s announcement in the second week of December that it had indefinitely extended its end-of-the-year deadline for the shutdown of conventional banks' Islamic windows, it has now revealed that affected banks will have to transfer accounts from their Islamic units to a central bank portfolio that will be held until the facilities mature.

With the International Bank of Qatar emerging as the only lender so far to sell its Islamic operations, in a deal with Barwa Bank in August, the transfer of Islamic assets to the QCB's portfolio could be the extra nudge needed for the country's banking industry to achieve the separation of its conventional and Islamic assets.

Meanwhile, doubt has also emerged over the fate of Doha Bank's Islamic operations, with Sheikh Abdullah Saud Al Thani, the governor of the QCB, and Raghavan Seetharaman, the CEO of Doha Bank, appearing to be at odds over the disposal of the Shariah compliant unit.

Sheikh Abdullah reportedly said that Doha Bank will sell its Islamic unit and submit a report by the end of December on how the disposal will be carried out. However, Seetharaman said that the sale of its Islamic assets is not certain, with the bank continuing to keep its options open.

Seetharaman added that the bank will convert its Islamic assets to conventional by the end of this year; and that any divestment of its Islamic unit will not emerge before then.

Although Doha Bank and the QCB may not be seeing eye-to-eye on the matter, one thing is for sure: the authority means business and remains resolute on its decision to separate Islamic and conventional banking assets in the country.

Indonesia regains investment grade status

INDONESIA: The writing has been on the wall for much of this year and on the 16th December, Indonesia put its money where its mouth is by regaining investment grade status for its sovereign debt, after 14 years of being labeled as junk.

In what is clearly a coup for a country still weighed down by allegations of corruption and struggling with an inefficient business landscape, Fitch upgraded Indonesia's long-term foreign and local currency debt ratings to 'BBB-' from 'BB+'. The outlook on both ratings is stable.

With its investment grade rating affording it a wider investor base and lower borrowing costs, any sovereign issuance from Indonesia also has the luxury of being more attractive than European debt — an irony certainly not lost on a country grouped among Southeast Asian nations once vilified by the west amid the 1997/98 Asian financial crisis.

"The upgrades reflect the country's strong and resilient economic growth, low and declining public-debt ratios, strengthened external liquidity and a prudent overall macro policy framework," said Philip McNicholas, a director of Fitch's Asia Pacific sovereign ratings group.

Optimism on the country's investment standing has been driven by its booming economy, which remained unscathed by the 2009 global downturn and has reportedly grown more than 6% this year.

Agus Martowardojo, its finance minister, said that the improved credit rating has opened a window for it to refinance high-cost debt at lower rates. The government is also said to be planning the issuance of global Sukuk and US-dollar denominated conventional bonds next year.

However, Fitch noted that weaknesses still remain in the Indonesian system, including corruption and weak infrastructure, with Susilo Bambang Yudhoyono, the country's president, pledging to guard reforms to maintain its economic growth and sustain its return to grace.

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companies on Bursa Malaysia, the local bourse, earlier this year, is working towards its third IPO in line with its efforts to increase non-fund based income, said Zukri Samat, the bank's managing director.

The bank has submitted an application for the third IPO candidate and is currently awaiting approval for the transaction.

Meanwhile, Zukri said that the bank will launch 28 more branches over the next three years to achieve its target of 150 branches by 2014.

Sukuk auction soon

PAKISTAN: The central bank, State Bank of Pakistan, is inviting applicants for the sale of PKR50 billion (US$588.19 million)-worth of three-year Government of Pakistan Sukuk Ijarah.

Government-owned assets including highway land have been proposed to facilitate the issuance of the Islamic bond.

10% indicative yield for Sukuk

INDONESIA: Bank Syariah Mandiri has indicated that it will offer a yield of around 10% for its IDR500 billion (US$55 million) subordinated Sukuk, maturing in 10 years, which will be issued in the last week of December.

The bank has mandated Mandiri Sekuritas and Indo Premier Securities as arrangers for the transaction, with Bank CIMB Niaga and Bank Mandiri acting as supervising agents.

Give Islamic finance a chance

INDIA: The country must re-examine its stand on Islamic finance to achieve inclusive growth, said experts.

H Abdur Raqeeb, the general secretary of the Indian Center for Islamic Finance and convener of the country's National Committee on Islamic Banking, noted that in countries where Islamic finance is allowed, Muslims and non-Muslims alike have been attracted to the sector as it is seen to encourage ethical and socially responsible investments.

Experts have also suggested that the name could be changed to 'alternate finance' or 'participatory banking' or 'interest-free finance and banking', while following the same principles of Shariah.

Sukuk shelved

MALAYSIA: Emery Oleochemicals Group, a local plastic additives producer, has postponed its plan to sell RM480 million (US$151 million)-worth of Sukuk to the second quarter of next year as it currently has sufficient funds.

According to Emery, the company has strengthened its financial resources and is pushing back the Islamic bond sale to a time when additional funds will be needed.

The Sukuk was originally scheduled for issuance in the fourth quarter of 2011.

No public-private partnership for Amana Takaful

MALDIVES: Amana Takaful, which was among three local companies to apply to provide universal health insurance to Maldivians, has given up its bid to secure a partnership with the finance ministry to establish the program.

Saami Ageel, the director general of the finance ministry, said that Amana Takaful and Sri Lanka Insurance, which also expressed interest in the venture, did not complete the letter of expression to participate in the public-private partnership.

The ministry has appointed Allied Insurance as its partner for the initiative.

Takaful JV

MALAYSIA: AmBank Group's unit, AMAB Holdings, has entered into a joint venture with Friends Life to establish AmFamily Takaful, a Family Takaful firm.

AMAB will own 70% of AmFamily Takaful, with Friends Life, a subsidiary of Guernsey-incorporated investment vehicle Resolution, holding the remainder. The venture will be headed by Wan Zamri Wan Zain, who is also CEO of AmTakaful, the Islamic insurance arm of the AmBank Group.

The initial paid-up capital for the JV will amount to GBP20.4 million (US$31.6 million).

HSBC Amanah to focus on Middle East and Asian emerging markets

GLOBAL: HSBC Amanah, which is optimistic on its growth this year and going into next, sees the emerging markets of Asia and the Middle East as an integral component of the growth of the Shariah compliant financial industry.

"Islamic finance is an emerging markets phenomenon: 80% of the world's Muslims live in Asia and the Middle East. Given that these regions are set to grow faster than the world average, Islamic finance is thus likely to continue growing faster than conventional banking. This is further helped by the fact that growth of Islamic finance has been primarily led by customer pull and not a regulatory push," said Razi Fakih, the global deputy CEO of HSBC Amanah.

According to Razi, Saudi Arabia and the UAE represent the main markets for the bank in the Middle East, with nearly all retail products by SABB, its associate, comprising Islamic products. In the UAE, 76% of whose population is Muslim, Islamic banking assets are likely to make up 40% of total banking assets by 2020; from 20% currently.

The bank's internal estimates also show that Islamic finance could make up more than 30% of banking systems in countries such as Bangladesh and Malaysia by 2020.

"We thus look forward to the continued growth of our broad range of business in these markets; from retail wealth management and Takaful to commercial banking and debt capital markets," he noted.

On the performance of HSBC Amanah in the Middle East, Razi said that the bank has continued to grow revenues despite the difficult operating environment in the last few years.

Meanwhile, he also noted that Islamic financing provides a viable source of funding for infrastructure and social facility projects needed following the Arab Spring.

EUROPE

Investors seek high yields

TURKEY: Albaraka Türk Katılım Bankası has delayed its planned US$200 million Sukuk issuance due to a mismatch between the bank and investors' expectations on yields and despite strong demand for the papers.

The bank was targeting to complete the sale at the end of the third week of December in a transaction said to attract Asian and Gulf investors. Deutsche Bank, Emirates NBD, Noor Islamic Bank and QInvest are arrangers for the sale.

Gaining popularity

TURKEY: More Gulf banks are showing interest in Turkey's Islamic banking market, said Adnan Ahmed Yousif, the vice-president of the Union of Arab Banks and chairman of Albaraka Türk Katılım Bankası.

Adnan noted that Emirates International Bank and Qatar International Bank were among the banks interested in starting up new banks in the country, adding that some of the region's banks are also considering entering into M&As with local banks.

He also said that the elimination of barriers by Turkish authorities will encourage Arab banks and investors to enter the country's banking sector.

Big loss for industry

UK: The UK government's move to postpone its plans for the issuance of its first Islamic sovereign bond following the Eurozone financial crisis is seen as a setback to the local Islamic finance industry.

Put on hold due to the financial crisis, the government also feared a new instrument may have struggled to attract demand. A sovereign Sukuk from the UK would have been the first to be issued by a western government; while providing investors and banks a highly-rated, potentially liquid security that could spark more bond issuance.

Farmida Bi, a partner at legal firm Norton Rose, noted that the Sukuk could spur the market in the UK and lead to more interest in the Islamic finance industry in Europe.

GLOBAL

Work in progress

GLOBAL: The International Islamic Financial Market (IIFM) is expecting to complete its standard templates for key risk mitigation products early next year.

IIFM also revealed that projects it is undertaking include Sukuk trading and standardization as well as collateralization, adding that it looks forward to beginning further work in those areas, depending on market consultation and feedback.

Vulnerable to risks

GLOBAL: Islamic financial institutions are underprepared for potential risk and are vulnerable to liquidity shocks, according to Khalid Hamad, the banking supervision executive director of the Central Bank of Bahrain.

Khalid explained that although the industry operates at a lower risk level, this does not mean that that the industry is risk-free.

Cross-border syndicated facilities deal

GLOBAL: Saudi-based construction company Saudi Binladin Group has signed SAR8.5 billion (US$2.3 billion)-worth of multi-option syndicated Islamic facilities with 12 banks.

The banks comprise: Abu Dhabi Commercial Bank, Ahli United Bank, Arab National Bank, Arab Bank Corporation, Arab Bank, BNP Paribas-offshore banking unit, Emirates NBD, Gulf International Bank, Maybank International, Samba Financial Group, Union National Bank and the Bank of Bahrain & Kuwait.

The financing will be used to part-fund the expansion of Saudi's King Abdulaziz International Airport.

Wider presence

GLOBAL: HSBC is planning to double the number of branches of its Islamic banking subsidiary, HSBC Amanah, in Malaysia to 26 as it seeks to establish its business in the country and Indonesia.

The group has identified the two countries as key markets in Asia that will

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RATINGS

Concrete position

MALAYSIA: RAM has reaffirmed the enhanced 'AAA(s)' rating of KL International Airport's RM4.06 billion (US$1.27 billion) Bai Bithaman Ajil notes issuance facility with a stable outlook.

The rating is based on the guarantee by the Malaysian government to repay all amounts due under the facility.

Weak ranking

UAE: Fitch has downgraded the Commercial Bank of Dubai's viability rating (VR) to 'bb+' from 'bbb-' and simultaneously affirmed its long-term issuer default rating at 'A-' with a stable outlook.

On stable ground

MALAYSIA: MARC has affirmed the rating of Instacom SPV (ISPV)'s RM200 million (US$62.5 million) Murabahah medium-term notes program at 'AAID'. The outlook on the rating is stable.

Monitoring performance

GLOBAL: S&P has reviewed its ratings on 17 Arab Mediterranean banks and related subsidiaries with its new ratings criteria and updated group methodology for banks.

Affected Islamic banks or those with Islamic subsidiaries include Morocco's Attijariwafa Bank (from 'BB'/stable/'B' to 'BB'/positive/'B'). Banks whose ratings remain unchanged include Lebanon's Blom Bank ('B'/stable/--); National Bank of Egypt ('B+'/negative/'B') and National Société Générale Bank, whose unsolicited public information rating stands at 'Bpi'.

Solid kick-off

KUWAIT: Moody's has assigned a 'Ba1' insurance financial strength rating to National Takaful Insurance Company.

Moving up

KUWAIT: S&P has upgraded Gulf Bank's long-term credit rating of 'BBB-' to 'BBB' and raised the bank's outlook from stable to positive.

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help drive its growth in the next four to five years. In Indonesia, it operates five HSBC Amanah outlets within its conventional branches.

Market reference

GLOBAL: The Gulf Bond and Sukuk Association (GBSA) has published a compendium of nascent markets for local currency government-issued instruments as one of its measures to speed up the growth of regional debt capital markets.

The document includes a register of conventional and Islamic treasury bills, bonds and certificates of deposit.

"We expect that this first document will become a reference for market participants across the region and will draw additional attention to the potential for GCC local currency markets," said Michael Grifferty, the president of the GBSA.

Impacted by crises

GLOBAL: Standard Chartered Bank expects to record low single-digit growth in the Middle East in 2012 due to the impact from the Arab Spring and ongoing financial instability, said V Shankar, its group executive director.

He also said that sentiment in the Middle East is weighed down by the gloomy outlook for the US economy, increased cost of funding and the lack of US dollar funding in the region.

"[2012] could be quite challenging because the Middle East is very much a part of the globalized world. We are not immune to what is happening to the rest of the world," he noted.

Expanding reach of Islamic finance

GLOBAL: The UAE sees Islamic banking as a key area for the emirates' exports to Spain, as non-oil trade between the two nations is expected to reach AED5 billion (US$1.4 billion) next year.

In the first half of 2011, trade between the countries reached AED2.5 billion (US$681 million), said Abdullah Al Saleh, the undersecretary of the UAE's ministry of foreign trade, who added that renewable energy and tourism also comprise a major source of the UAE's exports to Spain.

MIDDLE EAST

Financing complete

QATAR: State-run Qatar Petroleum has closed the financing on its US$10.4 billion Barzan gas project.

The financing includes a US$850 million Islamic facility.

New champion

SAUDI ARABIA: Saudi Arabia has overtaken the UAE and Bahrain as the Gulf's top financial center, according to a report by the World Economic Forum.

The kingdom's financial systems and capital market rose to the 23rd position in the global list of 60 economies and topped the list for financial stability.

It rose three places compared to last year while the UAE, which was ranked best in the Gulf region in 2010, dropped four places to 25th.

Bahrain, which has been hit by social and political unrest this year, fell one place to 24th, while Kuwait remained in 28th place.

Potential damage

UAE: Emirates NBD (ENBD), which is speculated to take over Amlak Finance next year, could see its Tier 1 capital ratio drop by almost 1.1% if it were to do so, according to HC Securities.

HC Securities, which expects a government solution for Amlak, sees the Islamic mortgage provider in an even worse position than Dubai Bank, which was taken over by ENBD this year.

"Even if ENBD were to acquire Amlak at the same terms as Dubai Bank (i.e. for virtually nothing), its capital ratios would suffer a substantial negative impact (1.08% on BIS ratio, 0.75% on Tier 1 under Basel II, and 0.65% on common equity Tier 1 under Basel III)," it said.

Taking the Islamic banking path

OMAN: BankMuscat has announced that it will establish an independent Islamic banking window under the name Meethaq, subject to approval from the Central Bank of Oman.

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Meethaq's operations will be segregated from its conventional counterpart in all aspects, including its management.

The bank has also set up a three-member Shariah board for Meethaq comprising Sheikh Dr Ali Qaradaghi as its chairman, Sheikh Essam Muhammad Ishaq and Sheikh Majid Al Kindi.

No ban on Islamic windows

UAE: The Central Bank of the UAE will continue to allow conventional banks to offer Islamic financial services, said Khalil Foulathi, its chairman.

Khalil explained that this will provide additional competition to the overall sector, helping to improve products and innovation within the Islamic banking industry.

He added that as long as the banks are able to prove the Shariah compliance of their Islamic windows and that qualified Islamic scholars are on their boards, the presence of those banks will benefit the sector.

Meanwhile, Khalil also said that stress tests conducted by the IMF on the UAE's 23 national banks and 28 foreign units have shown the banks are highly capitalized and in "good health", with the banks' Tier 1 capital adequacy ratios of 12% exceeding the global requirement of 8%.

US$980 million financing facility

UAE: Emaar Properties has signed an Islamic and a conventional financing facility worth AED3.6 billion (US$980 million) with its mandated lead arrangers and bookrunners Dubai Islamic Bank, National Bank of Abu Dhabi and Standard Chartered Bank.

The facility, secured by Emaar's Dubai Mall, is split between a five-year tranche and an eight-year amortizing loan. It was priced at 350 basis points over the benchmark.

The financing will be used to repay an existing US$300 million facility signed in 2010.

No turning back

QATAR: The Qatar Central Bank (QCB) is not planning to reverse its decision to shut down the Islamic windows of conventional banks by the end of this year, said Abdullah Saud Al-Thani, its governor.

Abdullah said that the decision was spurred by the need for effective supervision, control and other matters relating to monetary policy.

He said that combining conventional banking activities with Islamic transactions made the QCB's supervision more complicated in addition to further harming the optimal use of the monetary policy mechanism. The central bank has also found that mixing traditional and Shariah compliant banking can undermine competition between banks.

Contractor hired for Cairo project

UAE: Palm Hills Developments has appointed Orascom Construction Industries to build a US$93 million residential complex outside Cairo, its first project in a partnership with Burooj Properties, the real-estate investment arm of Abu Dhabi Islamic Bank.

Burooj and Palm Hills announced its partnership in April last year, as Burooj moved to diversify its portfolio outside the slumping UAE market.

Coming up...

Volume 9 Issue 1 — 11th January 2012

Meet the Head
Ghassan Marrouche, general manager at Takaful Emarat Insurance, UAE

Features
India: Time to open the floodgates; By Yahya Abdulla, senior surveyor of EMEA capital markets at Cushman & Wakefield.

The growth of Islamic banking in Bangladesh; By Dr Mahmood Ahmed, executive vice-president and director training at Islami Bank Training and Research Academy, Bangladesh.

Infrastructure financing: Transactional structuring from a Sukuk issuance perspective; By Mark Lim, partner at Wong & Partners.

Development of Islamic finance in Thailand; By Ruengrit Pooprasert, partner, and Anaknong Chaiyasri, associate at ZICOlaw (Thailand).

MOVES

EUROPEAN ISLAMIC INVESTMENT BANK

UK: European Islamic Investment Bank (EIIB) has appointed **Zulfi Caar Hydari**, currently the bank's non-executive director, as its CEO.

Zulfi was previously the CEO of HBG Management Partners.

SAUDI ARABIAN MONETARY AGENCY

SAUDI ARABIA: The government has appointed **Fahd Abdullah Al-Mubarak** as the new governor of its central bank, the Saudi Arabian Monetary Agency; replacing Muhammad Al-Jasser.

STANDARD CHARTERED

UAE: Standard Chartered has appointed **V Shankar** as its group executive director with effect from the 1st January 2012. He will be based in Dubai.

SOCIAL ISLAMI BANK

BANGLADESH: Social Islami Bank has appointed **Md Aminul Haq** as its new chairman.

The bank has also named **Mohammad Azam** and **A Jabbar Molla** as vice-chairmen.

CHARTIS

BAHRAIN: Property-casualty and general insurance provider Chartis has appointed **Ayman Al Ajmi** as its regional head, Takaful, and managing director of the company's Bahrain operations.

BANK INTERNASIONAL INDONESIA

INDONESIA: Malaysia-based Maybank has identified **Khairussaleh Ramli**, its group chief financial officer, as the president director of its subsidiary, Bank Internasional Indonesia (BII).

The appointment is subject to approval from the central bank, Bank Indonesia, and the shareholders of BII.

LLOYDS TSB

UAE: Lloyds TSB has appointed **Bobby Liddell** as its head of corporate banking in the Middle East. Liddell was previously the senior manager for corporates at the bank in Dubai.

New headwinds for UAE banks

The stability of the banking sector in the UAE has been an ongoing concern over the last few years, faced with an uncertain future due to significant impairments on corporate lending and over-reliance on saturated real estate markets. As the global markets have continued to stagnate, these issues have spread beyond Dubai to Abu Dhabi and are creating, as Fitch termed in its recent report on the UAE banking sector, "new headwinds" for the industry.

There are however strong signs that the UAE economy is beginning to recover, with GDP expected to grow by around 3.5% in 2011, mainly driven by increases in trade, tourism and public spending, and supported by high oil prices. However, given the slowdown in the global economy, Fitch believes that all sectors of the UAE's economy are likely to be negatively affected.

The quality of assets also remains a going concern for UAE banks as the number of non-performing loans are likely to increase due to the still fragile real estate sector in the UAE, combined with a weak global economy and a sharper than expected slowdown in Abu Dhabi. In addition, Fitch believes that problem loans could re-emerge even after significant restructuring operations, given that fundamental issues in the operating environment remain unresolved. Ultimately, the success of the various restructuring plans depends on recovery both in the UAE and globally.

Although Fitch does not differentiate between Islamic banks, it acknowledges that they all operate within the narrow UAE economy and are generally affected by the same underlying issues. Banks in the UAE continue to remain highly competitive and are all facing similar problems, the biggest of which is their exposure to real estate and government-related entities. According to Mahin Dissanayake, an analyst at Fitch Ratings: "All the banks in the UAE are affected, be it Islamic or conventional. If you want to look at Islamic banks in isolation, I suppose that the key issue is their exposure to real estate, given their inherent business model."

Liquidity continues to remain a serious concern: "All of the banks in the UAE have substantial local currency liquidity. However, their ability to access long-term funding and dollar funding is putting them under additional pressure," says Dissanayake. This is especially true given that global liquidity conditions are tight at the moment and cattle market funding is expensive, but all the banks are seeing the same issues. It is very difficult to predict if this access to liquidity will remain a pronounced problem due to the continuing global uncertainty.

Banks in the UAE continue to remain highly liquid due to strong customer deposit levels, but what the banks don't have is longer-term investments. The banks can successfully diversify using Sukuk but if you look at what has been happening recently, you have seen conventional banks issuing Sukuk as well for means of diversification. Long-term wholesale funding has also become costly, especially for Dubai-based banks, due to the perceived risk relating to Dubai government-related entities and the less liquid global markets. In light of a relatively tight loans/deposits ratio, a lack of long-tem funding adds to the banks' lending constraints.

If we look at the Islamic banks there have been several successful Sukuk issuances, and in part these have been successful due to the current demand for Islamic paper. Islamic banks remain very liquid and there is a genuine lack of Islamic investments out there. There has been a strong demand from the region for Sukuk but there has also been strong demand from Asia. There has also been concern at a glut of issuances emanating from the Middle East, particularly the UAE, as these deals race to meet favorable market conditions. "Given what is happening globally, there is the likelihood that these issues [have been] priced higher than they would be in calmer times. I think that several banks will hold back on refinancing unless absolutely necessary," says Dissanayake.

The current debt levels of government-related entities in the UAE are of ongoing concern for the UAE banking sector. We have seen Dubai World restructuring as well as entities within Dubai Holding, and the banks have taken a hit. While it is likely that the restructuring of other government-related entities will need to take place, these are unlikely to cause the same impact as was seen in Dubai as there is now a level of precedence in resolving these issues.

Regarding the issues present in Abu Dhabi, Karim Soueissi, an analyst at Fitch ratings, says that: "These issues are likely to remain only in the short-term. They will definitely not be as significant in their impact as we have seen in Dubai." Soueissi adds that: "Some problems have emerged and are likely to cause continuing problems, such as their exposure to the over-supplied real estate market. Prices have continued to decline over the past year and we are expecting some problems to emerge from this, but not to the extent that was seen in Dubai." When Dubai Bank failed it was supported by a government-backed merger with Emirates NBD, the largest bank in the UAE. There has been considerable support for small Islamic banks in the UAE and given the UAE authorities' strong history of support, and many banks having government stakes, it is highly unlikely that this support will change in the foreseeable future.

Despite the successful conclusion of the Dubai World debt restructuring earlier this year, other Dubai government-related entities and UAE corporates have required similar debt restructuring. Naturally, Dubai-based banks are more exposed to than Abu Dhabi banks. Ultimately, the success of any debt restructuring depends on the recovery of the UAE economy, and more specifically, on the recovery of the real estate market over the next five to seven years. — *SW*

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 6th January 2012.

Canadian market still vulnerable

Industry players still regard the nascent Canadian and North American Islamic finance market as vulnerable to negative perception; fearing that the recent issue regarding UM Financial's insolvency could hurt the Canadian Islamic finance market as a whole. UM Financial was one of the more prominent institutions in Canada to offer Islamic home mortgages, although there has been a steady increase in institutions offering these services since 2007, including ISNA Housing and the Ansar Islamic Cooperative Housing Corporation.

According to published reports, UM Financial was ordered into receivership in October 2011, leaving about US$32 million-worth of mortgages in the hands of Toronto's legal system. Accounting and business advisory firm Grant Thornton was appointed receiver by the Ontario Superior Court of Justice. Due to a lack of regulations for Islamic finance, industry players fear that other Islamic lenders in the country could be negatively affected in terms of public perception, should the Canadian legal system deem Islamic mortgage-holders as not being the ultimate owners of the properties which they have serviced.

A Dubai-based analyst revealed: "The case has exposed uncertainty over the legal treatment of Shariah compliant mortgages in default, and questions over the transparency and oversight of smaller Islamic lenders. This could make investors in Canada and the United States more wary of considering Islamic finance in future." Fears that the new owners of UM Financial might not be Shariah compliant and concerns over transparency issues have already surfaced amongst the company's current mortgage holders; causing industry experts to question the sustainability of Islamic finance in the country, especially if proper regulations and tax treatments are not put in place in time. "If no one comes to help it to meet its financial obligations, innocent customers may go through the agony of worrying about the possibility of losing their homes through no fault of their own. It will be a setback for the industry," Sheikh Mudassir Siddiqui, a partner at SNR Denton, is quoted as saying.

However, not all is doom and gloom. Recent statistics have shown that the Canadian market escaped relatively unscathed from the recent credit crisis, and its banking system is currently ranked the highest in the world in terms of financial strength by Moody's. Canada also has a healthy percentage of mortgage-holders, at 60%, representing 5.8 million out of the 9.55 million owner-occupied homes. The growing number of Muslims demanding Shariah compliant mortgages has also seen a healthy increase, with a recent survey revealing that 47% of Canadian Muslims would prefer halal financial products, if the rates and prices were competitive enough with the conventional banking system.

Jeffrey Graham, a partner at Borden Ladner Gervais and a contributor to Islamic Finance *news*, recently wrote (Vol 8, Issue 49) that he is optimistic about the formation of partnerships between Canadian asset managers and Islamic financial institutions with high net worth clients looking for a sound investment environment for real estate, oil and gas, minerals and other commodities. "Once changes to the domestic tax environment are implemented, a domestic Sukuk market would be possible. There are also prospects for more domestic Islamic retail financial services in the short to medium-term," he confirmed. — *NH*

Alternative dispute resolution in Brunei for Islamic banking

BRUNEI

By Muhd Jamil Abas Abdul 'Ali, IFN Correspondent

The Brunei Times reported on the 15th of October 2011 that Bank Islam Brunei Darussalam (BIBD) had resolved an impasse with the Brunei Malay Teachers' Association (PGGMB), a debtor of BIBD with substantial outstanding debts resulting from a financing facility granted by BIBD to enable PGGMB to construct an 'iconic' multi-storey commercial building and a multi-storey car park in the capital, Bandar Seri Begawan, at a cost of BND$25 million (US$19 million).

The Brunei Times reported that PGGMB was to pay back the bank in 300 monthly installments. Unfortunately, the association failed to meet its obligations even after a restructuring arrangement and defaulted on the repayment. The debts continued to pile up and became totally unsustainable.

The innovative new structure of the deal, billed as a 'win-win' situation between BIBD and the PGGMB, involves the bank entering into a number of commercial-financial arrangements with an 'asset-swap' under Muamalah principles.

- The association sells its rights in the building by granting a sub-lease of the building to the bank with price of the sub-lease being the set-off of the debt outstanding (Bai Ijarah and Muqasah).
- According to Javed Ahmad, the managing director of BIBD, the bank will invest further sums to renovate the building to undertake "top-quality improvements inside and outside the building to attract tenants to generate income".
- Javed stated that: "The agreement also entails an income-sharing mechanism between BIBD and PGGMB based on an agreed sharing ratio of the total net rental income of the building for the whole duration of the lease period." However, the percentage of the profit-share was not disclosed and it is not clear whether the profit-sharing involves a Musharakah concept or whether it is merely a part of the Aqd of the whole arrangement.

The primary factors comprise:

- Initial financing of the construction of the building between the bank and the association;
- Charge over the building granted in favor of the bank as security/collateral;
- If PGGMB defaults on its installment payment obligations and the financing facility is terminated with a substantial sum outstanding, the bank is entitled to exercise its rights under the security to force sale of the building to recover the outstanding amount: although it is not known if this will yield a positive result;
- Instead of exercising its rights under the security, the bank enters into the 'win-win' arrangement and becomes an investor and injects fresh capital into the renovation of the building.

The advantages apparent in this alternative dispute resolution are:

(1) Avoidance of costly and time-consuming litigation, foreclosure etc;
(2) Avoidance of adverse publicity since PGGMB, established in 1939, is a well-known and iconic association, with a main aim of training and educating Malay teachers in the country;
(3) The bank owns a valuable asset capable of generating income for long-term;
(4) The association is relieved of its debts and, importantly, continues to earn income from the profit-sharing scheme;
(5) The transaction is in line with Islamic principles of Sulh (compromise) rather than conflict (Ta'arud);
(6) The deal promotes awareness and strives towards further such compromises in Islamic banking.

It is, however, observed that this may not be possible in all cases of default and that this path will necessarily depend on a number of factors, including the financial viability of the underlying investment, the amounts involved, the nature of the financial and commercial risks, the existing Islamic banking regulations, the constitution of the bank and the specific parties involved.

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Market is ripe for Islamic finance

EGYPT

By Dr Walid Hegazy, IFN Correspondent

The results of the first round of the Egyptian parliamentary elections and the early indications of the second round all confirm the widely expected victory of the Islamist parties. The Muslim Brotherhood's Freedom and Justice Party has announced that it has so far won over 40% of the votes, while the ultra-conservative Salafist Party gained roughly 25%.

The strong expected Islamic presence in the upcoming Egyptian government has led the local business media to focus on the subject of Islamic finance in the new Egypt. A number of bank executives have made it clear that their banks intend to expand their Islamic finance activities, although they insist that they will continue to offer conventional products as well. These executives represent some of the largest banks in Egypt, such as Misr Banque and CIB. Other Egyptian banks have already adopted new strategies toward the expansion of Shariah compliant activities. Mohamed Ashmawy, the chairman of United Bank (which is owned by the Egyptian central bank, the Central Bank of Egypt), recently announced the bank's intention to offer Islamic finance products. Mohamed added that there is an increasing demand to reform the laws and regulations that govern banking activities in order to comply with Shariah.

In addition Adnan El-Sharkawy, a member of the board of directors of Arab Egyptian Real Estate Bank, has revealed that the bank is planning to open new Islamic branches and develop new Shariah compliant products. Furthermore, Al Baraka Bank Egypt has taken steps towards launching its Islamic credit card in the second quarter of 2012.

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Continuing interest in Shariah finance in India

INDIA

By Keyur Shah, IFN Correspondent

The global financial crisis, coupled with the caution exercised by the Reserve Bank of India in the matter, has resulted in the absence of any significant developments in the Shariah finance space in India in recent times.

Nevertheless, interest in Shariah finance in India is growing. The recently concluded conference on 'The Role of Islamic Banking for Infrastructural Growth of India' conducted by the Indo-Arab Chamber of Commerce and Industries in Mumbai brought together experts from India and various Arab countries, who suggested that the role of Islamic banking in the infrastructural growth of India should be promoted.

While certain Shariah compliant products are currently being marketed in India, it was stated that there was a need for formal approval from the Indian regulators, to enable larger players to enter the market.

Recently, the Indian Center for Islamic Finance also held a press conference comprising of Islamic banking experts in New Delhi, where the prospects of Shariah finance in India were discussed.

In India, there are several institutions, including some owned by the Government, which have shown a determination to capitalize on this growing niche opportunity.

Taking cognizance of this fact, the Bombay Stock Exchange (BSE) recently held a workshop on 'Islamic Banking, Finance and the Capital Market' where the focus was on understanding the ideas, basic concepts and modus operandi of undertaking Shariah finance.'

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Promising future for Takaful

JORDAN

By Khaled Saqqaf, IFN Correspondent

As many of the principles of commercial insurance are haram, or illegitimate in Islam, many have turned to Takaful as a means of insuring their risks in a manner which is Shariah compliant. Takaful has been adopted and practiced by Islamic communities for over 1,000 years.

In the most literal sense, Takaful is an Arabic word which means "to guarantee someone". In Islamic finance, it is used to indicate a situation when more than one person in the community shares risks based on a concept of mutual protection. Takaful is usually calculated and handled differently to conventional commercial insurance. This is because while commercial insurance is based on uncertainty, taking risks, gambling and usury; Takaful is based on fundamentals such as cooperation, responsibility, mutual protection and piety: all of which are fundamentals instilled and taught in verses throughout the Holy Quran.

In Jordan, Takaful is gaining a lot of attention. We are seeing a number of banks instituting Takaful as well as a number of Takaful operators entering the market. Many of these Takaful operators offer a wide range of services, such as travel, car, medical and home insurance, in accordance with Islamic principles; and aim to deliver the benefits of insurance to clients who are not comfortable with commercial insurance companies.

The demand for Islamic insurance over the last few years has definitely contributed to the rapid growth of Takaful operations in the kingdom. However, it is an area which is still being shaped. In particular, there are no set laws or frameworks in place which deal exclusively with Takaful.

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Islamic debt restructuring

KUWAIT

By Alex Saleh, IFN Correspondent

The global financial crises caused companies around the world to be faced with financial risks due to their debt obligations towards their creditors. During 2011 in Kuwait, Islamic finance provided a mechanism that helped fulfil companies' obligations with respect to their debts. This was done by using Sukuk for companies with large debt obligations fearing collapse.

In February 2011, First Investment Company KSC (FIC) concluded a transaction to restructure its debt of KWD92 million (US$330 million) in order to try and fulfil its debt obligations to several large Kuwaiti banks. This transaction provided a positive outcome for the creditors as well as FIC, as it has protected the creditors and provided a base for FIC to fulfill its financial obligations and continue its operations.

The groundbreaking use of Sukuk for restructuring bilateral debt has now put the creditors in a secured position by using company assets within Kuwait and five other jurisdictions. Previously, unsecured bilateral facilities were given to creditors. The collateralization of some FIC assets in Kuwait and other jurisdictions to security agents, acting on behalf of the creditors, has now placed the creditors in a better position.

The transaction involved Liquidity Management House as the lead arranger, representing six banking institutions; while Al Tamimi & Company Kuwait office was the lead counsel in the transaction, representing the creditors in drafting the documentation and negotiating the provisions of the deal. This deal was groundbreaking in that it was the first time Sukuk was used to restructure bilateral debt.

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Can ISRA bring thought leadership into Islamic finance research?

MALAYSIA

By Nik Norishky Thani, IFN Correspondent

At a time when the global economy continues to be gloomy, it is not unusual to see cost cutting exercises and various austerity measures being introduced, particularly in activities that are considered less essential to the bottom line of a corporation. It is therefore very heartening to see the International Shariah Research Academy for Islamic Finance (ISRA) continuing to make important strides for the benefit of the industry.

Since its inception in the midst of the global economic crisis back in 2008, ISRA has produced 26 research papers covering specific unresolved industry issues, from purchase undertaking for equity-based Sukuk to broader analysis such as applying Maqasid al Shariah in the development of Islamic finance. The research papers are available for just over US$2 each – it is hard to imagine that ISRA is making much profit at this pricing. But that is exactly what makes ISRA's efforts so special; it is bringing new ideas to the masses by making knowledge on Islamic finance and economics more accessible.

Accessibility however is not just about the pricing of research papers but the overall capacity to reach out to the masses. Applied research increases the level of knowledge through better understanding of Islamic epistemology and leads to finding new ways of utilizing it in finance and economics. For example, ISRA's International Shariah Scholars' Forum (ISSF), an annual event that brings scholars together in a constructive dialogue, is beginning to emerge as one of the few conferences that actually addresses or, at the very least, attempts to resolve industry issues in a more definitive manner.

The most recent ISSF, on the 1st December 2011, concluded with a resolution to develop an analytical study of the various aspects of financial intermediation along with detailed steps for implementing Maqasid al Shariah into practice. It was also proposed that the findings be presented to the OIC Fiqh Academy.

Although it is still in its early days, the ISSF has the potential to bring more transparency to the process of Shariah reasoning and analysis. It is of great consequence for the industry because if we are to progress and innovate further, understanding the reasoning process behind every scholar's consensus or opinion is every bit as important as the fatwa itself.

The pursuit of knowledge in Islamic finance is not a new idea and there have been other initiatives that pre-date ISRA. Where others have failed stems from their failure to be all-inclusive, because too often the sharing of knowledge and ideas in Islamic finance fails to make a connection with the public.

Whilst Islamic finance products themselves are widely available, the idea that Islamic finance serves social justice and works as a viable alternative to conventional finance has yet to take a firm root in the public's mind. It is such failings that lead to basic misunderstandings that continue to persist: such as the assumption that Islamic finance products are mere derivatives of conventional finance products — although to be fair, this particular piece of criticism, as we all know, can sometimes have a valid point.

With industry support, ISRA can bring about better understanding of Islamic ideas in the field of finance - not just to the industry players, but also to the public at large, by making thought leadership in Islamic finance more accessible.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of Permodalan Nasional Berhad.

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France: 2011 ends with promising 2012 outlook

FRANCE

By Antoine Saillon, IFN Correspondent

French Islamic finance continues the process of reinforcing its foundations. The launch of Chaabi Bank's Islamic deposit account in June 2011 has been very beneficial to the industry.

It proved that, with the necessary commitment and investment, it is possible to open an Islamic window and distribute Islamic banking products in France. This December, Chaabi bank has opened a new Shariah compliant deposit account for corporations. With this new feature, Chaabi addresses a latent need of small businesses for Islamic banking products. Small businesses have voiced an important demand for Islamic products, as French Muslims are known for their entrepreneurship and represent an interesting customer base for Islamic banking.

Reinforcing this positive trend, consultancies have been busy, such as the French branch of the Islamic Finance Advisory and Assurance Services and 570 AM. Projects are numerous, and a growing number of varied institutions are now working on Takaful company projects and products. Paris EUROPLACE should publish a Takaful report on this soon.

International investors have a continued interest in the promising French market. They understand that now is a good time to look seriously at opportunities.

Developing banking activities in France takes a few months of planning. As the election season will take place in the first semester of 2012, starting to prepare for projects now is necessary for an actual start before the end of 2012.

Confirming France's openness to the industry, a French Sukuk guide book was also published last month, making public for the first time two French Sukuk structures. Moreover, the main 20 AAOIFI Shariah standards have been officially translated into French and should be published soon.

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A step forward for Islamic finance

PAKISTAN

By IFN Correspondent

Dubai Islamic Bank Pakistan, one of Pakistan's five licensed Islamic commercial banks, plans to expand with 25 new branches in various cities across Pakistan during the next year.

The bank commenced operations in Pakistan in 2006 and currently has 72 branches with plans to open an additional 25.

This is one of the bank's major initiatives for the promotion of Islamic banking and finance in Pakistan.

Under its consumer banking division, Dubai Islamic Bank Pakistan offers Shariah compliant products that effectively compete with those being offered by conventional banks: ranging from retail, private, small and medium-sized enterprises, corporate, investment banking and advisory services.

Islamic Research and Training Institute and the State Bank of Pakistan's training program

As part of its awareness and educational initiative for Islamic banking and finance, SBP in collaboration with the IRTI (a member of the IDB Group) conducted a five-day international training course titled 'Islamic Banking and Finance: Philosophy, Practices and Issues' from the 21st-25th November 2011 at the National Institute of Banking and Finance in Islamabad. Participants from Turkey, Maldives, Bangladesh and Pakistan attended the program.

The main areas covered in the program included an overview of Islamic finance; global and local developments; challenges and strategies for the future growth of the industry; distinctive features of an Islamic banking system; Islamic business ethics; risk and liquidity management in Islamic banking; Takaful; Islamic microfinance; Sukuk; public debt and the role of Islamic finance; and Shariah governance.

Pakistan's unique experience in the evolution of Islamic banking and Mudarabah as well as mutual funds in Pakistan also came under discussion.

Renowned scholars, Islamic financial professionals and regulators including Professor Khurshid Ahmed, Dr Munawar Iqbal, Dr Anis Ahmed, Dr Shahin Shayan, Riaz Riazuddin, Saleem Ullah, Fadlullah Wilmot, Dr Muhammad Qaseem, Dr Osman Babiker, Salman Younas, Bilal Rasul, Omar Mustafa, Munir Ahmed, Faisal Shaikh and Muhammad Ayub deliberated on their areas of expertise and shared their experiences.

Road Map 2020 for Islamic banking in Kazakhstan

KAZAKHSTAN

By Timur Alim, IFN Correspondent

Significant changes have been made since November 2011 towards the further development of Islamic banking in Kazakhstan. On the 27th of October 2011 a special decree from the prime minister was issued to the relevant government authorities to promote Islamic banking in the country. This was made after a series of negotiations between key players on the market, comprising various stake-holders and decision-makers. This decree addresses several areas where special attention from the government and the National Bank of Kazakhstan is required.

However, the main idea of this document is to establish long-term goals and indicators to monitor the development of Islamic banking in Kazakhstan. The establishment of a 'Road Map 2020' is one of the paramount items of the document. Thus, the following decisions and activities should take place before the end of 2012:

- A special authority from the government will be appointed to become the main supervisor for Islamic banking in Kazakhstan. This role was initially played by the Regional Financial Center of Almaty. However, due to the liquidation of this entity in 2011, Islamic banking has been without any patronage from the government. The National Bank of Kazakhstan is expected to play this role in the future.
- A special group will be created to develop a program to develop Islamic banking in Kazakhstan. A 'Road Map 2020' should be presented to the prime minister by the end of 2011.
- National Bank of Kazakhstan's entry to the IFSB should be accelerated in order to gain the required experience in the regulation of Islamic banks and Islamic financial institutions.
- In order to secure the long-term role of Kazakhstan as a hub for Islamic banking in Central Asia, Islamic banking studies should be included in the curriculum of universities in Kazakhstan.
- Negotiations should be started with the Islamic International Rating Agency in order to obtain a sovereign rating for Kazakhstan. This will help to attract institutional investors to the country.

> *"The Kazakhstan state authorities are seriously committed to the development of Islamic banking"*

- Potential infrastructure projects should be identified to be financed via Islamic modes of finance, such as Sukuk.

The planning of the above-mentioned initiatives once again proves that the Kazakhstan state authorities are seriously committed to the development of Islamic banking.

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Wealth protection strategy: Invest in silver

By Shan Saeed

Global economic outlook

Stocks have been slogging through muck for a number of years. The market has been discounting earnings and rewarding surprise statements from the Fed. It is the outward sign of a corrupt, inbred kleptocracy. And you would be right to wonder why you should bother with the markets at all.

Over the past week, I have seen an 800-point move on the Dow 30, based on a coordinated bank action to supply liquidity to the Europeans banks. There are very few people who know what this means in systematic terms, but to the market it meant Europe wasn't going to go down in a blazing ball of credit default contagion. And this was good news for the short-term.

Cash on the sidelines was put back to work, and just about every stock went up. But much like the bottom in 2009, this didn't solve the underlying debt problem. It is just another case of printing money. And sooner or later, excess money will lead to inflation. It always has in the past. In the US, inflation means debt goes down and the price of housing will (eventually) go up. But in places like Germany — where many investors put their money in insurance programs and the majority of people rent rather than own property — inflation means savings go down and rent goes up.

My job is to provide strategic wealth protection advice to savvy investors — investors who are not afraid to take control of their financial future — with actionable wealth-building regimes. Many savvy investors believe assets like silver and gold are the best bet in hard times. That is true.

Africa is rising fast. Over the past decade six of the world's 10 fastest-growing countries were African. In eight of the past 10 years, Africa has grown faster than East Asia, including Japan. Even allowing for the knock-on effect of the northern hemisphere's slowdown, the IMF expects Africa to grow by 6% in 2011 and nearly 7% in 2012: about the same as Asia. General growth aside, most of the boom is due to commodities.

Invest in silver – the real asset, the Islamic way

The Islamic way of investment provides wealth protection against hard times. Buying physical spot silver or buying silver stocks/equity is absolutely the legitimate form of Islamic wealth protection. Physical silver is simply evaporating from the global markets, with delivery going from immediate, to three days to a week now, and that too without a guarantee of delivery.

Due to national debt crises globally, silver is already an incredible investment. Over the past 10 years, it has gained as much as 755% — more than oil, real estate and even gold.

The Chinese used to export 100 million ounces of silver every single year – but there is such a shortage that they now have to import 112 million ounces every year. (China accounted for 22% of the world's silver usage last year).

And with this shortage occurring globally, it is the best investment, as worldwide annual silver production stands at 735 million ounces and worldwide consumption at 878 million ounces. Thanks to my research, I have found what I believe are the best ways to potentially make gains from 500% up to 1,900% from the coming silver shortage.

Silver shortage is investment number one. I believe every investor needs to own real, physical silver. This is the best form of silver in the world – a rare coin that's both affordable for the average investor and has tremendous upside potential. The bottom line is, if you've never invested in silver before, think about it. Silver is the best investment of the decade.

It is a fundamental law of economics that when there is a shortage of something of great value, its price will increase tremendously. Silver demand in China and India is set to rise by 40% in 2012. Do you want to board this investment train? Hurry up and jump aboard to make profit.

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.

Daud speaks

By Daud Vicary Abdullah

Over the last several years I have often thought about 'collaborations'. These thoughts have generally been prompted by the need to partner with another organization in order to get a job done and on occasion have been more directed towards strategic collaborations. Increasingly, over recent months, I have been more drawn to the strategic side of things. The last few days have given me an opportunity to think a little bit more about various strategies and I thought that as we are fast approaching 2012, I should share one of these with you.

I have always been a great believer in competition and as a relatively new industry, in its modern guise, Islamic finance has grown rapidly in every aspect. New financial institutions, new regulatory and standard-setting bodies, new training organizations, new arms of professional services companies, Shariah advisory companies, and places of further education; to name but a few.

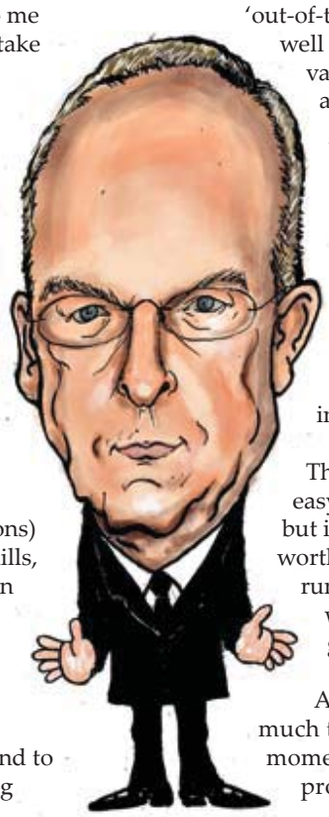
All of these organizations have been set up over the last couple of decades with a view to both adding value to the market and capitalizing on the business opportunity presented by the growth in our industry. It would seem to me that 2012 may be a good time to take stock of this proliferation and investigate whether or not we may achieve greater growth and relevance by focusing on some strategic outcomes that involve greater collaboration and even consolidation.

To my mind there is a great need for standards throughout. One area is that of professional standards and accreditation for the Islamic finance Industry, so that education and training institutes deliver 'industry-driven' (by industry professional organisations) and professionally accredited, skills, competency and higher education programs.

Ideally, this will require some form of global professional industry practitioner body to identify industry requirements and to communicate them to the training and education organizations. These would then need to be accredited, in accordance with international standards, to ensure that what they are delivering is in accordance with industry requirements.

> *"Some form of global professional industry practitioner body is needed to identify industry requirements"*

This has already started to happen in Malaysia, which is displaying some leadership in this particular area. However, when I start to think about how this process could be established on a global basis, I do foresee some challenges. That is where strategic collaboration starts to become important. If we could encourage a little more 'out-of-the-box thinking' as well as encouraging the values of partnership across borders and jurisdictions and provide the necessary encouragement to look at issues from a holistic rather than a nationalistic point of view, I am convinced that, as an industry, we could move forward in leaps and bounds.



This is not going to be easy in the short-term, but it is going to be very worthwhile in the long-run. I, for one, will be working towards this goal.

As usual, there is much to do and not a moment to lose. Have a productive 2012.

Absa Islamic Banking poised to ride Africa's Islamic banking wave

Following the South African government's recent announcement of its plans to issue the country's first sovereign Sukuk, Absa Islamic Banking (Absa Islamic), the Shariah compliant arm of Absa Bank, may be among those best positioned to capitalize on the country's Islamic finance initiatives.

As one of the few home-grown banks to provide full-service Islamic banking in the country, the bank is also looking to expand its presence across its home continent, leveraging the strength and experience of its parent bank, Barclays.

With awareness and interest in Islamic finance picking up across Africa, South Africa's reputation as the continent's success story could represent a major advantage in promoting the industry's growth in the region. Couple this with Absa Islamic's existing expertise and its home-ground advantage, and the bank may just emerge as the leading Shariah compliant finance player in one of the world's most exciting markets yet.

Solid foundation

One of Absa Islamic's key successes is its standing as a fully-fledged Islamic bank in a market where Shariah compliant finance has been slow to take off, despite what is seen as latent demand from the country's approximately 80 million Muslim population.

In a response to Islamic Finance *news* Amman Muhammad, the managing director of Absa Islamic, remains optimistic regarding the unit's growth going forward. "As Absa Islamic is not just a provider of Islamic banking services but also of Takaful, investment and estate planning solutions, we see a few potential growth areas. Among the focus areas on the banking front are business and corporate banking; and our unique wealth offering that provides exceptional service by skilled and experienced bankers; all done while upholding stringent Shariah compliance."

In addition, the unit plans to consolidate its leadership position in the corporate and investment banking space next year. According to Amman, this will be achieved by tapping further into the Absa group's strong national and international footprint and distribution strength to reach communities and businesses seeking an Islamic finance alternative in South Africa and the wider African continent.

"Our African growth plan is well in motion," he noted, adding that hand in hand with Barclays, its parent company, Absa Islamic plans to roll out its services in "a few more" African countries through its 'One Bank in Africa' strategy.

He also said that following the unit's acquisition of South Africa's sole Takaful firm, Takafol SA, in September this year, its main aims now also include growing the Islamic insurance business and transforming it into a household name.

> *"Our African growth plan is well in motion"*

Government game-changer

The Islamic finance industry has also been buoyed by news of South Africa's planned debut sovereign Sukuk, to be issued via the National Treasury; and this optimism has spilled over into positive expectations on the growth of the industry, not just domestically but across Africa.

"This will be the first liquid, listed and tradable Shariah compliant instrument in sub-Saharan Africa and one of very few on the continent. The impact that this would have on the Islamic finance industry would be significant as there is a demand for such certified instruments that could act as banking regulation-compliant liquid assets for banks, and fixed income securities for asset managers," commented Amman.

He also believes that Sukuk represents a "perfect" alternative for much-needed fundraising in South Africa, for a variety of core infrastructure projects that would attract warmly welcomed foreign direct investment.

The planned sovereign Sukuk is also likely to benefit the local Islamic banking industry, helping to raise crucial awareness of the country's Shariah compliant market.

"The Islamic banking industry in minority Muslim countries is always challenged by the lack of appropriate awareness and education around the mechanics of this alternate form of banking. The Sukuk issuance will certainly go a long way towards opening the minds of all that there is an alternate way of doing banking," noted Amman.

On Absa Islamic's part, he also said that the unit views itself as an integral part of the overall process of bringing Islamic banking to South Africa. The unit also hopes to leverage Absa group's position as one of the largest local banks to help further the growth of Islamic finance in the country.

Bright prospects

Meanwhile, Amman was unable to comment on expectations of Absa Islamic's financial position, as the bank is currently preparing to close its books for the 2011 financial year.

In the period ended the 30th June this year the banking group, which reports results half-yearly, recorded profit of ZAR4.83 billion (US$575.95 million) against ZAR4.11 billion (US$490.1 million) a year earlier, on an asset base of ZAR715.92 billion (US$85.37 billion).

With its strong financial position and having emerged as an early mover in the South African Islamic finance market, Absa Islamic appears poised to dominate Africa's Shariah compliant financial industry. Nonetheless, further efforts are undeniably needed to ensure the industry's continued growth and to cement the success of the advance guard players.

However, Amman remains optimistic. "Much can still be done, but at this point we are pleased with the efforts of the South African government, specifically in levelling the playing field by making changes to the South Africa National Taxation Act in recognizing Islamic finance products for the very first time; and now with our government making public its intention to issue Sukuk." — *EB*

Africa: Collateral financing from an Islamic finance perspective

MOHAMMAD HARIS offers an analysis of collateral financing transactions in Kenya which adhere to Shariah standards.

The potential of Africa as a commodity exporter is vast, as it is gifted with a broad range of exportable commodities such as minerals, oil, tobacco, coffee, cotton, cocoa, tea and other primary and processed products. On the import side, Africa offers a wide market for commodity trade finance potential, for financing imports including oil, agro-chemicals and fertilizers.

Historically, African banks' involvement in trade financing has been limited and primarily enacted through general purpose overdraft lines due to the simplicity of balance sheet lending; with an emphasis on fixed assets collateral and credit history.

Lately, and keeping in view the inherent risks in commodity financing, certain structures for mitigating and shifting the risk from transactions have been developed. These structures are often referred to as structured commodity finance or commodity-linked finance and are transactional in nature.

Collateral financing

Collateral financing is an arrangement between a bank, a client and a collateral manager (CM), under which the bank secures the financing/credit it has granted to the client by placing the goods, pledged by the client in favor of the bank, under the custody of the CM until such time as the client has settled the credit facility.

The arrangement requires the services of a reputable CM who monitors and takes physical control of the commodities on behalf of the bank. The responsibilities of the collateral manager are clearly spelt out in a tripartite CM agreement between the borrower, the bank and the CM. The key responsibilities are:

1) Custody of the goods on behalf of the bank who has a pledge on the goods;

2) Inventory management and issuance of stock reports;

3) Release of goods;

4) Maintenance of uninterrupted and exclusive possession of the goods and the warehouse;

5) Identification of the goods/separation from other goods; and

6) Acting upon instructions of the bank only.

> *"A typical collateral financing transaction is structured as a Murabahah contract"*

Gulf African Bank

Gulf African Bank (GAB), Kenya's first fully-fledged Islamic bank, started its operations in March 2008 and immediately realized the importance of structured trade financing in the Kenyan context. It embarked upon the exercise of building internal capacity to offer this specialized product to players in different industries. The exercise resulted in the setting up of a structured trade unit. GAB has established close working relationships with some of the best international companies offering collateral management services.

Typical risks considered by GAB that are associated with the product are manifold: including infrastructure, quantity, quality, price, business, liquidity, legal and fraud. Mitigating risk factors would include obtaining better information regarding clients, commodities and hedging in order to keep price movements under control.

Shariah compatibility

GAB's primary reason for aggressively marketing collateral financing (CF) transactions is due to their nature which perfectly adheres to Shariah standards. A typical CF transaction is structured as a Murabahah contract. It starts with an importer approaching the bank and requesting a CF facility. GAB then undertakes detailed due diligence covering factors such as:

- Production risk: Will the customer produce the goods that will enable repayment;
- Diversion risk: Will the customer deliver the goods to the selected buyers?
- Country/political risk: Could country problems or government intervention lead to non-payment?
- Price risk: Will the value of the goods delivered be enough to reimburse the facility?
- Payment risk: Terms and conditions;
- Currency risk: Foreign/ local currency convertibility;
- Non-compliance/client integrity risk;
- Delivery time, quantity, logistics, insurance, legal risk;
- Transactional risk: Physical movement of goods and documents;
- Buyer's risk: Failure to honor contract;
- Risks related to product value and quality.

A critical part of the due diligence is to hold discussions with CM companies to gain important and relevant knowledge on the product being financed. All major international CM companies offer expert advice on risks associated with various products and how best to mitigate such risks. This process also involves bank representatives visiting storage places

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with the client and CM to ascertain thir suitability for the purpose.

> ***A critical part of the due diligence is to hold discussions with CM companies to gain important and relevant knowledge on the product being financed***

Once due diligence is complete and the CF facility is approved, the bank issues the Letter of Credit (LC) in favor of the overseas supplier. Upon receipt of import documents, GAB makes payment under the LC to the supplier and simultaneously releases the documents to the CM. The CM acts as the bank's agent in clearing the consignment from customs and transporting it to the storage place owned or rented by the bank. It also provides the aforementioned services under the tripartite agreement.

As is evident from the above-mentioned process, the payment is made by the bank directly to the supplier, which is the preferred method of payment under Shariah.

In addition, the delivery is taken by the CM acting as the bank's agent. This is different from the prevailing practice (among most Islamic banks) of the bank's client acting as agent for taking delivery. AAOIFI Shariah standards on Murabahah prefer the bank or its third party agent to take delivery of goods, as opposed to the client acting as an agent which is only allowed by AAOFI in exceptional cases. Furthermore, the CM stores the goods in a designated warehouse prior to purchase by the client. This brings clarity in terms of who is responsible for ownership risk during the different phases of the transaction.

In the case of a client's failure to buy the goods within the stipulated period, the bank would sell the goods in the market. In cases where it is unable to sell the consignment for an amount that would cover its cost price, it has the right to go after the client based on the original 'promise' made by the client to buy the goods from the bank.

Conclusion

In addition to being compliant with Shariah standards, this structure has allowed the bank to customize financing structures for solving complex client requirements, increase competitiveness levels, finance weak balance sheet companies, and to have clear recourse over pledged goods in case of default or bankruptcy.

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Reducing poverty: The prospects of Islamic finance in Africa

BASHEER OSHODI believes that the Islamic finance global growth of over 15% per annum may not make much impact in Africa if the continent is unable to solve its poverty challenges.

There has been much talk of the poor performance of Africa's development and governance indicators when compared to other regions. Attention has also been focused on Africa's poor performance in meeting the Millennium Development Goals and the inability of the region to meet its 2015 targets. Others have stressed the national economic empowerment and development strategy: designed to implement economic and institutional reforms, poverty alleviation, wealth creation, employment generation and value reorientation.

Redefining poverty in Africa

From a purely economic perspective, it is generally believed that Africa (unlike China or Japan) does not have any proficient indigenous model, so westernized neo-classical economic and political theories are pushed to the region with the assumption that they will be as effective as they were in Europe and North America.

Many also argue that the Islamic economic system is only a theory that existed hundreds of years ago and hence cannot fit into the ethno-linguistic diversified African states. How possible is it then that Islamic finance can reduce the impact of poverty in Africa within the context of the continent's overall socio-economic position? Or should the question be changed to how best to use Islamic banking and finance to solve the poverty challenge?

Islamic finance 'as is'

The Islamic economic system is an all-encompassing socio-economic model based on fiqh muamalat. Islamic finance is viewed as a subset of the overall Islamic economic system which constitutes a part of Islamic civilization. Islamic finance 'as is' in Sudan is systemic, being a state-led program specifically designing products to alleviate poverty with the use of Musharakah, Mudarabah and Murabahah structures as well as the development of tailored guidelines and products to address productive families. Compared to Sudan, Islamic finance is a relatively new phenomenon in Nigeria; although big conventional commercial banks are already seeking to offer Islamic banking in the country, seeing it as an opportunity to offer yet another financial product into the market.

Apex Bank in Kenya and Nigeria argues that it will help provide financial services for the huge unbanked Muslim population while increasing funds in the formal economy. However, there is evidence from Nigeria and Tanzania that some banks offering Shariah compliant products only offer liability products that do not give anything back to customers, on the basis that Shariah compliant deposits need to be generated before asset products can be considered. Generally, Islamic finance would benchmark profits to interest in order to remain competitive while mimicking conventional products, provided Shariah compliance can be established.

> ***"While South Africa has sound infrastructure, Nigeria would need to use Sukuk to solve its infrastructural poverty challenge"***

Islamic finance 'as it will be'

The next phase for Islamic finance in Africa will be that of aggressive competition; with banks competing for market size and market leadership. In South Africa, a top bank has already shown a preference for other jurisdictions rather than its saturated home market in order to capture virgin territory. The Islamic finance industry in Africa will however witness great success in the area of Sukuk.

South Africa, with barely one million Muslims, is about to launch the first sovereign Sukuk outside the Muslim world; while Nigeria is making efforts to do the same. Nigeria presently enjoys relatively favorable regulation and may have more Sukuk in terms of value than the rest of African countries over the next 10 years. While South Africa has sound infrastructure, Nigeria would need to use Sukuk to solve its infrastructural poverty challenge.

Kenya is patiently waiting for Sukuk to cover the bonds and T-bill market while giving some priority to Takaful. In Tunisia, the African Development Bank (AFDB) is committed to using Istisnah contracts to improve the country's real estate, infrastructure and energy sectors while creating thousands of jobs and other benefits. The IDB is also making its presence felt more in the continent and is currently paying attention to large-scale agriculture projects which will create employment and have a positive impact on most categories of poverty.

A bank in Nigeria is considering using agro-commodities Murabahah for liquidity management instruments, which will also touch the lives of the rural poor in many ways, while considerations for agro-Sukuk will benefit Africa as a whole. There will generally be a shift from retail banking and microfinance banking to investment banking. However Sudan's integral Islamic finance microcredit style should also be encouraged across Africa to support the poor entrepreneurs.

Islamic finance 'as it should be' in Africa

The primary purpose of the Islamic economic system via Islamic finance is to achieve a moral economic system which should have an increasing effect on wealth creation while poverty,

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income inequality and unemployment is reduced. In reality, Islamic finance on its own in today's neo-liberal world cannot reduce poverty but will need to operate within the context of the overall socio-economic and political framework in order to have any real impact.

While Nigeria takes advantage of its oil wealth to create investment opportunities, Mali may not have as much endowment in wealth creation, regardless of the size of its Muslim population. The rebirth of Egypt and Libya should witness new investment in Islamic banks offering Shariah compliant products and services primarily aligned towards customer value architecture or people-biased propositions.

Islamic banks in Sudan and South Africa should invest in Mali, Niger and Chad, based on overall socio-economic needs of customers, while the continent should also float Sukuk funds for the region – a role that the IDB and AFDB can play jointly with other financial organizations. In the same light, Africa should have its own Islamic finance reserve institution primarily aimed at poverty reduction while fostering mutual corporation in a moral economic environment.

> ***"The rebirth of Egypt and Libya should witness new investment in Islamic banks offering Shariah compliant products and services primarily aligned towards customer value architecture or people-biased propositions"***

Conclusion

Islamic finance global growth of over 15% per annum may not make any sense in Africa if it is unable to solve its poverty challenges. It will also have no meaning to the people if African countries achieve economic growth as a result of foreign trade, investments and aid but achieve no real development because the needs of the lower segments of the population are ignored.

People will start to question the primary purpose of Islamic finance if it only meets aspects of Shariah compliance without addressing poverty needs. It is thus necessary for governments, international organizations and business organizations to engage in a more holistic vision rather than just focusing on the financial benefits.

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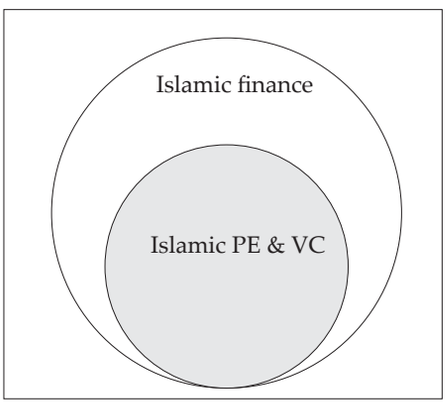
Islamic private equity and venture capital investment

Islamic private equity and venture capital are fundamentally no different from their conventional counterparts, except that the former must comply with the principles of Shariah. ZAID HAMZAH shares his insights.

It is often said that because risk taking and profit/loss sharing are integral characteristics of Islamic finance, Islamic private equity and venture capital (PE and VC) are a natural fit to Islamic finance, or what Islamic finance should really be all about. That is, it should be more an investment than a 'lender-borrower' transaction.

While I would categorize Islamic consumer financing, corporate finance (especially Sukuk financing), Takaful and asset management as mature products that have achieved some degree of product design stability, Islamic PE and VC investment is clearly still an emerging sector.

Islamic PE and VC exist as a sub-set of Islamic finance and are usually sub-categorized under Islamic asset management or Islamic investments.



As one of the key financing sub-sectors, Islamic PE and VC are fundamentally no different from conventional PE and VC except that Islamic PE and VC investments must comply with the principles of Shariah. So the compliance requirement is the key difference and because Shariah imposes more restrictions, the range of Islamic PE and VC investment opportunities or deals is therefore more limited.

The nature of PE and VC

PE and VC investment is about buying companies or taking equity stakes in ventures, improving their performance and selling them off for a profit. PE and VC investments are made primarily with a view to exiting with a higher premium. Venture capital is a sub-set of private equity and usually refers to investment in riskier start-up ventures, while private equity deals tend to involve more mature investee companies. The ultimate purpose of PE and VC deals is to invest in companies in which the investors see commercial promise, and to exit from the investment after a number of years to secure their return on investment.

Islamic and conventional PE and VC

The drivers and levers of performance are the same for both conventional and Islamic PE and VC. Market forces and industry dynamics that affect PE and VC deals are similar whether the deals comply with Shariah principles or conventional. So in Islamic PE and VC, it is really more a compliance issue, specifically Shariah compliance. For example, a hostile investment or takeover is usually regarded as unethical and therefore not acceptable in Islam.

Subject to compliance with Shariah principles, Islam does not prohibit the maximization of profits in investment ventures. Indeed such investments or business successes are to be encouraged in Islam if they create economic wealth and improve the lives of the community (Muslims and non-Muslims). Islamic PE and VC are in essence ethical forms of investments.

Being Shariah compliant does not make a PE and VC investment more risky or more profitable. The Shariah compliance element will of course reduce the number of investment opportunities because of the need to comply with Shariah principles: for example the avoidance of interest (riba) or not investing in enterprises with unacceptable debt ratios or those enterprises dealing with pork production or whose primary business is in alcohol-serving entertainment outlets.

Depending on how a PE or VC deal is structured and managed, Shariah compliance may be seen by some as an additional risk. This is a viewpoint with which I disagree. It all depends on how one sees and characterizes the transaction and the lens through which one sees the ultimate balance of risks versus rewards. In my view, weak strategic management skills are a higher investment risk than the so-called Shariah compliance risk. I see Shariah compliance as an integral governance and management issue for PE and VC investment performance and not as a driver or the tipping point that creates ultimate business success.

PE and VC strategies: Drivers behind performance

What drives the performance in Islamic (or conventional) PE and VC? It can be summarized in three guiding principles:

1. A combination of good techniques (strategic as well as operational) to improve PE and VC performance consistently as well as being able to develop the sensitivities to read the market situation, especially the industry dynamics; and to optimize investment timings, especially the entry and exit points. It is extremely important to develop the optimal strategy depending on the deal opportunities that crop up. With the right strategy in place, it will then be about rigorous implementation of operational efficiencies to secure better performance in the marketplace.

2. There is no investment 'magic' in any particular industry – for example, favoring emerging hot technology over the so-called traditional or 'old economy' investments is not necessarily a better investment approach. It is all about the quality of the investment opportunity. If a PE investor can make more money in a traditional business such as selling shoes through a robust distribution channel instead of investing in sophisticated patented technologies to manage a shoe sale supply chain online, then the PE investor should focus on investing in any venture that maximizes his chances of securing his

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return on investment. Quality deal sourcing is key in the entire PE and VC value chain. Usually good deals attract competing bids from investors and how fast an opportunity is seized can make all the difference.

3. Ultimately, success will be about finding investment managers or investors with the right soft skills (strategic, tactical and operational) supported by rigorous systems and processes to secure high performance in the execution phase. Some have described this as operational engineering capabilities. To quote Kaplan:

   "PE firms improve firm performance, and maximize their investment returns, by engineering changes to the financial, governance, and operational aspects of the companies they buy. PE investors also appear to take advantage of market timing – and market mispricing – between debt and equity markets, particularly when they take publicly owned companies private."

It goes without saying that in Islamic PE and VC, compliance with Shariah and the quality of the Shariah committee providing oversight would be a further important requirement.

Developing the overall investment strategy

It has been said that successful PE and VC investment is about sensing opportunities and gut feeling. In my view, while that is something to be considered, it is better to take a more structured and disciplined approach in evaluating investment opportunities.

To succeed in both conventional as well as Islamic PE and VC, it is important to start with an overall investment strategy that looks principally at the following:

1. Investors' risk appetite and strategic investment directions;
2. Quality of the management of the investee companies;
3. Quality of investee companies including their governance practices and compliance with prevailing laws and regulations (therefore a rigorous due diligence is required);
4. Proof of market demand for the products and services of the investee companies and the industry trends;
5. Quality of the product and services of the investee company including the technology and any intellectual property rights;
6. How much effort would be required to turn around the investee company to maximize the value of the investment for final exiting – the easier it is to turn around a company, the lower the cost of investment will be;
7. Strength of the investee companies' financial plans;
8. Investor's investment horizon and timeline.

> ***"Subject to compliance with Shariah principles, Islam does not prohibit the maximization of profits in investment ventures"***

Strategic management insights and practical tips

1. Be strategic and always look at the bigger picture and avoid blind spots that may affect your investment deals.
2. Spreadsheets and balance statements do not reveal the whole story nor do they shed light on the entire picture – understand the operating environment of the investee's business and the opportunities available, and study the operations very carefully to shape or reshape the balance sheets onto the next growth path.
3. Objectively evaluate the management skills of the investee company management team – ensure they have industry-specific expertise and have the skill set to see through the entire process from ideas to the market place.
4. Do fewer but higher value deals – when investment resources reach a certain level, smaller deals cannot create strategic impact. To secure stronger returns, it might be better to focus on a few high value deals.
5. Carry out thorough research about the investee company, the industry and the market:
   a) Is the business scalable?
   b) Is it in a high growth sector?
   c) Does the business have the potential to be a market leader? Is the business in a clearly defined niche in a fast growing area?
   d) What are the market trends in this area? First mover advantage is often good but sometimes learning from where first movers have failed and coming in second initially might be a better option.
6. Assess risks very carefully – spread investment risk with others if you cannot afford to go in it alone. You do not have to take too much risk at the outset – build upon milestones.
7. Invest in smaller amounts first, increasing investment amounts when objectives and benchmarks are met.
8. Leverage early success by focusing on small baby steps that lead to success. It is easier to build up something when there is an existing base compared to building from scratch – so investing in companies with an existing suite of products or services that can be improved is often easier than trying to build a product or service portfolio from scratch.
9. If there is a technology or an innovation, take ownership of it and not just a license.
10. Structure the transactions carefully – don't try to save legal fees by not using lawyers early in the deal process. Involve the Shariah advisors early and not only at the final stages.
11. Be prepared to adapt and change when market conditions and industry dynamics change – the investment environment is rarely static.
12. Always align the interests of investee company management with the investors.
13. Do scenario planning and test all eventualities realistically against the industry and market benchmarks.
14. Time is of the essence – the longer the investment is held, the more difficult it is to achieve superior returns.

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Indonesia's global Sukuk issuance: A sign of things to come?

Indonesia has put itself forward as a natural center for Islamic finance in the region because of its large Muslim population. However, FERZANA HAQ analyzes why the amount of Islamic finance activity, particularly on a cross-border basis, has been limited.

The Government of Indonesia recently issued its landmark US$1 billion Sukuk (due 2018), which closed on the 21st November 2011. Norton Rose advised Indonesia on the Islamic structure of the Sukuk as well as on the English law and US securities law aspects of the transaction. As the global markets head for another period of uncertainty, the success of the transaction shows the potential of Islamic finance as a viable method of financing. It also provides encouragement to Indonesian corporates and other entities to utilize Islamic finance as part of their fundraising activities.

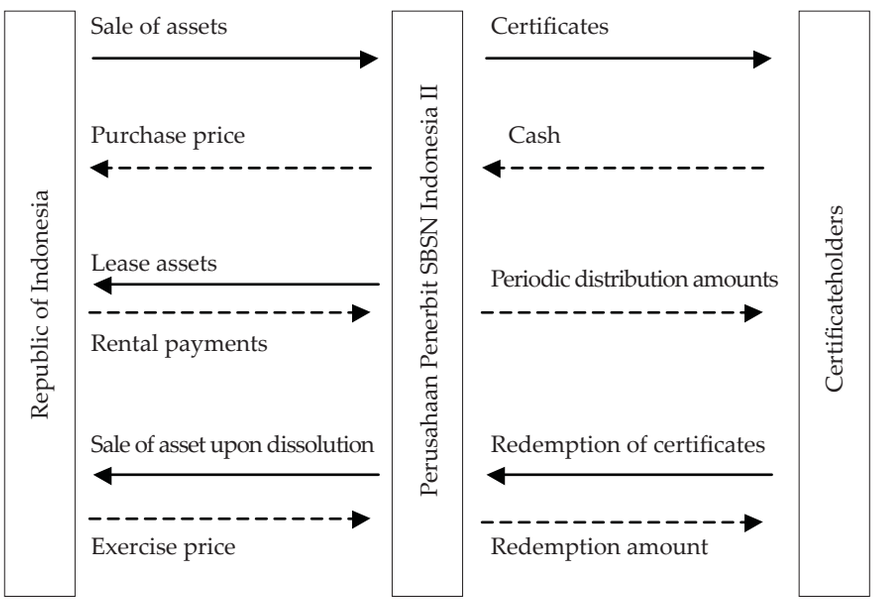
The transaction was significant for a number of reasons. It is only the second global Sukuk issuance by the Government Indonesia since its debut Sukuk issuance in 2009. It (Indonesia) is also one of the largest Sukuk issuances this year and exceeded the size of its first issuance (US$650 million). The 4% periodic return is the lowest coupon ever achieved by Indonesia for a US dollar issuance and is one of the lowest for international Sukuk issuances this year.

> ***"Indonesia recently announced that it intends to increase the frequency of its Sukuk issuances from next year"***

In view of the tightening credit conditions globally, in which bond yields continue to rise, this low coupon rate is an excellent outcome for Indonesia and reflects its improved credit rating (which at the time of the issuance was upgraded by Moody's, Fitch and S&P to a single notch below investment grade, and which has been upgraded further since the issuance to investment grade). Indonesia's enhanced credit rating demonstrates faith in the growth of its economy, which is particularly significant at a time when European sovereign debt ratings are under stress or have been downgraded.

Indonesia also recently announced that it intends to increase the frequency of its Sukuk issuances from next year. This shows its commitment to making Islamic finance an integral part of Indonesia's economic roadmap.

Table 1: The structure



Description of Sukuk

The Sukuk was based on an Ijarah (sale and leaseback) structure over government-owned real estate including buildings located throughout different provinces in the country. As set out in the diagram above, the beneficial interests in the assets were sold by Indonesia to a special purpose vehicle, Perusahaan Penerbit SBSN Indonesia II (PPSI — II) as issuer and trustee, which in turn leased the assets to Indonesia as lessee in return for periodic rental payments.

Indonesia granted a purchase undertaking to PPSI — II to purchase the assets upon dissolution, either at the end of the tenor or upon an event of default, for an exercise price equal to the redemption amount.

Structure

The Ijarah structure was adopted for a number of reasons. Firstly, it is a straightforward structure and is easily marketable to international investors. Secondly, Indonesia had a large number of unencumbered properties which could be used in the Ijarah structure for the duration of the Sukuk.

The Ijarah is particularly useful for long-term financing and can be structured in a manner that provides for regular payments throughout the tenor of the Sukuk. Investors are also assured of a fixed price redemption amount, as the

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purchase price of the assets to be paid under the purchase undertaking is fixed at the outset.

Special features

Even though the Ijarah is a commonly used structure, Indonesia's Sukuk issuance had a number of unique features. The Sukuk structure and documentation had to be approved by both the Indonesian Dewan Nasional Syariah (DSN, Indonesia's national Shariah board) as well as the Shariah boards of the three joint lead managers: HSBC, Citigroup and Standard Chartered Bank.

We were able to successfully balance the respective requirements of DSN on the one hand, and the joint lead managers' Shariah boards on the other. Secondly, rather than incorporating the special purpose vehicle offshore (as is usually the case), PPSI — II was incorporated onshore in Indonesia by way of a government decree.

Further, the transaction involved the sale of beneficial interests in the assets rather than sale of legal title. While this was also the case in Indonesia's 2009 Sukuk issuance, it is still a significant feature because Indonesia does not, in general, recognize the concept of trusts nor the separation between legal and beneficial title. In this case, Indonesia passed a decree permitting the transfer of beneficial title in the government-owned assets which are contributed to Sukuk used for government financing.

Benchmark for Indonesian corporates?

Despite its relative simplicity, the Ijarah structure may pose some additional challenges for Indonesian corporates seeking to utilize this structure. Firstly, a sizeable Sukuk issuance requires unencumbered assets of sufficient value to be contributed to the Sukuk, which may not be possible for many corporates. Secondly, as mentioned above, Indonesian law does not generally recognize the separation between legal and beneficial title.

Therefore, in order to transfer an ownership interest that would be recognized under Indonesian law, the corporate may be required to transfer full legal title to the relevant assets for the tenor of the Sukuk. This would not only be undesirable to the corporate, which will not want to part with legal title to its assets, but may also be impractical because of restrictions on the foreign ownership of certain classes of assets (such as real estate) and the imposition of substantial tax or stamp duties on such transfers.

> ***"Despite its relative simplicity, the Ijarah structure may pose some additional challenges for Indonesian corporates seeking to utilize this structure"***

In its recent announcement, Indonesia noted that its future Sukuk issuances are likely to involve more variations in structure, thereby indicating a willingness to move beyond the Ijarah-based Sukuk issuances to explore alternative structures. This would provide greater depth to the Islamic finance market in Indonesia and also set a good precedent for Indonesian corporates or other entities for which an Ijarah structure may not be suitable.

Future trends

Indonesia has for the past few years put itself forward as a natural center for Islamic finance in the region because of its large Muslim population. However, the amount of Islamic finance activities, particularly on a cross-border basis, has been limited. Critics have pointed out that even after Indonesia's first global Sukuk issuance in 2009, cross-border Islamic finance activity in Indonesia remained muted.

There are good reasons to believe that this is likely to change. Firstly, Indonesia's announcement that it intends to issue Sukuk more regularly and to utilize different structures will encourage Indonesian corporates to follow suit.

It also shows that Indonesia is committed to using Islamic finance as part of its regular financing activities. There is potential in Indonesia for Sukuk to be used not only for straightforward unsecured lending but also as a form of project or infrastructure-based financing.

In view of its rapid population growth, Indonesia requires vast improvements in its infrastructure in areas such as power production and distribution, water and transportation. This has created a significant funding requirement for infrastructure projects.

In many ways, Islamic finance is a natural fit for infrastructure projects. At its heart, Islamic finance favors asset-backed financing where the risks and rewards of the project are shared between the financier and owner/developer. Moreover, investors will be attracted to the stable and regular cashflows which the projects are anticipated to generate.

As global banks tighten their credit lines, it may become increasingly difficult to rely on conventional bank lending to finance large scale infrastructure projects. In the meantime, Indonesia's infrastructure funding requirements continue to grow. Islamic finance and particularly Sukuk may not only provide a credible alternative to conventional financing, but may also become a necessary means of satisfying this funding gap.

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Absence of Islamic agro-banks in Sri Lanka

As the global economies witness increasing demand for agriculture sector financing, Islamic finance is no exception. This demand can be met by various Islamic finance techniques. MUATH MUBARAK discusses.

Modern Islamic banking practices in Sri Lanka started their journey almost three decades ago in the form of projects and were later converted to fully-fledged Islamic commercial banks. This growth of Shariah compliant financial activities has spread to investment banking, project financing, capital markets, insurance, wealth management and microfinance. However, although some initiatives have already been undertaken in the GCC countries (including the IDB Group) regarding agriculture sector financing, the mainstream Islamic finance institutions still have no direct involvement.

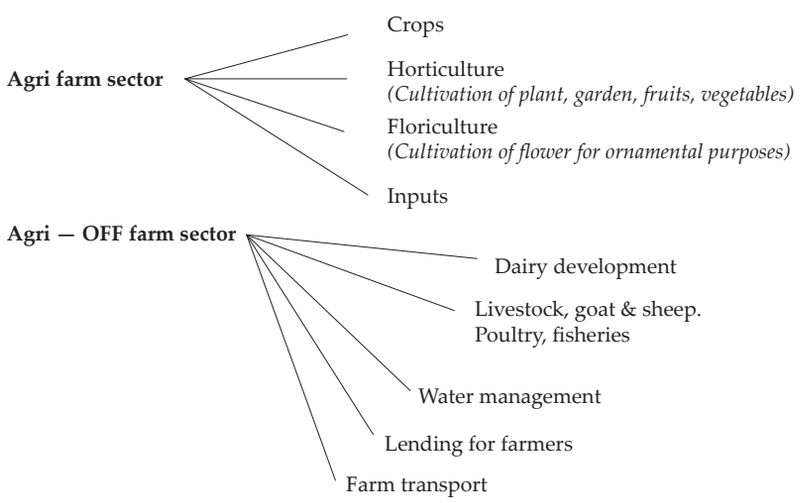
As the global economies witness an increasing demand for agriculture sector financing, Islamic finance is no exception. This demand can be treated by different Islamic finance techniques to cater for the market. Agriculture financing could be performed under various Islamic finance principles including trade-based/rental-based or participatory models.

- Trade-based Islamic financing provides financing through goods and commodities using concepts such as Murabahah, Musawwamah and Salam.
- Rental-based Islamic finance products for the agriculture sector involve the bank or financial institution undertaking the purchase of assets and then offering these to customers/farmers on a rental basis via Ijarah.
- The ideal mode of financing for the agriculture sector is the participatory model. This is where both parties get involved based on joint participation of profit and loss. The main products are Musharakah, Mudarabah, Musaqah, Muzara'a and Mugharasa.

The ideal participatory modes of financing for the agriculture sector can be described as follows:

- **Musaqah (irrigation)**: This mode of financing is very effective for the agriculture sector (especially orchards/trees) where a specified share of output will go towards labor and the other portion will go to the institution/enterprise itself. This is a partnership that depends on one party presenting designated plants/trees that produce usable goods to another in order to work on its irrigation in consideration for a common defined share in the fruits. AAOIFI has approved Musaqah-related Sukuk for trading.

Diagram 1: Diversified (agricultural) financing



> ***"The ideal mode of financing for the agriculture sector is the participatory model"***

- **Muzara'a (share cropping)**: This partnership is based around crops, with usually two or three parties involved. One party presents the land to another for cultivation and maintenance, in consideration for a common defined share in the crop. Three parties can be simultaneously involved in a Muzara'a where one party provides the land, the second party provides the input (seeds, chemicals, etc.) and the third party provides the labor for production. AAOIFI has permitted Sukuk for this and it is tradable, albeit with a relatively short tenor.
- **Mugharasa (agricultural)**: This is a legally viable option for the financing of the development of the trees. This is a partnership by which one party presents a treeless piece of land to another to plant trees in on the condition that they share the trees and fruits in accordance with a defined percentage. Sukuk Mugharasa can also be traded and this usually has a long tenor.

As per Diagram 1, this sector is a vast area with many different sub-sectors. The agriculture sector has some issues however, whereby finance institutions are can be reluctant to offer facilities. Banks rarely offer this kind of financing due to a number of reasons. One of the main issues is collateral, as small farmers and business people often do not have any acceptable collateral and are also not educated or financially literate.

Over 70% of the rural population in Sri Lanka depends on cultivation, livestock rearing or fishing for for their livelihood, including food and income security. The country's economy is dominated by the agriculture sector (approximately 13% of GDP in 2010), and it produces plantation

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Why are the banks not ready?	The banks' issues
Farmers are financially illiterate	Lack of vision in this sector
There is no collateral or collateral is not acceptable by the bank	No innovative products for this sector due to lack of technical knowledge
Limited automation and few modern techniques used	Lack of team capacity/value-based projects
Lack of awareness about banking practices	Lengthy process and high operational costs/lack of specialization
Poor financial dealings and management structures	Difficulty in identifying and offering products to eligible customers/ lack of transparency
Creditworthiness of customers and capacity for the cultivation	Monitoring and recovery becomes vital - must deploy a special team/no special applications or software.

crops such as tea, rubber, coconut, cocoa and spices for export purposes.

> ***"The country's budget for 2012 has highlighted multiple incentives and tax encouragements for the agriculture sector"***

The country's budget for 2012 has highlighted multiple incentives and tax encouragements for the agriculture sector. These include, among many more:

- A vision to move towards a self-sufficient economy through improving agriculture productivity in terms of rice, coconut, tea, rubber and spices.
- Depreciation of the currency by 3% in order to increase competitiveness in the global market.
- Tax removed for modern tech rice mills and production of coconut, palmyrah and kithul.
- Development of four rice exporting centers.

Conclusion

It is clear that the policymakers and financial service providers must create incentives for farmers by unlocking the current framework and encouraging Islamic financial institutions to accommodate this niche market.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 8 Issue 50

The year that was

Cover Story

It has been a turbulent year for the Islamic funds industry, particularly in the Middle East. Prior to the Arab Spring however, the industry was abuzz with activity, with numerous launches particularly in the equity fund sector – an indication that economic conditions were improving.

According to one data provider, the worst performing asset class in the first half of 2011 in the GCC were the equity funds, while the best performers were trade finance and Islamic funds, followed by money markets and bonds. This was not surprising given the economic climate, particularly in the GCC region, which saw plunging stock markets on the back of fears that instability could spread to other parts of the region.

However, as the dust began to settle, the strong performance and growing popularity of Shariah compliant funds has led to numerous launches in recent months. In fact the data provider notes that nearly all funds launched in the GCC in the first half of 2011 were Shariah compliant. The funds launched were mainly domiciled in the UAE, Qatar and Saudi Arabia. In Asia, Malaysia continued to launch numerous Islamic funds of all asset classes while further down the globe, it is worth noting that Australia launched its first Islamic equity fund – Crescent Australian Equity Fund.

HSBC Amanah and CIMB Islamic also made headlines with the launch of their respective Islamic securities services. HSBC Amanah launched its global platform in April for conventional and Islamic investment managers managing Islamic funds, while CIMB Islamic Securities Services made its debut to institutions and individuals, both domestic and abroad, in October of this year. JP Morgan Worldwide Securities Services launched a similar Islamic fund servicing last year.

The Sukuk market reached unprecedented heights in 2011, with Sukuk funds worldwide providing a safe haven of sorts in the midst of volatile global markets. One research firm is of the view that GCC investors in particular have developed a strong preference for this asset class. Should the volatility continue, investors are more likely to place a high proportion of funds into fixed income.

The biggest merger that made headlines this year was the union of Nikko Asset Management (Nikko AM) and DBS Asset Management (DBSAM), completed at the end of September. The merger involved the acquisition of DBSAM by Nikko AM for SG$137 million (US$104 million). What made this transaction interesting to the Islamic space is that fact that Nikko AM has also acquired a 51% stake in Asian Islamic Investment Management (AIIMAN), which is a joint venture between Singapore's DBSAM and Hwang-DBS (Malaysia) focused on Shariah compliant investment solutions. Despite having a new shareholder, no changes are expected to AIIMAN in terms of management personnel or direction of the company. This is Nikko AM's maiden foray into the Islamic finance industry.

Although the performance of Islamic funds remains strong, with empirical evidence to prove better returns than the conventional, it still stands at an estimated US$58 billion. This represents a mere drop in the ocean of their potential, considering that Islamic funds currently account for less than 6% of the US$1 trillion global Islamic finance industry.

The problem, it seems, still lies with the challenge of attracting institutional investors – whether Islamic or conventional. Jahangir Aka, a senior executive officer at asset management firm SEI Investments, has warned the industry that poor sentiment in financial markets and lackluster interest among Islamic institutional investors will probably bring this year's growth to a grinding halt or even signal a decrease.

According to Noripah Kamso, the chief executive officer of CIMB-Principal Islamic Asset Management, the Islamic asset management industry faces an additional hurdle – the problem of convincing conventional institutions that despite a smaller universe of investable assets, Islamic funds still have the ability to outperform the conventional.

The Islamic funds industry has overcome numerous adversities since the global financial crisis but the persistence from advocates of the industry will push it to the next level. This however, according to Noripah, can happen only if fund managers manage to move out of their comfort zone and start operating at an international level. Food for thought in the coming year. — *RW*

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New horizons

INDIA: Nikko Asset Management (Nikko AM) has entered into a joint venture (JV) with Ambit Holdings to provide investment management and advisory services in the country.

Under the JV, Nikko AM will take up a 50.1% ownership of Ambit Mauritius Investment Managers, which manages Ambit QInvest India Fund, a Shariah compliant long/short India-dedicated equity fund based out of Mauritius. It will also take up to a 49% stake in Ambit Investment Advisors.

The joint venture will also manage and advise the dedicated India funds of Nikko AM and Ambit Holdings, whose assets under management amounted to US$150 million as at the 30th September 2011.

Andrew Holland will be appointed CEO and chief investment officer (CIO) of the as-yet unnamed JV, which will also see Nikko AM assisting Ambit in building out its advisory team in India.

In a related development Bill Wilder, the president and CIO of Nikko AM, will be appointed chairman of the board of Ambit Investment Advisors.

In September, Nikko AM completed a merger with Singapore's DBS Asset Management (DBSAM), which also gave it a 51% stake in Asian Islamic Investment Management, a joint venture between Singapore's DBSAM and Hwang-DBS (Malaysia) focused on Shariah compliant investment solutions.

Switching to Islamic

MALAYSIA: ASM Investment Services is aiming to convert all seven of its conventional funds into Islamic funds by the end of 2013 to position the company as a fully Shariah compliant fund and asset management company, said Nik Mohamed Zaki Nik Yusoff, its CEO.

Nik Mohamed added that the company will require the approval of its trust unit shareholders and the Securities Commission Malaysia for the conversion plan and that the transformation will start at the beginning of next year.

Meanwhile ASM Investment Services has also launched its new ASM Syariah Capital Protected Sector Linked Fund.

The fund will have 500 million units, offered to investors at 50 Malaysian sen (16 US cents) per unit. It has a three-year maturity period, with subscription applications to be closed on the 12th January 2012.

New in the market

MALAYSIA: Public Mutual, a subsidiary of Public Bank, has launched a new Islamic equity income fund, the Public Islamic Savings Fund (PISVF).

PISVF seeks to provide income over the medium- to long-term through investing in a diversified portfolio of Shariah compliant Malaysian stocks.

It is also likely to invest in Islamic recovery stocks and up to 30% of its net asset value in selected foreign markets to achieve increased diversification.

Mixed results

MALAYSIA: The Employees Provident Fund reported an 18.32% year-on-year growth in investment income to RM6.8 billion (US$2.1 billion) for the third quarter ended the 30th September 2011.

However, income from money market instruments declined by RM98.71 million (US$31 million) to RM109.97 million (US$34 million) during the period, due to a shift in allocation to higher yielding and long-term assets, including global Sukuk, to optimize returns.

Targeting global expansion

MALAYSIA: The country's Islamic investment industry must dispel misconceptions that Shariah compliant investments are exclusive to Muslims in order for the local market to further expand in the global space, said Akmal Hassan, the CEO and executive director of Asian Islamic Investment Management (AIIMAN).

He explained that Islamic investment products are open to everyone and there is no discrimination against who can subscribe and invest, stating that this can be seen from the almost 60% of non-Muslim investors in both the HwangDBS AIIMAN Growth and HwangDBS AIIMAN Income Plus Funds.

He also said that Malaysian industry players should register Shariah compliant products with global offshore fund platforms to market the performance of the local Islamic asset management market, with opportunities to capture institutional investments from sovereign wealth funds, central banks, Takaful and pension funds.

New fund

SAUDI ARABIA: HSBC Saudi Arabia has launched its new HSBC Amanah Saudi Freestyle Equity Fund, aimed at generating long-term capital growth through investments in equities of Shariah compliant companies listed on the Saudi stock exchange.

The fund will not be constrained by weights of companies or sectors in the benchmark and will be invested in a concentrated portfolio of high conviction stocks.

HBL Islamic Stock fund

The objective of the HBL Islamic Stock fund is to achieve long-term capital growth by investing mainly in Shariah compliant equity securities.

What led to this fund being launched?

There is a huge potential for Islamic products in a country like Pakistan, which has a population of about 180 million with a Muslim population of over 95%. Shariah compliant equity and money market products cater to investors who would like to be invested in financial products while also earning riba-free returns.

Why has this particular region / asset class been chosen?

Pakistan has a huge market for Islamic financial products mainly due to the reasons cited above. Over the years, equities have had an impressive return in Pakistan. Even now, the fundamentals are strong as compared to the region.

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

Our in-house research provides us the opportunity to look into different sectors in detail. Senior management is actively involved in investment decisions.

Who are your investors?

Investors are typically a combination of institutional and retail clients, mainly from the urban centers of Pakistan.

What specific risks does the fund take into consideration? And why?

One of the key risks is volatility, since the universe of Shariah compliant stocks is significantly smaller as compared to conventional stocks. We strive to mitigate this risk through thorough due diligence in stock selection, giving due weight to factors such as liquidity.

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

As per the current asset allocation, around 83% of total assets of the fund have been invested in equities. Particularly, the oil and gas sectors held a maximum share of 40% of total assets, whereas chemicals and the construction and materials sector are at 21% and 12% of total assets, respectively.

What are the sectors you have recently exited and why?

This fund is comparatively young and we have not divested any equity securities substantially. Investment is made after a detailed research.

What is the market outlook for this fund?

We expect that the Islamic Stock Fund will perform as one of the best funds available in Pakistan.

How has this fund performed compared to your initial expectations?

We expect it to perform better as compared to the market and it has performed in accordance with this expectation.

Has your strategy for this fund changed since inception, and if so how?

We have invested with a longer-term view on the market and we have not changed this strategy as yet.

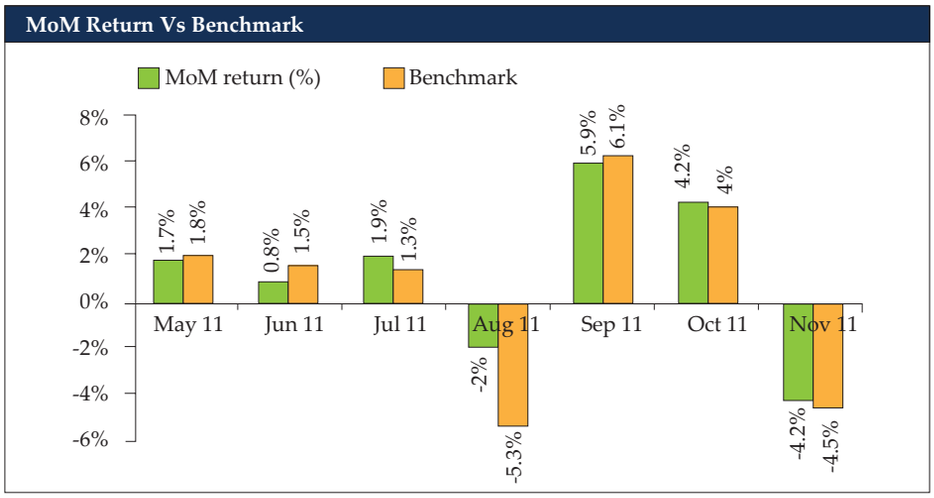
Fact sheet

Fund Manager:	Umar Farooq
Trustee	Central Depository Company of Pakistan
Shariah Advisor(s)	Mufti Yahya Asim or Mufti Ejaz Ahmed Samdani
Benchmark (Index)	KMI 30 Index
Domicile	Pakistan
Inception Date	10th May 2011
Fund Characteristics *(as at the 31st November 2011)	**Fund Type – Open / Closed** Open End **Fund Size** PKR288.91 million (US$3.21 million) **NAV per share** PKR106.58 (US$1.18) **Minimum / Subsequent Investment** Minimum initial investment is PKR1000 (US$11.12) and minimum subsequent is PKR500 (US$5.56) **Management Fee** 2% per annum

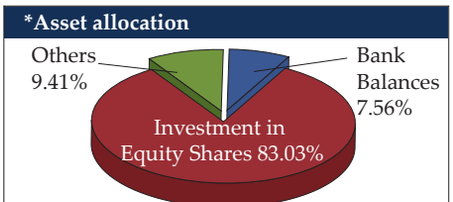
***Industry Allocation**

Sector Allocation (% of Total Assets)	Nov '11	Oct '11
Oil and Gas	39.79%	36.05%
Chemicals	21.46%	25.21%
Electricity	9.66%	8.41%
Construction and materials	12.12%	11.17%

MoM Return Vs Benchmark



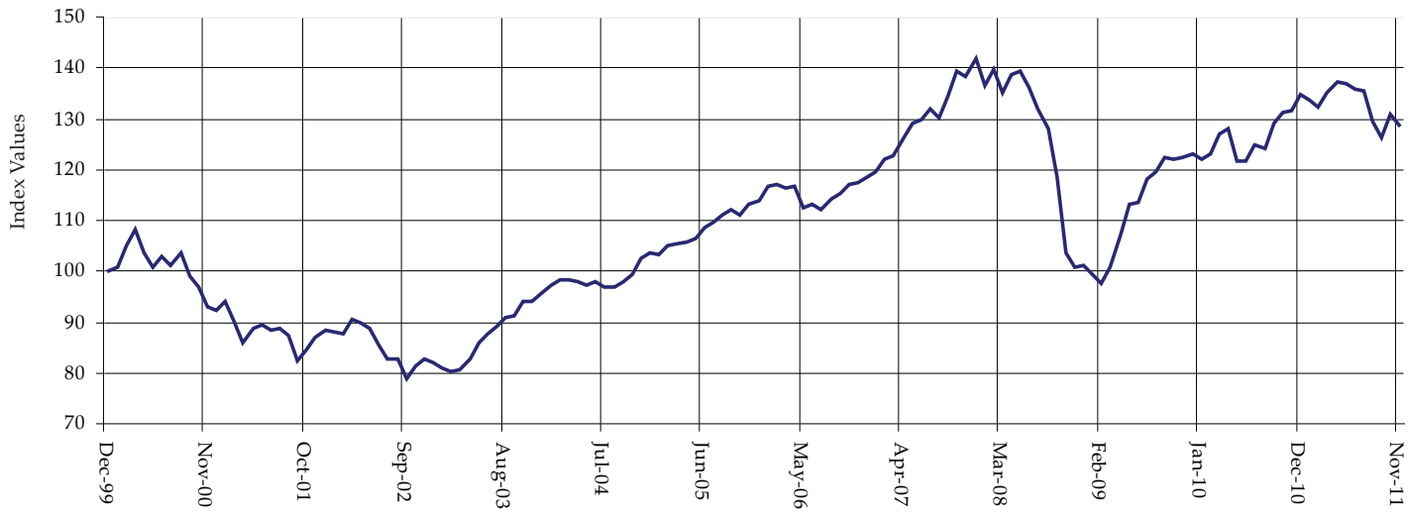
***Asset allocation**



***Performance summary**

Fund Returns	HBL IMMF	Benchmark
Year to Date	10.2%	7.94%
Since Inception	10.26%	8.12%

Eurekahedge Islamic Fund Index



Top 10 Monthly YTD returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Gold	ETFS Metal Securities	23.37	Jersey
2	BIMB i-Growth	BIMB UNIT Trust Management	16.67	Malaysia
3	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	12.21	Pakistan
4	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	10.34	Pakistan
5	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management Limited	9.46	Pakistan
6	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	9.45	Pakistan
7	AmStaples	AmInvestment Services	8.71	Malaysia
8	PB Islamic Bond	Public Mutual	8.04	Malaysia
9	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	8.01	Pakistan
10	Al Dar Money Market	ADAM	7.77	Kuwait
	Eurekahedge Islamic Fund Index		**-4.45**	

Based on 69.00% of funds which have reported November 2011 returns as at 20th December 2011

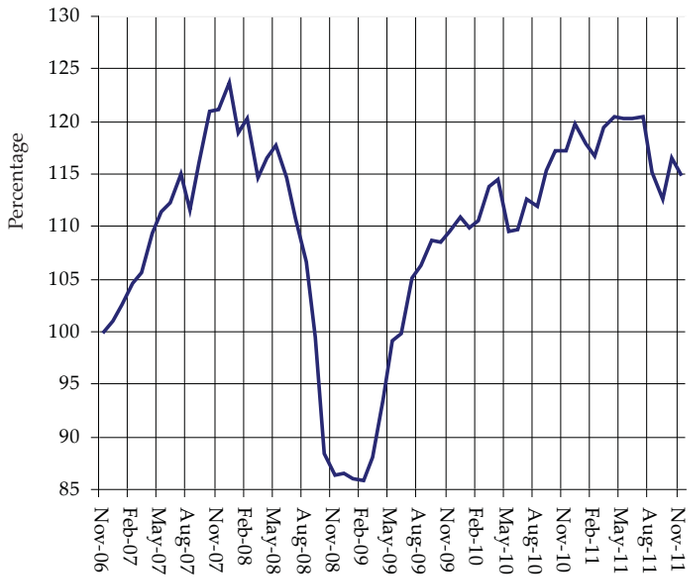
Top 10 Monthly Sharpe ratio for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	9.56	Pakistan
2	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	4.49	Pakistan
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	4.48	Pakistan
4	Public Islamic Money Market	Public Mutual	3.40	Malaysia
5	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	3.19	Saudi Arabia
6	Commodity Trading - SAR	Riyad Bank	2.99	Saudi Arabia
7	Public Islamic Income	Public Mutual	2.69	Malaysia
8	PB Islamic Cash Management	Public Mutual	2.38	Malaysia
9	AlAhli International Trade	The National Commercial Bank	2.33	Saudi Arabia
10	AlAhli Saudi Riyal Trade	The National Commercial Bank	2.24	Saudi Arabia
	Eurekahedge Islamic Fund Index		**0.02**	

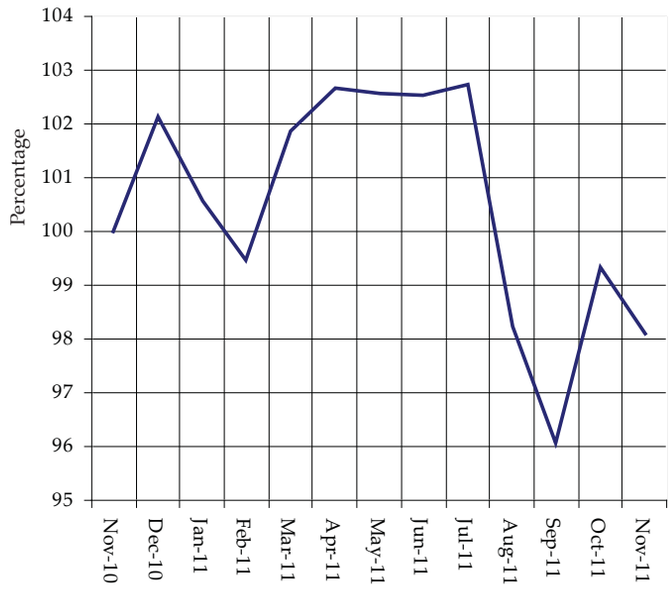
For funds having a track record of at least 12 months as at end November 2011

Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, global investing (which would focus on funds investing with global mandate instead of a specific country or geographical region), fund of funds, real estate as well as the Sortino ratio. Each table covering the duration, region, asset class and ratio will be featured on a five week rotational basis.

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	0.47	Saudi Arabia
2	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	0.28	Saudi Arabia
3	AlManarah High Growth Portfolio	The National Commercial Bank	0.24	Saudi Arabia
4	AlManarah Conservative Growth Portfolio	The National Commercial Bank	0.18	Saudi Arabia
5	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	0.07	Saudi Arabia
6	AlManarah Medium Growth Portfolio	The National Commercial Bank	0.05	Saudi Arabia
7	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	-0.12	Saudi Arabia
8	Jadwa Conservative Allocation	Jadwa Investment	-0.28	Saudi Arabia
9	Al Dar Fund of Funds	ADAM	-0.99	Kuwait
10	Al-Mubarak Balanced	Arab National Bank	-1.12	Saudi Arabia

Based on 100% of funds which have reported November 2011 returns as at 20th December-2011

Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Markaz Real Estate	Kuwait Financial Centre	1.53	Kuwait
2	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	1.16	Saudi Arabia
3	Al-'Aqar KPJ REIT	AmMerchant Bank	0.89	Malaysia
4	Al Dar Real Estate	ADAM	0.89	Kuwait
5	Islamic Certificate on Real Estate Capital Protected Dynamic Basket	ABN AMRO Bank	-0.05	Not disclosed

Based on 75.00% of funds which have reported November 2011 returns as at 20th 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

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21st December 2011

Takaful: A quantum leap forward

Cover story

2011 has proven a successful year for the Takaful industry worldwide, with the industry continuing to enjoy significant growth across all areas of business. Although increasing GDP in Takaful's key markets is generally accepted as the greatest driving force behind current growth levels, this growth has been proactive and development-led: critical in a burgeoning industry such as Takaful.

Greater acceptance and awareness of Takaful is however the key to future growth, particularly in new Takaful markets and those in which it has only just gained traction. Massive potential also exists for future cross-border expansion, although this has yet to be fully realized and the industry is still in its infancy. Life insurance as a result is likely to grow at a higher CAGR as increasing per capita income and favorable demographics across the region are exploited.

Takaful will benefit further with the predicted boom in the GCC insurance industry, led by infrastructure and investment projects. The increasing awareness and acceptance of the concept will grow, and the business opportunities created through compulsory and corporate business lines are continuing to provide a solid foundation for this predicted growth.

According to Sohail Jaffer, a partner of international business development at FWU group: "Malaysia remains the preeminent center for Takaful and will remain so until developments peak in the MENA region." There are currently two potential regions that have shown huge potential growth for Takaful: the kingdom of Saudi Arabia and the UAE. Both countries represent the largest markets in the region with a forecasted combined share of 75%.

> ***"Most promising for 2012 are likely to be high density consumer markets such as Turkey, Egypt and Morocco"***

According to Jaffer: "Takaful is still looking for its own paradigm shift where it can go to the next level," and this will only be achieved by creating simple, easy to understand products that cut out a lot of the customary technical jargon. "By creating a simplified yet rewarding customer experience you can achieve customer satisfaction," explains Jaffer.

By raising the expectations of what a Takaful provider can offer the industry can begin competing on a service level. In creating distinguishing features between service providers you gain customers, as it is this principle of choice and quality of service on which people base their selection of provider.

Takaful has a number of attributes that need to be identified and capitalized on, particularly in light of the continuing global financial crisis. So far the articulation of the attributes and value proposition of Takaful has not taken place and needs to be introduced to a wider audience and to markets beyond Malaysia and the GCC. Most promising for 2012 are likely to be high density consumer markets such as Turkey, Egypt and Morocco.

According to Jaffer: "The real battlefield is going to be the European market." With the large reinsurance companies bringing their expertise to bear on the industry, it is almost inevitable that Takaful will eventually find a home in Europe. With 25 million potential customers and little or no current penetration it is only a matter of time, especially for markets in Eastern Europe with large Muslim populations. Certain obstacles may have to be overcome, especially regarding Takaful's branding, where it may find more success marketed as socially or ethically responsible.

Technology will play an increasing part in the growth of Takaful going forward, for example, through the application of risk-based capital rules. By grabbing the imagination of the consumer, you are basing your offerings on something greater than just how a product is structured. Takaful will sell to the 20% of the world's population that are Muslim, but Takaful products must also make themselves appeal to the other 80%. This is what will allow Takaful to make that quantum leap forward. — *SW*

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Takaful Feature

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Islamic microfinance and pensions in Kyrgyzstan

DR GERD KLOEWER provides an analysis of the development of Islamic micro-insurance in Kyrgyzstan.

Studies reveal how far the Islamic financial services industry and especially Islamic micro-insurance can contribute to improve conditions for access to balanced economic and social development. There are direct linkages between financial sector development and access to finance and insurance. In many developing countries poor people have very limited access to formal financial services. Yet better access to Islamic and conventional financial services could have a significant impact on economic growth and poverty reduction.

The financial sector and Takaful in Kyrgyzstan

The Kyrgyzstan financial sector in general contributes to the wider development of a market-oriented economy. Especially in the light of the severe fiscal and external debt constraints in the CIS countries, carrying a common past and common historic burden, an efficient financial sector and appropriate financial services will continue to play an increasing role in promoting private sector growth.

The current situation of the financial services sector in the CIS countries comprise mainly the commercial banking system, insurance companies, pension funds, collective investment institutions and credit unions. Overall, the financial sector is still small and suffers from a lack of public confidence as well as deficits in corporate governance. Privatization of public companies has commenced.

Kyrgyzstan is one of the smaller CIS countries with five million inhabitants, and has a relatively stable banking infrastructure. Now, following examples in neighboring Kazakhstan, Kyrgyz Eco bank has strengthened its relationship with the IDB and is introducing Islamic banking and insurance.

Yet Kyrgyzstan banks are far from functioning as perfect financial intermediaries. Kyrgyzstan's economy is still largely a cash economy. Only a few individuals have bank accounts or insurance contracts. When some depositors recently lost money in a major bank failure, confidence into the financial sector decreased.

> *"Countries like Kyrgyzstan clearly show that a well-functioning insurance market is a pre-condition for developing financial markets, accumulating scarce capital and transferring savings into productive investments"*

Consequently, the domestic savings quota is under 1%, as trust and confidence into domestic financial institutions is weak. Those with money do not deposit it in a bank or financial institution, but keep it at home or invest abroad. Thus domestic funds are not entering the monetary circuit, resulting in the well-known vicious circle of insufficient finance and insurance in transition countries which creates issues such as:

- Lack of trustworthy financial institutions;
- Underdeveloped capital and money markets;
- Low domestic savings;
- Low health, accident and life insurance;
- Low financial flows into insurance premiums;
- Lack of financial intermediaries;
- Low level of commercial credits to medium or small companies without collateral;
- High interest rates.

The EcoBank Bishkek is a fully-licensed Kyrgyz-Kazakh joint venture. Since the launch of its operations in 2004, the bank is now opening an Islamic window. EcoBank has also received financing from the Islamic Corporation for the Development of the Private Sector.

Representatives of the ICD and IDB were recently in the country for a series of meetings to discuss the direction of Islamic finance following a technical assistance grant from the IDB.

Since the end of the Bakiev era, there have been some legal changes in Kyrgyzstan to try to make it a regional leader in Islamic finance. Under these changes double taxation on Islamic leasing operations has been abolished and income tax on corporate and personal income has been reduced.

Insurance companies' assets reach only 0.2% of GDP and the assets of investment funds total 0.006% of GDP, whereas bank assets are about 10.4% of GDP. Equity and bond market capitalization are still extremely small. Most Kyrgyz insurers pass 80-90% of their business to foreign reinsurers.

Islamic micro-insurance, social security and pensions

Countries like Kyrgyzstan clearly show that a well-functioning insurance market is a pre-condition for developing financial markets, accumulating scarce capital and transferring savings into productive investments.

Successful investments contribute to increasing the national production and the GDP. Well-developed insurance schemes protect various economic sectors: industry, trade, production, agriculture. They protect individuals and companies from damages and losses caused by natural hazards, e.g. fire, windstorm, water or business interruption. They protect families in cases of calamities, accidents and illness.

Insurance may protect industrial or agricultural entrepreneurs, herders,

continued...

Continued

owners of large numbers of cattle and farmers against the financial consequences of seasonal hazards. Last but not least, insurance may strengthen the banking system through deposit and (export) credit insurance.

The development of Takaful services creates a favorable framework for economic growth and social security and eases international companies' participation in the establishment of joint ventures. Kyrgyz exporters to international markets are in particularly dire need of export promotion and financial services such as credit insurance.

Since its transition to a market economy, the Kyrgyz financial sector has transformed considerably. Since 1991, the insurance and banking system inherited from the former Soviet Union shifted to market orientation and to establishing efficient capital markets.

The basic legal, regulatory, and institutional framework of a market economy meanwhile has been established. The insurance services market is still at an early stage, but since 2004 there has been some progress both in terms of the number of companies and funds mobilization.

After independence

After independence in 1991 Kyrgyzstan maintained much of its social insurance and pension system, which along with many other areas of state activity was inherited from the Soviet Union.

Since 1991, Kyrgyzstan has witnessed a number of political and economic crises (the Asian crisis of 1997, the Russian crisis of 1998, the Kyrgyz crisis of 2005 and the end of the Akaev era) that have destroyed the stability of society and left vulnerable social groups unprotected.

Even before the end of the Soviet Union, when the social security system collapsed, people lost stable sources of income and state support. People therefore searched for ways to adapt to the new economic conditions. They put savings into shady enterprises or other commercial banks, the majority of which became bankrupt after the collection of contributions.

Pensions earned during the years of work were significantly reduced, even those pensions that were postponed.

The state commenced working on social reforms and maintenance of the system. to provide pensioners with a minimum subsistence income. The implementation of this task was conducted under conditions of severe economic crisis and a minimum taxable base.

> ***"Kyrgyz exporters to international markets are in particularly dire need of export promotion and financial services such as credit insurance"***

Along with economic recovery and development, social insurance contributions and collections increased. Technical mechanisms and procedures for insurance collection were progressively improved.

Nevertheless, there were still negative events: pensions were delayed by several months and paid in kind; and many violations took place in registration.

The Kyrgyz Republic was one of the first CIS countries to start reforming the pension system. The accumulative system, international accounting standards and a personalized account system were introduced with the technical assistance of the European Commission and World Bank.

By 2003, pension payments were implemented on time and in money terms. Payments in kind were eliminated. To achieve this, a tough policy with enterprises and debtors was implemented. Administrative action on criminal responsibilities for non-fulfilment of obligations by employer to employee was instituted.

Stable employment enabled workers to make regular payments on time to the compulsory health insurance, employment, social insurance and pension funds.

The new accumulative system will enable accumulation and further investment in favor of the contributor. Savings are being indexed, protected from inflation and will be owned by the insured person. The insured person may check the account at any time and the sum of the assumed pension. The accumulative system is certainly preferable by many parameters, and enables each person to provide for old age.

Currently, the social insurance contribution tariff to the social fund is 33% which is deducted from each individual's wages. Of the 33%, 25% is paid by employers and 8% by employees. This provides the insured person with the following social services:

(a) Provision of pension (by age, disability and loss of bread-winner);
(b) Temporary unemployed benefit;
(c) Pregnancy and birth benefit;
(d) Unemployment benefit;
(e) Compensation of expense for compulsory medical insurance;
(f) Ritual benefit (burial).

Of the 33%, 29% is allocated to pension insurance. It is planned to allocate 1% of the 29% for accumulation. If this measure proves to be efficient and successful, it is assumed that a further gradual increase in the accumulation amount will continue until the full transition to the accumulation system.

However, the overall transition does not mean that everyone will accumulate funds just for themselves. There is a basic pension, which is paid in the common amount. The basic pension will be formed from current contributions but the contribution for the basic pension will be turned to a minimum amount.

Dr Gerd Kloewer is an insurance and financial markets regulation expert to EU projects and he can be contacted at Gerd.Kloewer@gmail.com.

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

Tarek El-Assra began his career at Allen & Overy in London and qualified as a solicitor in 2003. He worked in Allen & Overy's Dubai office from 2006 until moving to Freshfields. Tarek has an LLB (Hons) from the University of Manchester, UK, and a postgraduate diploma in law from the College of Law, London. He has significant experience in advising both banks and companies on Islamic finance as well as conventional finance transactions.

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

Having been based with another magic circle law firm in London for six years, I decided that a move to the Middle East in 2006 would present an exciting opportunity to work in an emerging market environment and enable me to take advantage of my dual Arabic and English language skills. I have always been intrigued by Islamic finance and in particular the opportunities and challenges that it presents. I had therefore decided from an early stage in my legal career that I wanted to be involved in this dynamic financial industry.

From the moment that I arrived in the Middle East, there was a tremendous buzz in the region. This was partly driven by the liquidity from petrodollars funding large-scale projects throughout the region. I quickly became involved in a huge variety of transactions in countries such as the UAE, Saudi Arabia, Bahrain, Qatar and Egypt. As the transactions were mainly in the MENA region, many were structured as Islamic finance transactions.

What does your role involve?

I advise on all Islamic finance-related transactions that involve Freshfields. As a global law firm, our lawyers deliver results worldwide through our own

offices and alongside leading local firms. This means the variety of work is extremely interesting and frequently involves multiple jurisdictions. By way of example, I can be involved in Sukuk or other forms of Shariah compliant financing in the context of general corporate financing, real estate financing, acquisition financing and project and infrastructure financing as well as Shariah compliant funds or Islamic derivative solutions.

What is your greatest achievement to date?

From a professional point of view, acting as the lead lawyer for the lenders on the Red Sea Gateway Terminal Project. It was one of the first projects to forgo conventional facilities in favor of solely Islamic structures. In this case, the transaction involved a combination of the Mawsufah fi al Dhimma facility and Murabahah facilities.

Which of your products/services deliver the best results?

As a major global law firm, we deliver a wide variety of legal services. Whatever advice is required, I consistently find that being proactive, anticipating the client's pressure points and working in a way that makes their lives easier is appreciated by clients.

What are the strengths of your business?

First and foremost it is the people, as a law firm is only as good as its people. Having the ability to draw on the talent that is available in the MENA region and also to be able to rely on the deep Freshfields network for cross-border transactions, is a real strength for us.

Secondly, being able to adapt to the market and having the expertise to offer the right legal services at the right time has meant that whether the markets are buoyant or in a downturn, we are able to maintain our position as one of the leaders in the global legal market.

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

We genuinely enjoy what we do and this shows through our enthusiasm and commitment to execute our work at the highest level. In turn, our clients get the most consistent and best possible service experience.

Our clients appreciate that we have technically strong lawyers. What sets us apart is that we also offer commercial and pragmatic advice.

What are the obstacles faced in running your business today?

Being based in the Middle East, where many of our lawyers are not from this part of the world, finding lawyers who are committed to this region for the long-term and not just for three to four years can be challenging.

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

I hope that the existing products and processes will become more standardized and therefore easier to implement and available to a wider group of people. We are already starting to see this from the good work being carried out by the International Islamic Financial Market and AAOIFI.

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

For the general public to appreciate the fair and ethical aspects of Islamic finance; for there to be more risk sharing between the parties in Islamic finance transactions; and for Islamic finance to play a major part in solving the current global financial crisis.

Gulf International Bank's three-year US$300 million private placement Sukuk Murabahah

Gulf International Bank (GIB) issued a three-year, US$300 million Sukuk via private placement on the 7th December 2011. 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.

Dr Yahya Alyahya, the CEO of GIB, said that the issuance reflected the investor community's confidence in GIB's credit strength and unique positioning in the GCC banking sector as one of the region's premier financial institutions. GIB is rated 'A' by Fitch, 'A3' by Moody's, 'BBB+' by Standard & Poor's and 'A' by Capital Intelligence.

> ***"The issuance reflected the investor community's confidence in GIB's credit strength and unique positioning in the GCC banking sector as one of the region's premier financial institutions"***

Alyahya added: "We are delighted with the successful closing of our inaugural placement in the Islamic Sukuk market, and securing an attractive pricing despite the volatile market backdrop.

"This transaction confirms GIB's commitment to diversify its funding sources by tapping into new pockets of liquidity such as the Islamic Sukuk market, and utilize innovative funding structures to achieve the lowest possible cost of funding for GIB. The funds raised will allow us to refinance our existing term finance maturities, further diversify our investor base and provide the resources to progress our business strategy."

The Sukuk private placement represents further progress in GIB's program to more closely align the maturity profile of its assets and liabilities and reduce its previous reliance on short-term wholesale deposits. Increases in term finance, while resulting in extra costs, have also resulted in a reduction of the bank's previous reliance on short-term wholesale funding (now only representing 13% of its current portfolio).

GIB has also taken steps to strengthen its risk positioning by reducing its leverage to under four times. The bank's Basel II and tier 1 capital adequacy ratios remain strong at 24.2% and 18.7%.

GIB's funding profile has substantially improved over the past few years and it has taken proactive measures to increase its portion of medium-term funding and reduce the average maturity of its loan book. In the first nine months of 2011 GIB reported consolidated net income after tax of US$84.6 million, with year on year increases recorded in all but one income category (net interest income). The bank's consolidated assets currently stand at US$16 billion and are reflective of the exceptionally high levels of liquidity enjoyed by the bank.

The bank also has no direct exposure to troubled European government debt. GIB's business activities and financial condition have therefore largely avoided the turmoil in the international markets and it was largely unaffected by the regional unrest that swept through the region earlier in the year.

GIB's principal focus is on the GCC states. The bank is owned by the six GCC governments, with the Public Investment Fund of Saudi Arabia holding a majority stake of 97.2%. Kuwait's investment Authority and Qatar Holding Company each hold 0.73%, while Bahrain's Mumtalakat Holding Company and the Ministry of Finance for Oman and the UAE each hold 0.438%. — *SW*

Gulf International Bank commodity Murabahah Sukuk

US$300 million

7th December 2011

Issuer	Horizon Sukuk
Obligor	Gulf International Bank
Issuance price	US$300 million
Purpose of issuance	Diversifying GIB's funding sources and investor base as well as further aligning the maturity profile of its assets and liabilities
Tenor	Three years
Coupon rate / return	2.054% calculated using floating rate six month LIBOR + 1.3%
Payment	7th June and December each year
Currency	US dollar
Maturity date	7th December 2014
Manager	JP Morgan Securities
Governing law	English
Listing	Private placement
Structure / instrument	Murabahah
ISIN	XS0615236428
Investor breakdown	The offering was successfully placed with a number of institutional investors
Denomination	US$200,000

ISSUER	SIZE	DATE ANNOUNCED
Emery Oleochemicals Group	US$151 million	20th December 2011
Sarawak Energy	RM1.5 billion	13th December 2011
Saudi Arabia	TBA	13th December 2011
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

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partner, Mallesons Stephen Jaques

BANGLADESH: Md Shamsuzzaman
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managing partner, Hegazy & Associates

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partner, Brandt Chan & Partners in association with SNR Denton

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global head of Islamic finance, KPMG

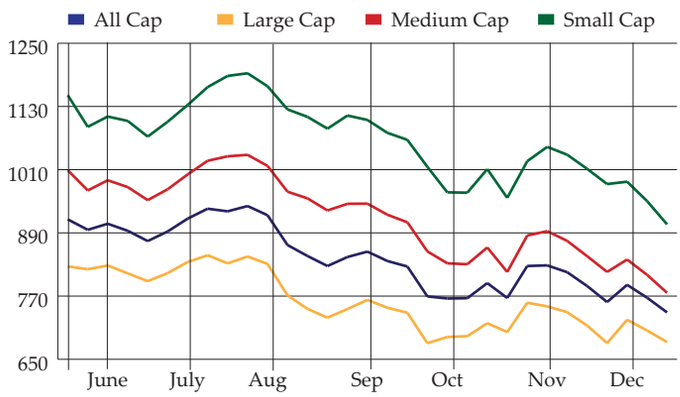
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

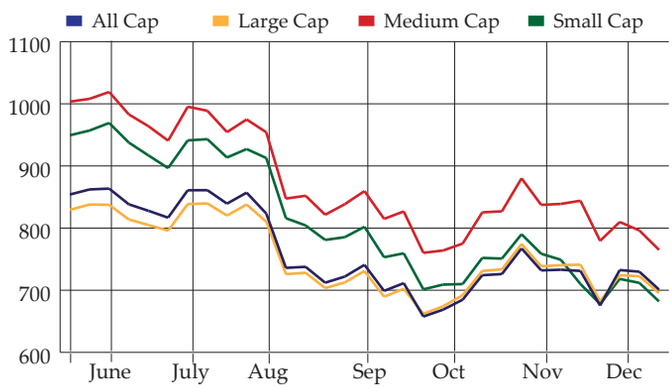
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

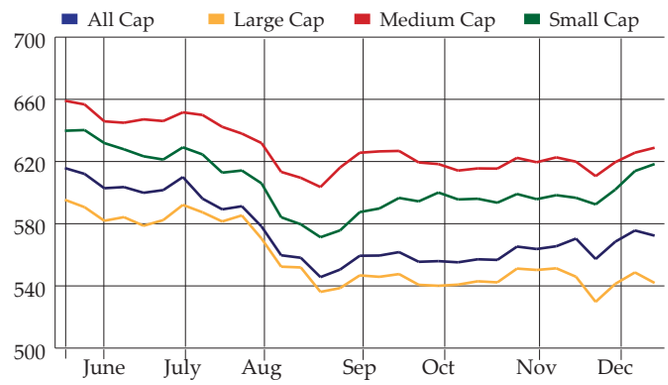
REDmoney Asia ex. Japan *6 Months*



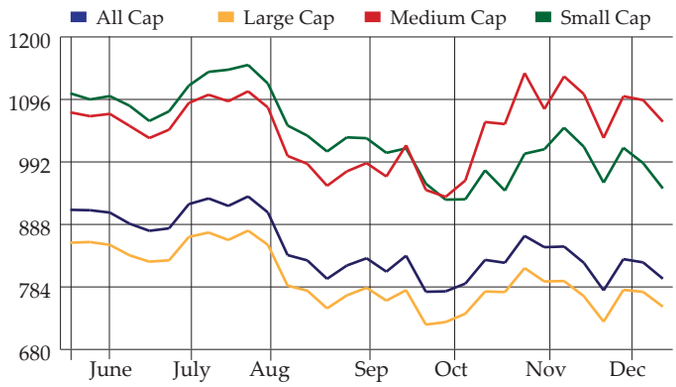
REDmoney Europe *6 Months*



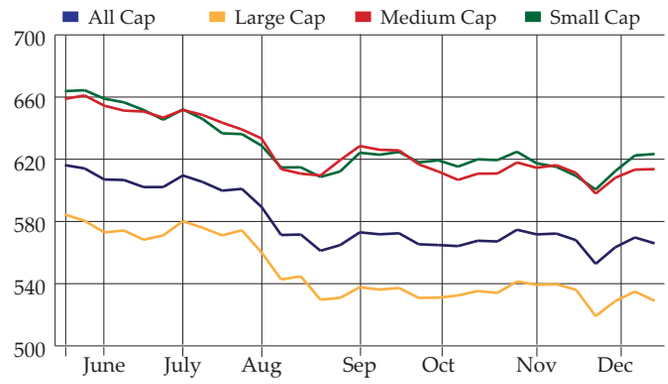
REDmoney GCC *6 Months*



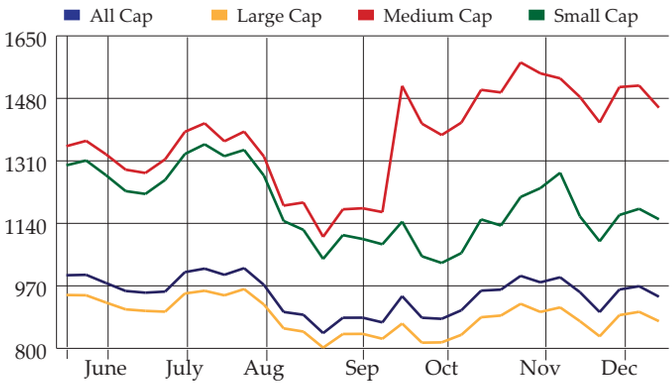
REDmoney Global *6 Months*



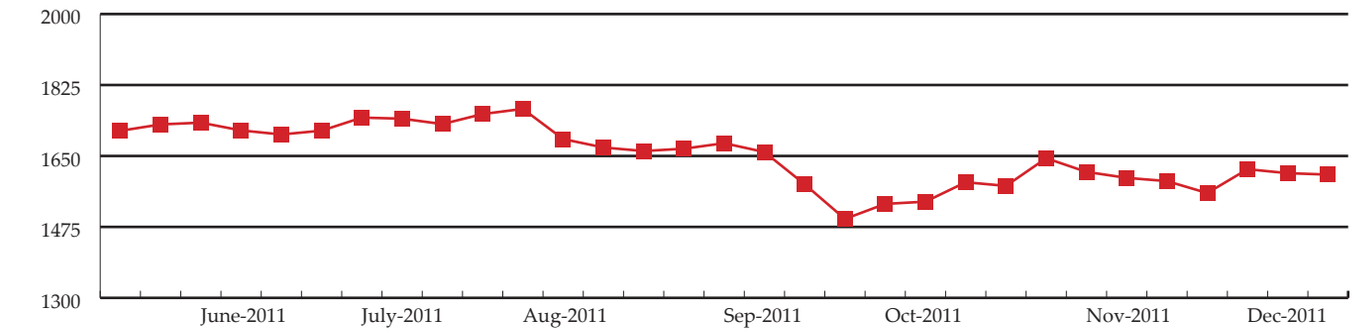
REDmoney MENA *6 Months*



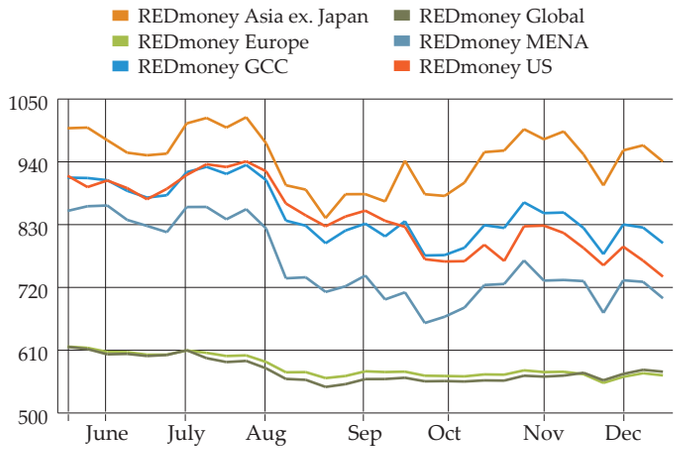
REDmoney US *6 Months*



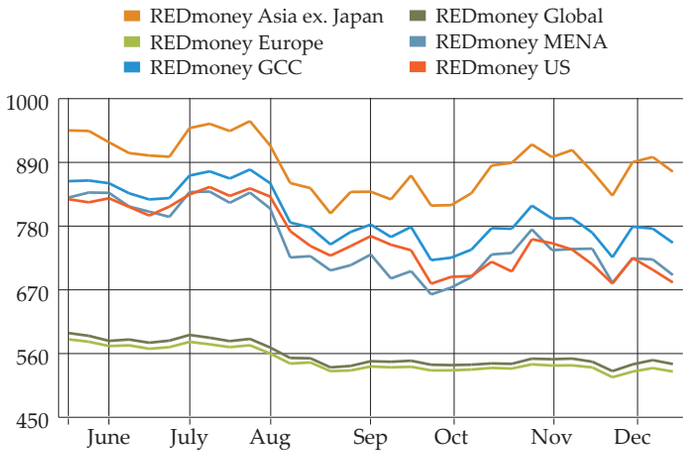
SAMI Halal Food Participation (All Cap) *6 months*



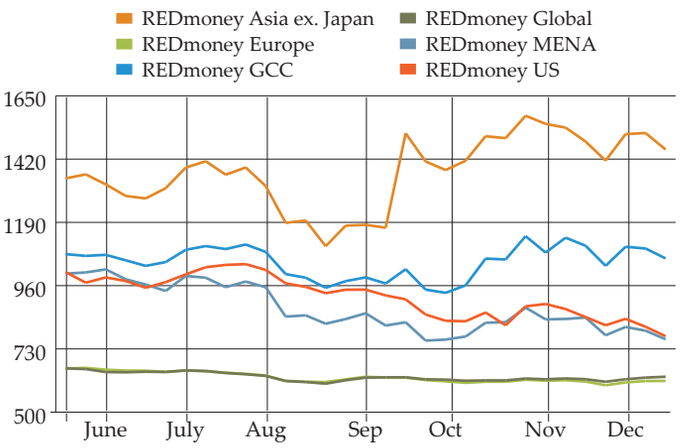
REDmoney Global Shariah Index Series (All Cap) *6 Months*



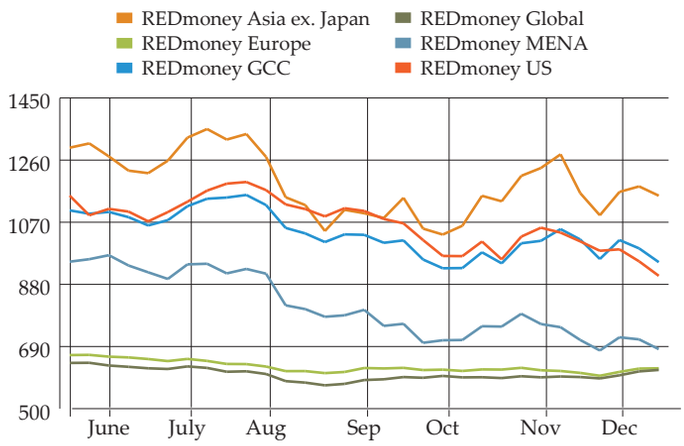
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



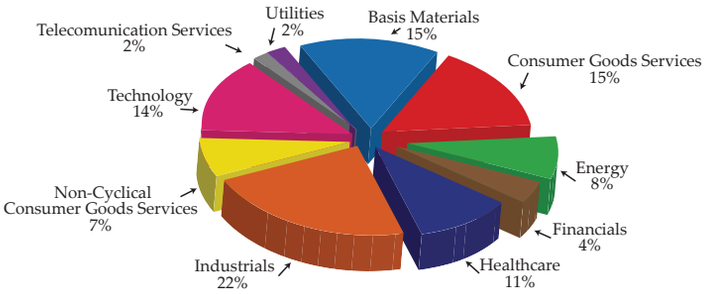
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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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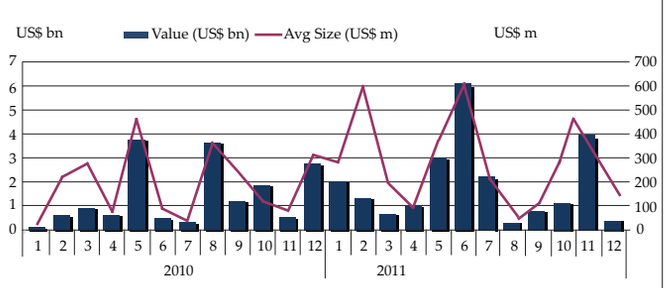
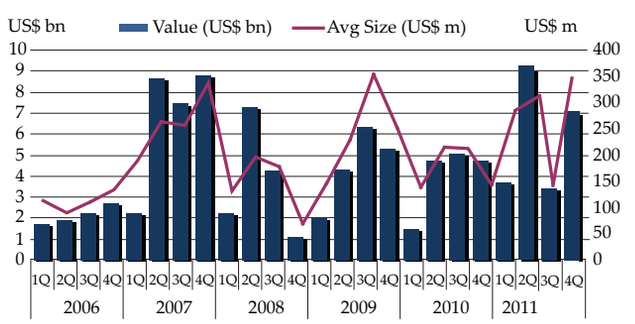
Most Recent Global Sukuk

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
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	786	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 SPV	Malaysia	Sukuk	Domestic market private placement	139	CIMB Group
25th Oct 2011	Manjung Island Energy	Malaysia	Sukuk	Domestic market public issue	1,545	Lembaga Tabung Haji, CIMB Group
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerz-bank Group
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital Bhd, CIMB Group, AmInvestment Bank, Maybank Invest-ment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	190	Public Bank, AmInvest-ment Bank
14th Sep 2011	MISC	Malaysia	Sukuk	Domestic market public issue	263	HSBC, CIMB Group, AmInvestment Bank
13th Sep 2011	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	101	CIMB Group, AmInvest-ment Bank, Maybank Investment Bank
5th Aug 2011	Kencana Petroleum	Malaysia	Sukuk	Domestic market private placement	167	AmInvestment Bank
26th Jul 2011	Syarikat Prasarana Negara	Malaysia	Sukuk	Domestic market public issue	667	CIMB Group, Maybank Investment Bank
26th Jul 2011	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	Standard Chartered, HSBC, Citigroup
21st Jul 2011	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	AmInvestment Bank
21st Jul 2011	Besraya (M)	Malaysia	Sukuk	Domestic market public issue	233	AmInvestment Bank

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	3,272	4	HSBC, CIMB Group, Maybank Investment Bank
2	Wakala Global Sukuk	Malaysia	Sukuk Wakalah	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
3	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 Ijarah	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 Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
7	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1	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 Bank, 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	Sharjah Islamic Bank	UAE	Issue price undisclosed	Euro market public issue	400	1	Standard Chartered, HSBC
19	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	397	10	CIMB Group, AmInvestment Bank, Maybank Investment Bank
20	Senai Desaru Expressway	Malaysia	Issued under issuer's RM3	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 Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
23	Gulf International Bank	Bahrain	Sukuk Murabahah	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 Mudarabah	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 Murabahah	Domestic market public issue	263	1	HSBC, CIMB Group,AmInvestment Bank
29	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	1	AmInvestment Bank
30	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	234	2	Maybank Investment Bank
	Total				**23,091**	**89**	

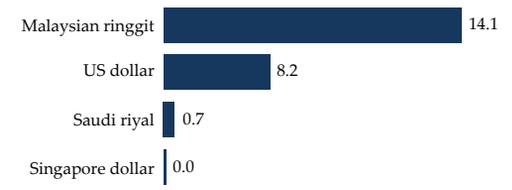
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	4,849	33	21.0
2	Maybank Investment Bank	4,687	30	20.3
3	HSBC	3,415	14	14.8
4	AmInvestment Bank	1,932	26	8.4
5	Standard Chartered	1,689	10	7.3
6	Citigroup	1,383	5	6.0
7	RHB Capital	1,018	6	4.4
8	Lembaga Tabung Haji	919	3	4.0
9	JPMorgan	558	3	2.4
10	BNP Paribas	438	2	1.9
11	Deutsche Bank	427	2	1.9
12	Riyad Bank	240	1	1.0
13	OCBC	168	6	0.7
14	RBS	167	1	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	**23,091**	**89**	**100.0**

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

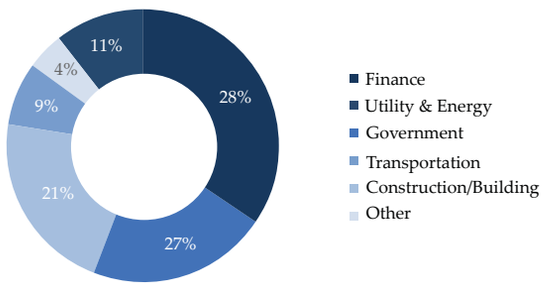
	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	596	2	24.0
2	Arab National Bank	138	1	5.6
2	Public Investment Fund	138	1	5.6
2	Riyad Bank	138	1	5.6
5	Samba Financial Group	128	2	5.2
6	Boubyan Bank	86	1	3.5
6	National Bank of Kuwait	86	1	3.5
8	Emirates NBD	86	2	3.4
9	Al-Rajhi Banking & Investment	68	1	2.7
9	Alinma Bank	68	1	2.7
9	Bank Al-Jazira	68	1	2.7

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

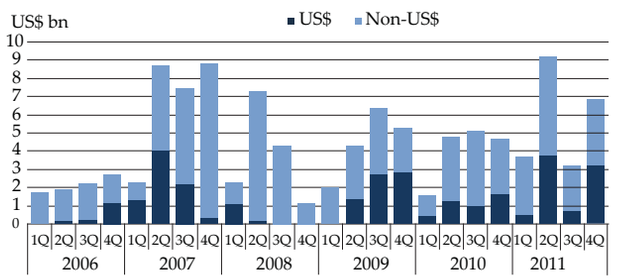


Sukuk Volume by Issuer Nation US$ (billion) *12 Months*

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	26.0
1	Baker & McKenzie	1,200	1	26.0
1	Clifford Chance	1,200	1	26.0
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	553	3	10.8
2	Citigroup	425	6	8.3
3	Standard Chartered Bank	368	7	7.2
4	CIMB Group	304	3	6.0
5	Abu Dhabi Islamic Bank	271	4	5.3
6	Samba Capital	253	2	5.0
7	RBS	233	1	4.6
8	Bank of America Merrill Lynch	180	3	3.5
9	RHB Capital	164	1	3.2
9	Maybank Investment Bank	164	1	3.2
9	Lembaga Tabung Haji	164	1	3.2
9	AmInvestment Bank	164	1	3.2
13	Arab Banking Corporation	162	3	3.2
14	Deutsche Bank	150	1	2.9
15	Noor Islamic Bank	147	2	2.9
16	Dubai Islamic Bank	108	1	2.1
16	Barwa Bank	108	1	2.1
18	Emirates NBD	106	2	2.1
19	Bank of China	93	1	1.8
20	OCBC	88	1	1.7
21	WestLB	70	2	1.4
22	Bank Al-Jazira	68	1	1.3
22	Alinma Bank	68	1	1.3
22	Al-Rajhi Banking & Investment	68	1	1.3
25	National Bank of Abu Dhabi	61	1	1.2
25	Commerzbank Group	61	1	1.2
27	Mizuho	53	1	1.0
28	Bank Muamalat Malaysia	52	1	1.0
29	Bank Syariah Mandiri	51	2	1.0
30	National Bank of Kuwait	43	1	0.9

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Citigroup	524	6	10.3
2	Abu Dhabi Islamic Bank	408	4	8.0
3	Samba Capital	233	1	4.6
3	RBS	233	1	4.6
3	HSBC	233	1	4.6
6	Dubai Islamic Bank	215	1	4.2
7	Standard Chartered Bank	165	3	3.2
8	Bank of China	93	1	1.8
9	National Bank of Kuwait	87	1	1.7
10	Bank Syariah Mandiri	51	2	1.0

Top Islamic Finance Related Loans Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World	UAE	850
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
31st Mar 2011	National Central Cooling	UAE	757
17th May 2011	Emaar Properties	UAE	699
23rd May 2011	Natrindo Telepon Seluler	Indonesia	450
22nd Sep 2011	Albaraka Turk	Turkey	344
4th Apr 2011	Bank Asya	Turkey	306
16th Mar 2011	Turkiye Finans Katilim Bankasi	Turkey	296

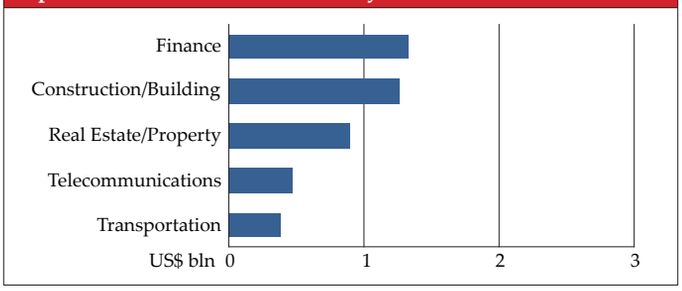
Top Islamic Finance Related Loans by Country

12 Months

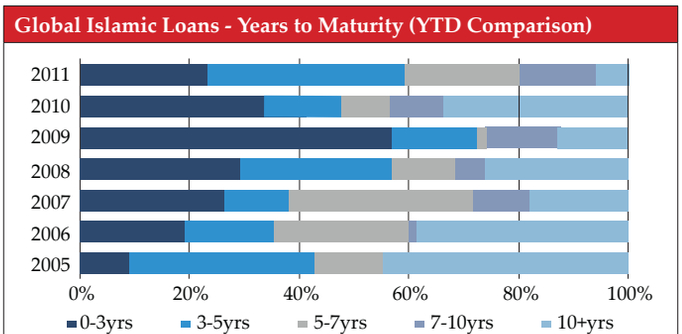
	Nationality	US$ (mln)	No	%
1	UAE	1,674	8	32.7
2	Malaysia	1,190	3	23.3
3	Turkey	988	5	19.3
4	Indonesia	501	3	9.8
5	Saudi Arabia	415	2	8.1
6	China	93	1	1.8
7	Kuwait	87	1	1.7
8	Pakistan	60	2	1.2
9	Russian Federation	60	1	1.2
10	Bahrain	45	1	0.9

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

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

8th March 2012
EUMCCI's Quarterly Financial Panel Discussion 2012
KL, Malaysia (*EUMCCI*)

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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