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Power and value of perception

Markets will only get more sophisticated as consumers demand more and more value for their money. Islamic financial products are not immune to this organic development and have developed tremendously in recent years as customers demand more multifaceted ways of managing their investments and liquidity.

Islamic treasuries especially are under pressure to provide competitive rates against peers and conventional banks, and as the industry matures there can only be more innovation in structures and hybrid products. Bank of London and The Middle East in their report takes a look at the more frequently used products and the value each offers to treasuries.

Generally agreed to be quite essential for Islamic treasuries, one valuable product in short supply is the short-term Shariah compliant financial liquidity instrument.

However, Islamic treasuries need to focus internally instead of externally and look within to ensure an Islamic financial institution's (IFI's) good liquidity and cash management, according to Ma Lee Advisory. The firm says in its report that there is an urgent requirement for detailed stress testing of an IFI's cash position to establish sufficient liquidity and ensure sustainability. This exercise can be ascertained simply by the treasury answering a number of searching questions.

Even the investment fund industry is facing a period of self evaluation. According to law firm Vinson and Elkins, the success of a Shariah compliant fund lies not in its structuring, but in its adaptability to the principles of Shariah that will define it as an Islamic product. In short, the firm states in its report that the real key to the success of investment funds lies in their popular perception.

Therein lies the real value of anything – perception. As long as something is perceived as valuable, there will be a demand for it. This is perhaps why Afghanistan is pushing for Islamic banking to commence in the country this year, to tap its 30 million population, most of whom are unbanked, and who are above all Shariah sensitive.

The same rings true for Qatar. The perception of conventional and Shariah funds comingling, no matter how stringent regulation is adhered to, has led its central bank to make a firm decision on the fate of the two banking systems. We explore the situation in Afghanistan and Qatar in our IFN reports.

Even Mohammad Aslam, head of Islamic banking at Habib Bank, Pakistan, featured in Meet the Head agrees on the power of perception to bring about market acknowledgement. He is of the view that for Islamic banking to sustain its trajectory so far, market participants should be able to convince stakeholders of the viability of Islamic banking and finance as an alternative to the conventional.

Pengurusan Aset Air US$886 million government guaranteed Sukuk is featured in our Termsheet this week.

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- **Harris Irfan** has left **Barclays Capital** as head of Islamic products
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AFRICA

Regulations for Islamic banks

UGANDA: The central bank, Bank of Uganda, is amending its banking regulations to allow for the establishment of Islamic banks and enable them to own assets in the country, according to Titus Mulindwa, deputy legal counsel.

Mulindwa said the central bank will also revise tax laws for the Islamic banking industry, expected to be passed by early 2012.

Grace Stuart Ndyareeba, deputy director of commercial banking said three Islamic banks from the Middle East have applied to the central bank to offer Islamic financial services.

Threshold surpassed

ETHIOPIA: ZamZam Bank, which is planning to be the country's first Islamic bank, has surpassed the capital threshold set by the central bank, National Bank of Ethiopia after it sold ETB100 million (US$6 million) worth of shares last week.

The central bank had set the threshold at ETB75 million (US$4.5 million) for newly established banks.

Zemzem Bank has sold 40% of the 250,000 shares with a par value of ETB1,000 (US$60.1).

ASIA

Freedom to operate

MALAYSIA: Bank Negara Malaysia, the country's central bank, has assured that it will not follow Qatar Central Bank's order to bar Islamic windows.

Bank Negara added that the Islamic finance industry is free to decide on the direction of its respective institutions.

Optimistic target

INDONESIA: Bank Sinarmas Syariah is planning to double its assets to IDR1 trillion (US$112 million) this year.

According to Heru Agus Wuryanto, its director, the bank is optimistic about reaching the target as its assets hit IDR568 billion (US$64 million) in 2010, exceeding the original target of IDR148 billion (US$17 billion).

Making amendments

SOUTH KOREA: The government is planning to amend the tax exemption bill that will facilitate local firms in issuing Sukuk, said a senior finance ministry official.

The official added that the government plans to revise the bill during a parliament session this month.

The bill was rejected on religious grounds by parliament last December.

Bancatakaful is key delivery channel

MALAYSIA: Bank Negara Malaysia (BNM), the central bank expects bancatakaful to boost the country's position as the world's second largest Takaful market.

Bancatakaful has become the leading distribution channel for Malaysia's Family Takaful products, accounting for 50.3% of contributions in September 2010, said Mohd Razif Abd Kadir, deputy governor of BNM.

The channel has also seen positive growth for general Takaful contributions and offers consumers cost effective access to integrated financial services, Mohd Razif said.

(See IFN Report on page 9)

Non-tradable Sukuk sold

INDONESIA: The finance ministry has sold an IDR6 trillion (US$672 million) non-tradable Sukuk to the Hajj Fund via a private placement, according to Dahlan Siamat, director of Islamic finance.

The Sukuk has a 7.85% profit rate per year and a maturity period of three years.

Boosting assets growth

INDONESIA: Bank Indonesia, the country's central bank is expecting Islamic banking assets to increase by 55% to IDR155 trillion (US$17.4 billion) this year, according to Mulya Siregar, its director of Islamic banking.

According to Mulya, the forecast is based on the 47% increase of total assets to IDR100.26 trillion (US$11 billion) in December 2010.

He added that the increase is due to the establishment of five spin-off Islamic banks last year which are Bank Negara Indonesia Syariah, Bank Jabar Banten Syariah, Bank Central Asia Syariah, Bank Victoria Syariah and Maybank Syariah.

Financing for hostel

MALAYSIA: Maybank Islamic has signed an agreement with Universiti Teknologi Malaysia to provide the university with a RM100 million (US$32.7 million) Commodity Murabahah Term Financing-i facility.

The facility will be used to refinance a RM160 million (US$52 million) conventional financing from the Employees Provident Fund to build a student hostel in the state of Johor.

Going for higher income

MALAYSIA: Maybank Islamic is expecting to increase its portfolio by 30% for this financial year ending on the 30th June 2011, backed by growth in the consumer and business segments, said Ibrahim Hassan, its CEO.

According to Ibrahim, the bank posted RM36 billion (US$11.8 billion) in revenue during the 2010 financial year.

He added that the bank is also planning to have a more balanced investment portfolio this year by targeting a mixture of 60% consumer and 40% corporate.

At present, 69% of the bank's financing portfolio is contributed by the consumer segment, while the balance is from the corporate sector.

Allow Sukuk issuances

JAPAN: The Financial Services Agency's (FSA) move to implement tax reforms and regulatory measures for Islamic finance will open up its market for Sukuk and revitalize its economic growth.

The tax system reform, expected to be adopted by year end, is also aimed at encouraging foreign investors' participation in the country's financial and securities markets, said FSA.

Local bankers said the tax reforms are necessary to create a level playing field against conventional products. Currently, investors receiving dividends from Sukuk are subjected to tax in Japan.

Funding road development

INDIA: Kerala's government is planning to rely on Islamic finance for its INR400 billion (US$8.8 billion) road development project, said Thomas Isaac, the finance minister.

Al Baraka Financial Services, which recently received the Kerala High Court's approval to operate in India, is set to play a major role in financing the project, added the minister.

Financing for taxis

THAILAND: The Islamic Bank of Thailand will offer THB5 billion (US$163 million) worth of financing to taxi drivers and street vendors, according to Korn Chatikavanij, the finance minister.

The facility is part of the government's economic stimulus scheme.

Chatikavanij added that THB1.6 billion (US$52 million) will be allocated for taxi drivers and THB3.4 billion (US$111 million) for vendors.

Moving on

MALAYSIA: Muzaffar Hisham has left CIMB Islamic as deputy CEO to be the new CEO of Maybank Islamic. He is currently undergoing a handover from his predecessor, Ibrahim Hassan.

According to a CIMB spokesperson, Mohamad Safri Shahul Hamid the deputy CEO from MIDF Amanah Investment Bank, will replace Muzaffar, subject to approval from the central bank, Bank Negara Malaysia.

EUROPE

Good standing

UK: Bank of London and The Middle East (BLME) has announced that its Shariah Dollar Income Fund is ranked in the top decile of funds for 2010 on the Lipper Hindsight, a fund ranking platform.

The ranking is based on the fund's performance and its ability to provide a good balance between liquidity and return in a challenging economic environment.

According to BLME, the annualized yield for the fund last year stood at 5.77% with a volatility rate of 1.78%.

GLOBAL

Positive outlook for Sukuk

GLOBAL: Sales of Sukuk in the Middle East are expected to increase in 2011 and 2012, said Alberto Verme, CEO of EMEA at Citi.

Verme explained that more local and foreign firms in the region are turning to Sukuk to diversify their financial portfolios and to hedge risks.

MIDDLE EAST

Profit soars

QATAR: Al khaliji Bank has recorded a 155% increase in net profit to QAR427 million (US$117 million) in 2010.

The bank's net operating income climbed 46% to QAR760 million (US$208 million), while total shareholder equity, including paid up share capital, reserves and retained profits, rose 9% to QAR5.26 billion (US$1.4 billion).

Proposal approved

KUWAIT: The Investment Dar (TID) has reached an agreement with creditors on its KWD1 billion (US$3.6 billion) debt restructuring plan.

Under the agreement, TID's shareholders will infuse KWD20 million (US$72 million) of fresh equity in the first 12 months, allow creditors to take a 10% stake in the company and complete repayment over six to eight years.

TID will also be required to repay a KWD405 million (US$1.5 billion) senior financing facility within a period of three to four years at an 11% profit rate. The firm also needs to settle a KWD600 million (US$2.2 billion) junior financing facility, whose maturity period has been reduced to six years from eight years.

Justifying its stance

QATAR: Qatar Central Bank has ordered to close down the Islamic windows of conventional banks as it would be difficult for these banks to follow both the upcoming capital adequacy rules set by the Islamic Financial Services Board as well as Basel II and III.

The central bank also explained that mixing Islamic and conventional banking could lead to difficulties in financial reporting and provide opportunity for manipulation.

Following the decision, Qatar Islamic Bank is expected to grow by 10% this year as it is likely to take over the Islamic banking operations of conventional banks in Qatar, said Ahmad Meshari, its acting CEO.

Despite the central bank's order, the merger between al khaliji Bank and International Bank of Qatar (IBQ) is on schedule and expected to be completed this year, said George Nasra, managing director of IBQ.

The central bank's decision could help to enhance consistency and standardization for Islamic products said Samer Eido, partner and head of the Middle East financial markets at Doha based law firm Simmons & Simmons.

(See IFN Report on page 8)

Shariah funds on platform

UAE: Hansard International, a long-term savings provider, has teamed up with Emirates NBD Asset Management to place the firm's three Shariah compliant funds on the Hansard platform.

The funds are Emirates Islamic Money Market Fund, Emirates Islamic Global Balanced Fund and Emirates MENA Opportunities Fund.

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Deon Vernooy, head of Emirates NBD Asset Management said the collaboration will enable the firm to promote these funds to investors from the Middle East and Asia.

Slide in profit

BAHRAIN: Islamic mortgage services provider, Sakana Holistic Housing Solutions has posted a profit before impairment of BHD630,000 (US$1.67 million) in 2010, as compared to BHD850,000 (US$2.25 million) in the previous year.

The firm also recorded a net loss of BHD1.63 million (US$4.3 million) after provisions.

Opting for smaller size

BAHRAIN: Al Baraka Banking Group has reduced the size of its US$500 million Sukuk program planned for next month, to between US$250 million and US$300 million, said Adnan Ahmed Yousif, its president and CEO.

However, he said the group may increase the size of the Sukuk, if there is a high investor demand.

Constructive pact

KUWAIT: Ahli United Bank has signed an agreement with VIVA Kuwait to provide a KWD51 million (US$182 million) five-year Islamic financing facility.

According to Salman Al-Badran, CEO of VIVA Kuwait, the facility will be used to expand operations, develop infrastructure and networks as well as diversify its financial resources.

Debt restructuring finalized

UAE: National Central Cooling Company (Tabreed) has reached an agreement with banks on its AED4.5 billion (US$1.22 billion) debt restructuring plan.

As part of the restructuring, banks have unanimously approved to refinance AED2.63 million (US$716, 000) of liabilities and extend a new AED150 million (US$41 million) credit financing facility.

Tabreed has also secured a AED400 million (US$109 million) financing facility from its shareholder, Mubadala Development Company, under its current AED1.3 billion (US$354 million) bridge financing.

Overseas foray

BAHRAIN: The Central Bank of Bahrain has granted a license to the Bank of London and The Middle East (BLME) to start operations.

The Bahrain office marks the first overseas presence for BLME.

Raising rights issue

BAHRAIN: Bahrain Islamic Bank's shareholders have allowed the bank to raise its paid up capital of BHD72 million (US$191 million), by up to 75% via a rights issue scheduled for next month.

Khalid Abdulla Al Bassam, its chairman said the shares will be allocated to shareholders by the end of March.

Profit decline

UAE: Emirates Islamic Bank has posted a 9% drop in total income to AED767 million (US$209 million) for 2010.

Net income from Islamic financing and investment products stood at AED706 million (US$192 million).

The bank's accounts financing receivables also fell 11% to AED15.9 billion (US$4.3 billion).

Good progress

QATAR: International Bank of Qatar's net profit for 2010 has risen by 34% to QAR458 million (US$125 million).

Annual operating income increased 27% to QAR853 million (US$234 million), while total conventional and Islamic customer deposits scaled 22% to QAR16 million (US$4.4 million).

Total assets also climbed 5% to QAR24.1 billion (US$6.6 billion).

Capital raising program

BAHRAIN: Gulf Finance House (GFH) has signed an agreement with Kuwait Investment Company to assist the bank with its recapitalization program.

The program includes raising up to US$500 million through the issuance of an equity-linked convertible Murabahah, which is part of GFH's restructuring plan.

Financing for SMEs

QATAR: Qatar Development Bank has signed an MoU with Masraf Al Rayan to provide Al Dhameen financing facilities to entrepreneurs in the small and medium enterprises (SME) industry.

The Al Dhameen facility aims to provide access to financing for SMEs by guaranteeing part of the financing extended by commercial banks. It targets businesses with an annual turnover not exceeding QAR40 million (US$11 million).

Extended warranty for vehicles

BAHRAIN: Extended warranty provider GAPCorp has signed an agreement with Kuwait Finance House-Bahrain to provide third party administration and claims handling for extended warranty to the bank's customers.

The extended warranty, which comes with a five-year period, covers all vehicles financed by the bank.

Making small strides

UAE: Islamic mortgage provider Tamweel has posted a net profit of AED7.08 million (US$1.9 million) for 2010, after a net loss of AED14.8 million (US$4.3 million) in 2009.

However, income from Islamic financing facilities and investing assets fell to AED553.2 million (US$151 million) from AED706.6 million (US$192 million) in 2009.

Ban may spurn investments

QATAR: Qatar Central Bank's directive for conventional banks to close their Islamic banking operations may deter further investments into the Gulf.

Analysts said that this may allow other countries to exploit the regulatory uncertainty and win a share of the global Islamic finance industry.

Shares of conventional banks in Qatar are expected to remain under selling pressure until the issue is resolved.

Pioneer Sukuk

YEMEN: The Islamic Sukuk unit of the Central Bank of Yemen has issued the country's first

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Sukuk worth YER4 billion (US$18.7 million) to finance three road projects, and as an investment tool for Islamic banks.

The Sukuk is part of the central bank's YER100 billion (US$468 million) one-year Sukuk introduction program.

Mixed results

KUWAIT: Kuwait Finance House's net profit for 2010 dropped 10.7% to KWD105.9 million (US$377.6 million).

However, assets rose 11% to KWD12.5 billion (US$45 billion), while deposits slid 5% to KWD7.6 billion (US$27 billion).

Egypt crisis may consolidate Islamic market

IRAN: Mohammad Nahavandian, head of the Chamber of Commerce, Industries and Mines, said recent political developments in Egypt will expedite the formation of a joint Islamic market.

He added that as an economic society, Iran should try to increase the economic transactions between the two countries.

New equity fund

UAE: Al Hilal Bank has launched an Islamic open-ended investment fund called Al Hilal GCC Equity Fund.

The fund will invest in publicly traded stocks of Shariah compliant companies in the GCC.

Abu Dhabi based Invest AD and HSBC are the investment advisor and custodian, respectively.

Order is credit negative

QATAR: Qatar Central Bank's (QCB) order to shut down the Islamic banking operations of conventional banks is credit negative for the banks, Moody's Investors Service (Moody's) said.

Moody's said local conventional banks would lose up to 16% of their deposit base, total assets and profits as a result of the order.

Currently, conventional banks derive between 10% and 15% of their annual earnings from Islamic banking and dominate the market share of banking system assets.

Moody's added that Qatar National Bank (QNB) will be impacted most by the order. QNB is the country's largest commercial bank, with a 39% share of total banking system assets and a 20% market share of Islamic banking assets.

However, the country's Islamic banks will benefit from the order by gaining access to more customers, strengthening their competitiveness and potentially reaping better profit margins, said Moody's.

ASIA

Good position

PAKISTAN: JCR-VIS Credit Rating Company (JCR-VIS) has assigned a management quality rating of 'AM2-' to IGI Funds with a stable outlook.

The move is based on the company's strong management structure.

Moving backward

MALAYSIA: Malaysian Rating Corporation (MARC) has revised the MARCWatch status of its 'AAIS' and 'AA-IS' ratings on DRIR Management's RM180 million (US$59 million) Class A and RM160 million (US$53 million) Class B Sukuk Ijarah facilities, respectively to negative from developing.

The ratings were initially placed on MARCWatch Developing on the 21st September 2010 pending the completion of a proposed refinancing of the Sukuk.

The revision is attributed to the delay in refinancing the Islamic bond by its sister company, MHS Aviation, who is also the seller-lessee for the Sukuk's underlying sale and leaseback transaction.

Leaning on its strengths

MALAYSIA: Malaysian Rating Corporation (MARC) has assigned a final rating of 'AAAIS' with a stable outlook to Aman Sukuk's Islamic medium term notes program of up to RM10 billion (US$3.3 billion), based on the receipt of final documentation for its forthcoming Islamic notes issuance.

MARC however added that the terms and conditions of the notes have not changed from the draft documents on which the earlier preliminary rating of 'AAAIS' was based.

Weak performance

MALAYSIA: Malaysian Rating Corporation (MARC) has affirmed its 'A(ID)' rating on Perwaja Steel's RM400 million (US$131 million) Murabahah medium term notes.

The rating outlook was revised to negative from stable based on the recent deterioration of the firm's operating performance, low sale volumes and rising input costs.

MIDDLE EAST

Dismal performance

JORDAN: Standard & Poor's Ratings Services (S&P) has downgraded its long- and short-term counterparty credit ratings on Arab Bank to 'BB+/B' from 'BBB-/A-3'.

S&P has also lowered Jordan Islamic Bank's long- and short-term counterparty credit ratings. The outlook for the two banks has been revised to negative from stable.

The rating actions follow the relegation of Jordan's local long- and short-term currency ratings to 'BB+/B' from 'BBB-/A-3' and S&P's revision on Jordan's outlook for its long-term foreign currency and local currency ratings to negative from stable.

The lowered ratings are based on the financial risks inherent in the country's political environment, which could weaken the asset quality and profitability of both banks.

Good start

UAE: Japan based Rating and Investment Information has assigned an 'A+' rating to National Bank of Abu Dhabi with a stable outlook.

The move is based on the bank's ability in managing its credit, growth in net profits, and an increase in its financing facility.

MOVES

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MAYBANK ISLAMIC

MALAYSIA: Maybank Islamic has appointed Muzaffar Hisham as its new CEO. He was previously the deputy CEO of CIMB Islamic.

Replacing Muzaffar at CIMB Islamic is Mohamad Safri Shahul Hamid deputy CEO of MIDF Amanah Investment Bank, pending approval from the central bank, Bank Negara Malaysia.

BARCLAYS CAPITAL

UK: Harris Irfan, head of Islamic products at Barclays Capital has left the bank.

Harris joined the company in July 2009 and headed the global Islamic finance operations for Barclays Capital, Barclays Wealth and Barclays corporate divisions.

SAUDI STOCK EXCHANGE

SAUDI ARABIA: The Saudi Stock Exchange has appointed Taha Abdullah Al-Quwiaz as its chairman.

The bourse has also named Mansour Saleh Al-Maiman as vice chairman.

Steady road to Islamic banking in Afghanistan

Afghanistan will enact its Islamic banking law by September this year to pave the way for fully fledged Islamic banks. While industry players see this as a positive move, an area of concern for bankers is the actual implementation and adherence to Islamic banking principles.

The draft law was reviewed on the 13th February by the Shariah board of Da Afghanistan Bank (DAB), the central bank, and now awaits approval from the ministry of justice, and ratification by parliament. The draft law was developed after considering those in Malaysia, Indonesia Pakistan, Bahrain, and the UAE, and was designed in consultation with Islamic scholars and practitioners globally.

With this, the future of Islamic banking is almost cemented, as Zulfiqar Ali Khan, head of the Islamic banking division at the central bank, said, "we expect that Islamic banking will lead the market." Following the passing of the law, the central bank will give permission for all Islamic banking products to be offered to the public, added Zulfiqar.

However, the challenges for Islamic banking are not necessarily resolved with the introduction of the law. While appreciating the efforts of the central bank, Dr Alam Khan Hamdard, chief of Islamic banking at Kabul Bank, said that it is too early to say how comprehensive the framework will be for regulatory and legal purposes. He stressed that DAB would have to play a crucial role to ensure strict Shariah compliance in order to prevent corruption, malpractice and misinterpretation of the law for a successful Islamic banking industry.

To which Zulfiqar said, DAB will ensure careful licensing criteria, in addition to policies and regulations, for long-term sustainability and confidence in the Islamic banking sector.

With the enactment of the Islamic banking law, the industry is expected to introduce new product lines. "Liability and deposit products for small and medium enterprises (SMEs), Islamic microfinance and agricultural Islamic financing are top priorities," said Dr Alam. Islamic banking investment products in corporate, retail, consumer and SME banking are most wanted and the need of the hour, he added.

With Islamic banking in its nascent state and a general lack of products available, the biggest challenge facing Islamic practitioners is the investment of Islamic banking funds, and ensuring the transparency of these investments, explained Dr Alam. With the majority of people living in rural areas, a major hurdle for Islamic banks also exists in the promotion of the concept of Shariah compliant investments.

On the flip side, Afghanistan's economy has been growing at a rate of 10% supported by over US$32 billion in international aid the country has received since the Taliban was toppled in 2001. The potential of the banking industry in Afghanistan stands large with a deposit base of US$4.1 billion and up to US$33 billion estimated to be in circulation, said Dr Alam.

He highlighted that of the 30 million population, only 2 million banking customers exist, with half of them banking with Kabul Bank. He cited the presence of riba (interest) in conventional banks as the biggest reason for its low penetration rate.

Khan Afzal Hadawal, CEO of Bank-e-Millie Afghan believes that the Islamic banking sector in Afghanistan can attract up to US$6 billion in five years. Dr Alam is bullish and expects over US$15 billion to be attracted by Islamic banking citing the strong Shariah sensitivity of the population.

The strong religious affiliation of Afghans looks to be a major contribution to Islamic banking. Zulfiqar said, "Islamic banking is part of the Islamic system and it will survive in all situations in Afghanistan. More than 30 years of war with different laws did not change the Afghans, they are still Muslims and the only successful system will be an Islamic one."

The main focus now is the development of human resources in Islamic finance, said Zulfiqar. To this end, DAB has collaborated with the State Bank of Pakistan, as well as sent employees for training to Malaysia. Zulfiqar commented that DAB has also begun on a series of awareness programs and workshops with the Afghan Institute of Banking and Finance to develop Islamic finance experts locally.

Qatar — More clarity unveiled

Still reeling from the news of Qatar Central Bank's (QCB) directive to shut down Islamic banking windows in the country by year end, bankers are both optimistic and pessimistic about the exercise. QCB's decision is to separate Islamic banking windows from conventional banks without issuing additional banking licences. This translates into conventional banks with Islamic windows being forced to wind up their Shariah compliant businesses without the option of establishing an Islamic banking subsidiary.

Practitioners, while grappling with the gravity and reasoning behind the abrupt decision, have hailed it generally as encouraging. Muath Mubarak, Qatar based banking practitioner considered it as a positive move for the Islamic banking industry as it will create clear demarcations between conventional and Islamic banks and bring more transparency and improved governance.

The comingling of funds between conventional and Islamic has been cited as the major reason behind this decision. Referring to QCB's motivation to maintain focused business growth, be it Islamic or conventional, Muath highlighted that the steady growth and increasing demand for Islamic banking products along with the push for standardization and governance of banking practices may have played their part in the decision.

The merging of funds has also raised concerns among practitioners, as Muath explained that this could give rise to the exploitation of large combined balance sheets by conventional financiers to go for bigger Islamic transactions. He further added that this also creates monitoring and supervisory issues on both the banker's and regulator's side.

On the conventional banker's side, Salah Jassim Murad, CEO of Ahli Bank, said that QCB's decision will reduce the number of players in an already saturated market.

The gain of Islamic banks will be at the expense of the loss of revenue streams from the Islamic windows of conventional banks. Salah said as a regulator, QCB has no obligation to compensate for loss of revenue, if any. The conventional banks will have to adapt quickly to make up for any losses.

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In terms of existing long-term Islamic financing contracts, Salah commented that the decision gives banks the option whether to run with the term financing until their maturities or sell. He said that the affected banks are currently examining all options including partial conversion of existing contracts into conventional terms. Also on the asset side, he added that the banks can transfer their Shariah compliant investments to the conventional book.

While the affected banks still mull over the details and course of action for the disposal of Shariah compliant business arms, Muath said in the long run, this decision is expected to leave a positive mark on Islamic finance in the region.

Takaful in Malaysia — An attractive destination

The Malaysian Takaful industry has attracted strong interest from both local and international players. In addition to four Takaful licences granted in the past six months to international joint ventures, recent weeks have seen global insurance giant AIG and Japanese Mitsui Corporation eyeing to tap the market in Malaysia.

The Takaful industry in Malaysia is the second largest with total assets of US$3.2 billion accounting for 26% of global Takaful assets, said Mohd Razif Abd Kadir, deputy governor at the central bank, Bank Negara Malaysia. He highlighted the huge untapped potential for Takaful operators, as while the overall insurance industry held a 53.5% penetration rate, Takaful only held 10.9% in September 2010. According to Alpen Capital, in 2010, the Takaful industry accounted for 25% to 30% of the total insurance market in the GCC.

Razif highlighted the robust expansion of the Takaful industry in Malaysia, with an annual growth rate of total assets and contributions averaging between 20% and 26% between 2004 and 2009, as showing the high potential of this market. In the same period, the GCC market showed a growth of 31.4%.

Malaysia has also seen strong growth in bancatakaful which accounts for 50.3% of the distribution of the Family Takaful products as of September 2010.

Takaful in Malaysia is further expected to experience a double digit growth rate for the next five years and this provides an attractive opportunity for foreign players, said Wan Azman Wan Mamat, CEO of AIA AFG Takaful.

The driver for the growth in Malaysian Takaful is its tax benefits. According to the Malaysia International Islamic Financial Centre (MIFC), companies establishing Takaful operations offering international services will not have to pay income tax until 2016.

The GCC region has its demographics and rising GDP as major Takaful growth drivers. With the median age at 26.3 years and GDP per capita of US$43,650 as reported by Alpen Capital, GCC and especially Saudi Arabia have been at the forefront of the global Takaful market share. The industry has further been bolstered in the GCC by the implementation of mandatory third party motor and health insurance and this continues to underpin growth in demand for Takaful.

As Razif highlighted recently, the regulatory evolution for the Takaful industry will continue to focus on ensuring effective risk management in the product development process and operations of Takaful operators. He further stressed that the robust Shariah governance framework is an important element of Takaful in Malaysia.

Sudan: Islamic Financial Instruments

By Elhussien Ismail Hussein Badri

Sudan is a multicultural and afro Arab country occupying a remarkable strategic position in Africa. It is the largest country in Africa. About 15% of this space is cultivated, 18% is forest and the remaining is water and desert. The population in 2009 was estimated to be 40 million. However Sudan is identified as a low income country.

The banking system in Sudan operates according to Shariah principles. After the Comprehensive Peace Agreement (CPA), there emerged two systems — an Islamic system in the north and a traditional system in the south. The central bank also strives to develop monetary and financial instruments for liquidity management, and also the practice of banking and finance away from usury in the north and illegal practices in the south.

The Central Bank of Sudan takes its role through the legal framework governed by the Central Bank of Sudan Act, the Banking Regulation Act and other laws of finance and business. In order to implement the tasks and achieve the objectives, the bank issues a monetary and financial policy, which contains a set of procedures and regulations issued by the central bank to manage liquidity in the economy. It also aims to provide funding and guidance to the banking sectors of priority, so as to maintain the stability of the exchange rate for balance between the different variables to achieve stability and economic and social development.

The Monetary and Credit Policy of the central bank governs the framework of practices in all areas of banking, including the means of implementation of the central bank, and the other banks towards the achievement of macroeconomic objectives. The central bank issues rules, regulations and publications, which shows how to implement and conduct banking business.

In countries where Islamic banking operates, its coverage and extent varies significantly from situations where the sector is entirely Islamic (Iran and Sudan before the CPA), as opposed to others where the conventional and Islamic systems co-exists (Indonesia, Malaysia, Pakistan, the UAE and Sudan after the CPA), and to countries where there is only one or two Islamic banks.

The current trend seems to be towards separation between the Islamic and conventional. But according to the CPA, Sudan will have a dual system — Islamic banking in the north and conventional banking in the south.

Sudan: Islamic financial instruments

Islamic financial instruments used in Sudan fall into three broad categories — profit and loss sharing, debt and quasi debt instruments. While each category covers a wide variety of instruments, the following is a brief description of the main contracts that are used most frequently by banks:

1. Profit and loss sharing instruments such as Musharakah and Mudarabah
2. Debt instruments such as Murabahah, Salam and Qard Hasan
3. Quasi debt instruments such as Ijarah

Islamic banks offer depositors the following four classes of accounts —

Central bank policies

The central bank policies are now hereby issued in a context of perceived full coherence with the macro-economic goals of the fiscal policy "the general national budget" and in accordance with the guidance of the five-year strategic plan of the central bank "2007-2011" , that aims essentially at managing the overall volume of liquidity in the economy in a manner that adequately and prudently meet the economic sectors requirements to attain positive economic growth and monetary stability through applying indirect dual banking – friendly instruments which equally serve to sustain the efficiency and soundness of the banking system.

Furthermore, this policy envisages fostering financing the operations of social dimensions namely; micro and meager microfinance through setting up novel subordinate financing units in the banks lacking them or promoting the currently operating ones. Also the policy encourages financing popular and rural housing operations, besides also encouraging financing development through the specialized banks.

Apart from the aforementioned objectives, the policy also has taken into account the rampart developments of the current global financial crisis which its consequences anticipated to impact the overall national budget, the private and banking sector, a situation that entails adopting congenial flexible measures to mitigate and contain that anticipated impact.

With regard to the non-performing loans, which adversely affected several economic sectors, the central bank will manage through this policy to sustain its already exerted robust efforts to resolve that problem. Accordingly, for that concern, the policy accommodated a host of measures that could curb the magnitude of those financing besides also incorporating the visions to contain them within the conventionally known international ratios in the future.

The policy will also endeavor to keep up the efforts to contain the impact of the enforced American Economic Embargo on Sudan through encouraging banking dealings with the strategic partners in the Arab and the African regions besides the East Asian countries and the other emerging economies.

The policy also envisages assuming particular heed for deepening the Islamic banking through efforts including encouraging applying Islamic modes of finance other than the Murabahah, and adoption of additional novel modes of finance compatible with the dual banking regime.

The structure of the financial sector

The Sudanese financial system is currently structured into the Central Bank of Sudan — which is the regulatory and supervisory authority, 33 commercial banks, and numerous non-banking financial institutions, including leasing companies, microfinance institutions, and bureaus of foreign exchange. The structure is detailed below:

1) Central Bank of Sudan is the regulatory body
2) Commercial banks: Banks are divided according to ownership of capital into three groups:
   a) four public sector banks

continued...

Sudan: Islamic Financial Instruments (continued)

b) 21 joint venture banks
c) two branches of foreign banks
d) six foreign banks

3) The non-banking financial institutions include —
   a) Financial institutions operating under the supervision of the Central Bank of Sudan
   b) Foreign Exchange Bureaus: that was established under the Regulation of Exchange Bureaus Act issued in September 1995, and operates in transferring, buying and selling foreign exchange, tele-money dealing in foreign currency between the purchase and the area of foreign remittances
   c) Sudan Financial Services Company which was established by the Central Bank of Sudan and the ministry of finance and National Economy in 1998 to work in the production and marketing of instruments of Islamic securities.

4) Financial institutions partly operating under the umbrella of the Central Bank of Sudan —
   a) Insurance companies: that employs its resources to cover the risk and investment in the case of financing its activities
   b) Development finance companies: funding development projects in various fields of agricultural, industrial and others
   c) Social funds: in the case of its funding activities such as the National Pension Fund and National Fund of Social Insurance

5) Financial institutions, working in coordination with the central bank—
   a) Deposits Insurance Guarantee Fund which was established under a law issued in February 1996 to strengthen confidence in the banking system and maintain the stability and safety of banks
   b) Khartoum Stock Exchange which was established in October 1994 and began working in the primary market (market versions) in that year and while the opening of the secondary market (market trading) in January 1995.

Open market operation instrument

After 1998, there was a paradigm shift in monetary policy, where indirect mechanisms and tools for the management of monetary policy and regulate liquidity were also introduced with the amendments to the existing mechanisms to make them more efficient and effective. It witnessed the introduction of Central Bank Musharakah Certificates (CMCs), and Government Musharakah Certificates (GMCs) as mechanisms to regulate liquidity in the economy, an alternative title for the debt securities based on their employment rate was in the open market operations. Also, the margins of profit sharing and funding windows have been developed to be more suited to the service of monetary policy.

1. Government Musharakah Certificate (GMCs)

Musharakah according to Islamic Financial Instruments in Sudan — It is an equity participation contract with the bank and a client contributing jointly to finance a project. The GMCs represents the share of the ministry of finance in some public institutions which is securitized and converted into certificates and issued in 1999.

Although the main objective behind the issuance of these certificates was to provide mechanisms for the Central Bank of Sudan in the management of liquidity but; it has become in a short period and effective means of financing the general budget deficit.

That means that the government can obtain real resources from the public to cover the public budget deficit instead of resorting to borrowing from the banking sector.

The main characteristics of these certificates are:

1. Means to finance the budget deficit and the mechanism for the management of liquidity by the central bank.
2. Means of attracting national savings and encourage institutions and individuals to invest their surpluses, and help develop the

continued...

Khartoum Stock Exchange — secondary market (Value in US dollar)

	No of transactions	Listed companies	Capitalization	No of stocks in circulation	No of certificates in circulation	No of shares in circulation	Volume of circulation
December 2006	667	52	3,595 million	22,228	173,028	48,865,189	61,504
December 2007	687	53	3,907 million	88,111	319,159	5,524,020	180,549
December 2008	598	53	3,297 million	607,682	424,009	22,990,225	31,810,270
December 2009	609	53	2,687 million	24,774	299,165	19,835,955	206,082,760
2010							
January	778	53	2,826 billion	62,740	737,955	2,285,206	398,448,291.33
February	511	53	2,539 billion	243,129	172,965	4,851,335	98,794,774.19
March	642	53	2,449 billion	41,684	390,795	5,602,060	222,200,401.35
April	663	53	2,428 billion	76,292	403,039	7,182,924	234,867,520.32
May	605	53	2,369 billion	132,054	181,624	7,458,115	156,754,957.89
June	646	53	2,290 billion	79,441	298,013	87,604,069	169,088,216.63
July	756	53	2,209 billion	117,236	319,018	6,871,582	179,393,769.00
August	677	53	2,206 billion	270,763	280,567	746,403	153,753,980.00
September	715	53	2,222 billion	237,705	352,106	4,681,507	209,526,675.00

Source: Khartoum Stock Exchange Market
(Rate: 1 Sudanese Pound = US$2.59 as at the 14th February 2011)

Sudan: Islamic Financial Instruments (continued)

Government Musharakah Certificate position (GMCs) (Value in US dollar)

	Position at the beginning of the period	Value of sold certificates	Value of certificates	Position at the end of period
Jan – Dec 2005	498 million	2,152 million	1,076 million	1,574 million
Jan – Dec 2006	1,574 million	2,745 million	1,372 million	2,947 million
Jan – Dec 2007	1,556 million	433 million	358 million	1,631 million
2008				
Jan – March	1,667 million	529 million	424 million	1,772 million
Apr – Jun	1,772 million	617 million	487 million	1,901 million
July – Sept	1,901 million	366 million	284 million	1,983 million
Oct – Dec	1,983 million	614 million	470 million	2,128 million
2009*				
Jan – March	2,128 million	597 million	529 million	2,195 million
Apr – Jun	2,195 million	914 million	617 million	2,493 million
July – Sept	2.493 million	517 million	366 million	2,644 million
Oct – Dec	2,644 million	839 million	614 million	2,869 million
2010*				
Jan – Mar	2,869 million	983 million	597 million	3,256 million
April – Jun	3,256 million	1,054 million	914 million	3,395 million
Jul – Sept	3,395 million	665 million	517 million	3,543 million

**Amended figures*
Source: Sudan Financial Services Company (Rate: 1 Sudanese Pound = US$2.59 as at the 14th February 2011)

capital market.

3. Have had a high return of between 28% and 33% at the beginning of their issuances which represent the proceeds of a real operating profits and capital of the constituent institutions, but this percentage fell during the period 2007 to 2008 between 15% and 17% to 14% in 2010.
4. A specific period of validity of the entire year and there are steps for the issuance of certificates.
5. Easy to liquidate and have a secondary market developed.
6. Convertible and traded in the Khartoum Stock Exchange.
7. Exposure through auctions at fixed intervals and control the auction process to specific controls.

2. Central Bank Ijarah Certificates (CICs)

Popularly known as (CICs) leasing or certificates of the Central Bank of Sudan. They represent a type of securitization of assets (building), converted into such certificates where the first issuance was in 2005. The main objective behind the issuance of the CICs is to enable the bank to manage liquidity and provide profitable investment opportunities and, the most important characteristics are:

1. The relationship between investors and the company (Sudan Financial Services Company) based on the agency contract, and the relationship between the company (agent) and the Central Bank of Sudan adopted on the basis of the original purchase and lease it to him (leasing assets for those who sold them).
2. The holder of the instrument in receivables:
   a. Monthly fee.
   b. The value of the instrument in the market.
   c. Distribute the revenue from leasing as 95% of the bondholders and, 5% of the company (as agent).
3. Profits depend on the actual rental income and indicators of the feasibility study done indicate that the expected return for the lease between 10% and 12% annually.
4. Pay the share of investors from rental income per month and the yield is calculated from the date of the original lease.
5. The presentation of these instruments in the market should be after buying the original for the benefit of investors to be traded in the market according to supply and demand mechanism.
6. These instruments are negotiable and the conversion should be wholly or in part. The instruments are sold and converted by the conversion form prepared for this purpose.
7. The placement in these instruments exclusively on banks, financial institutions and funds of the public sector.

Government Investment Certificates position (GICs) (Value in US dollar)

	Position at the beginning of the period	Value of sold certificates (+)	Value of purchased certificates (-)	Position at the end of Period
2009				-
Jan - Mar	838 million	115 million	-	723 million
Apr - Jun	838 million			838 million
Jul - Sept	780 million		57 million	838 million
Oct - Dec	780 million			780 million
2010*				
Jan - Mar	638 million		88 million	726 million
Apr - Jun	750 million	193 million	81 million	638 million
Jul - Sept	750 million			750 million

**Amended figures*
Source:- Sudan Financial Services Company
(Rate: 1 Sudanese Pound = US$2.59 at the 14th February 2011)

continued...

Sudan: Islamic Financial Instruments (continued)

Central Bank Ijarah Certificates position (CICs)

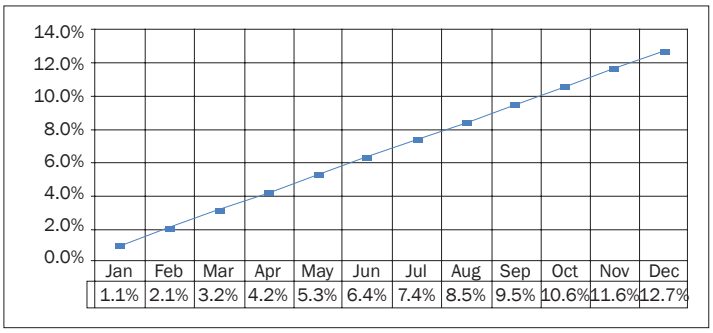
	Position at the beginning of the period	No of sold certificates	No of purchased certificates	Position at the end of period
Jan - Dec 2005	-	-	-	-
Jan - Dec 2006	105,371	-	-	105,371
Jan – Dec 2007	371	146,300	25,000	79,071
2008				-
Jan - Mar	79,071	176,325	159,000	61,746
Apr - Jun	61,746	88,500	102,800	76,046
Jul - Sept	76,046	84,740	25,000	16,306
Oct - Dec	16,306	7,000	27,940	37,246
2009*				-
Jan - Mar	37,246	-	-	37,246
Apr - Jun	37,246	8,676		28,570
Jul - Sept	28,570	16,461		12,109
Oct - Dec	12,109		5,000	17,109
2010*				-
Jan - Mar	17,109	20,000	42,500	39,609
Apr - Jun	39,609	18,995	44,000	64,614
Jul - Sept	64,614	30,000	15,000	49,614

**Amended figures*
Source:- Sudan Financial Services Company

3. Government Investment Certificates (GICs)
The government investment certificates (GICs) is a medium-term investment fund with a time horizon and capital as well. It was established in order to attract financial resources from the investors by holding restricted Mudarabah for use in financing projects allocated by the ministry of finance and national economy. In order to achieve returns to its investors, the fund seeks to achieve the following objectives:

1. Compilation of national and regional savings and investment promotion.
2. Liquidity management at the macro level.
3. Development of domestic capital market.
4. Polarized utilization of financial resources in government funding to meet the spending on development projects and infrastructure projects.
5. Reduce the inflationary impact by providing stable funding to the government in the form of goods and services.

Expectation of total annual yield curve:



The last monthly public note of Central Bank of Sudan expects the total of annual yield curve reach to 12.7% for the entire investment vessel which include (commercial bank investment deposits, (GMCs), (GICs)).

Conclusion

Sudanese financial instruments are developed by a higher supervisory board — the Shariah association — a department in the Central Bank of Sudan. This department makes the fatwa on instruments which is to be applied in the financial market. The central bank then takes the decision of using that instrument or not by other technical departments.

For that reason, Sudanese financial instrument seems to be more Shariah compliant and better financial efficiency than other Islamic finance tools of other countries because the supervisory board describes by neutral association of Islamic fatwa and the members of this board are higher Islamic society scientists.

Also, still this instrument was insufficient because the market wants more movement of money to increase finance of productive project holds by public and private sector, increase FDI to the same reason. All of that makes the members of that board and economist of central bank working to resolve the empirical problem of Islamic financial products.

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The Treasury Value Proposition within Islamic Finance

By Frank Morisano

Effectively managing cash and liquidity are essential building blocks in creating a stable and sustainable Islamic financial institution (IFI). Before the recent financial crisis, the IFI like its conventional bank counterpart, was more likely to focus businesses on growth, acquisitions and gaining market share.

The occasional warnings to executive management from the Treasurer concerning tight liquidity, inadequate customer credit quality and balance sheet funding gaps went unnoticed. This led to the collapse of several large conventional banks. Shortly thereafter, liquidity became the focus of the banking regulators, rating agencies and central banks. Even though IFIs were flushed with customer deposits, cash became scarce and the major focus of their boards of directors and executive management.

Through the centuries, history has shown that whenever a crisis occurs, the following decade will see both structural and regulatory changes in that industry. As we slowly emerge from the rubble of the global financial crisis, cash and liquidity must remain the focus of the board of directors and executive management of IFIs. Hence, the Treasurer and the treasury function must also remain in the spotlight.

Islamic finance now has the potential to resume its growth, offering an increasingly broad array of asset and liability products to both established and emerging Islamic market customers. This article examines the significant challenges continuing to face the Treasurer in managing liquidity IFIs.

The Islamic Treasurer

The treasury activities in an IFI commonly gathers cash from business operations and other external sources to ensure the institution has sufficient liquidity on hand to conduct business. One key challenge for treasury activities of any institution is the difficulty in producing an overall view of the institution's cash position and exposure to risk on a timely basis. Consequently, the Treasurer is increasingly seeking the support of the organization in finding innovative ways to access the pockets of liquidity, accelerate the cash flow cycle and enhance the financial efficiency of the institution. This is no different from a conventional financial institution.

The essence of good liquidity and cash management requires the treasury to ensure that the financial institution has a good mix of short, medium, and long-term assets and corresponding matched liabilities. An IFI has additional issues to deal with as most conventional liquidity instruments are unavailable to the treasurer. This often results in the IFI finding itself in a position of excess leverage. The mismatch between assets and liabilities in the IFI is accentuated by the lack of short-term, money market instruments that allow for managing excess liquidity and temporary liquidity needs.

Essentially, IFIs have more deposits than assets as there are more Shariah compliant investors looking for a safe haven for their investment cash than for liability instruments that can put the funds to work. More often than not, the Treasurer in the IFI places the excess cash in interest free deposit accounts with the central bank or in some cases into the few available Shariah compliant treasury products such as bilateral commodity Murabahah, interbank Mudarabah, Qard Hasan and Wakalah agreements. The use of, and exposure to, exotic securities such as credit default swaps (CDS) and derivatives are not permitted in Islamic banking as they are incompatible with Islamic finance principles.

Commodity Murabahah is still the preferred short-term funding product of the Islamic Treasurer. Murabahah is often used for the buying and selling of commodities in an international market. This product is flexible to facilitate many financing, currency exchange, and hedging structures. The over reliance on Commodity Murabahah for short-term investment and liquidity management, while providing Islamic banks with an opportunity to invest their short-term funds, inevitably leads to an inefficient use of their capital.

Wakalah agreements are also used as a liquidity management tool; although improvement is needed in terms of accounting treatment, rate of return, transparency and disclosure on management of funds. More recently, short-term Sukuk have emerged as another short-term funding product. This product is mainly used in Bahrain, Brunei, Pakistan, Malaysia and Singapore.

> "Liquidity management begins with an understanding of the financial institution's investment objectives"

Efficient liquidity management

To overcome these product limitations, the IFI needs an integrated approach to liquidity management across the whole business that should match the maturity of its assets to its liabilities on a daily basis. A liquidity management strategy contributes to effective IFI management, in terms of managing key risks, preserving capital, ensuring access to sufficient cash or liquidity, and seeking a yield within a well controlled framework.

Liquidity management begins with an understanding of the financial institution's investment objectives. The creation of well defined objectives combined with an understanding of the timing and the levels of cash required are the foundation for constructing an appropriate liquidity profile. The Islamic Treasurer like its conventional counterpart must return to the basics and emphasize the three core pillars of liquidity management— cash flow visibility, cash flow forecasting, and profitable cash management.

- One objective should be to enhance payment efficiencies, in particular by speeding up receivables and streamlining payables
- Another is that the treasurer in the IFI needs the right tools to allow them to see their working capital positions, help them map their cash flows across banks effectively, and ensure they make timely and accurate investment and borrowing decisions.

continued...

The Treasury Value Proposition within Islamic Finance (continued)

Islamic finance favors tangible long-term assets, such as loans and investments but is faced with the problem that their customer deposits or liabilities are short-term. This leads to a maturity mismatch. The essence of sound liquidity management requires the IFI to have the optimal mix of short, medium, and long term assets (Sukuk, project finance, real estate) on their balance sheets and access to cash when required either through the asset side or the liability side of the business.

To enable IFIs to manage their liquidity better, the Treasurer should look to increasing global connectivity, for example building scale through funds flowing between countries. Continuous efforts to develop a robust Islamic liquidity market should encompass both the retail and wholesale market. The IFI should be able to match the maturity of its loans and investment to the liabilities on a daily basis and cope with such short-term pressures as may arise in ensuring that the assets are fully funded.

> "The issuance of Islamic securities by central banks is the missing link in a number of jurisdictions and needs to be addressed both at national and global level"

In addition, there is a lack of a credible Islamic interbank market where the IFI can access overnight funds or funds for less than a year (six months, nine months and 12 months) similar to the way used by the treasury in a conventional bank. Both Bank Negara of Malaysia and the Central Bank of Bahrain have taken steps to address this lack of short-term liquidity products. More action is required from other central banks in other Islamic countries as well as the introduction of new liquidity instruments. The issuance of Islamic securities by central banks is the missing link in a number of jurisdictions and needs to be addressed both at national and global level.

There is also a need for the creation of innovative Shariah compliant treasury products where the duration and risk/reward options are considered to meet the needs of more sophisticated institutions, such as cross currency swaps, profit rate swaps and forward rate agreements.

Where IFIs face a shortage of longer dated assets and interbank liquidity, the Treasurer industry faces the challenge of creating a global infrastructure that can support liquidity management strategies and thereby capture the opportunity provided by the Islamic finance sector's large capital pools. Moreover, the lack of integrated systems prevents clarity of information and robustness of the processes.

Getting a handle on risk is also crucial for the Islamic treasurer. To achieve this goal, the IFI must go beyond a narrow view of risk management that is primarily concerned with the production of liquidity reports, once or twice a year. The treasurer should ensure that the board of directors and executive management has up-to-date information to ensure that risks are being properly managed against returns being pursued. It is also important that the treasurer begin to provide forward-looking assessments of liquidity risk.

Does your institution need to take action?

The IFI faces a tremendous challenge in today's volatile markets. Beyond the need for new short-term Shariah complaint financial liquidity instruments, there is a need for the treasury function to conduct very detailed stress testing of the IFI's cash position to ensure sufficient cash and liquidity to ensure the sustainability of the IFI.

There is also a need to start preparing for upcoming regulatory challenges, specifically, the changes being proposed by Basel III. Given the large potential consequences of Basel III on the IFI business model, the board of directors and executive management must start to ask tough questions of their treasurer and treasury function to ensure their financial institution is safe and sound. These questions include—

- What is the Treasurers' knowledge of the impending Basel III regulatory changes and what impact will that have on their IFI?
- What are the Treasurers' plan to increase their additional long-term debt and capital?
- How will the IFI reduce their committed credit and liquidity facilities?
- How the business will reduce their wholesale credit commitments?
- Who in the IFI will adjust their pricing of assets to compensate for the higher cost of funding
- How will the new regulations be implemented by their respective central bank?
- What impact that the requirements will have on their liquidity management framework (for example the new supplemental measure of 'leverage ratio')?

A warning to the wise, do not play the waiting game. Begin to ready the IFI and the treasury function for the demands of the new marketplace.

In anticipation of these upcoming challenges, the Treasurer first must begin to communicate with businesses: the array of treasury products used by the IFI and how liquidity is managed. Second, the Treasurer must enmesh the treasury function into the businesses and become a trusted partner to ensure governance is followed and adhered with. By making a much broader treasury tool kit available to the businesses, the treasurer will transform the way the IFI will work set the capital reserve requirements for its' products and protect the IFI from all types of losses.

Finally, the board of directors and executive management should ask — Does the IFI's Treasury unit have both the experience and skills to actively manage liquidity and other innovative asset management offerings?

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Treasury Products for Islamic Financial Institutions

By Mark J Lynch

A challenge for all new banks lies in providing a full range of competitive treasury products which help manage not only a bank's liquidity and hedging positions but also its business divisions and client requirements.

This becomes more challenging when the breadth and complexity of products offered by established financial institutions is considered alongside the Shariah principles that Islamic banks operate by. However, many have argued that the complexity and lack of transparency of these treasury products played a part in the credit crunch.

Islamic treasury products are required to be transparent and non speculative. In recent years Islamic banks have invested heavily in product development, particularly in relation to treasury. This article provides a summary of the more frequently used products, their basic structures and what they mean to treasury.

Liquidity management products

Commodity Murabahah

Based on the Murabahah (trust financing) structure, this has developed to become one of the main short term liquidity management tools used by treasuries. When completing a Commodity Murabahah, commodities are purchased in order to create liquidity. A bank would buy a commodity for US$100 spot and sell them to a client for US$110 on deferred payment terms. The client then sells the commodities back into the market for US$100 to realize the liquidity it requires.

Most Shariah scholars prefer the use of non-precious metals such as those used on the London Metals exchange. With the current low rates in the market, the use of Commodity Murabahah for short-term deals of less than one week has decreased as the cost of purchasing and selling a commodity is prohibitive.

Wakalah

This is a useful liquidity tool between Islamic banks as it operates under the principle of agency agreement and does not have the added costs of commodity purchase/sale involved. For this reason it is especially cost effective in very short term transactions.

Foreign exchange

Foreign exchange (FX) products such as Spot, FX Forwards, and Swaps are vital for a functioning Islamic treasury. These can be used to manage customers requirements, the banks own liquidity or FX risk.

Spot FX (Sarf) is a straightforward product used throughout the industry involving the exchange of one currency for another at an agreed rate for immediate spot delivery. However, the use of FX Forwards in Islamic markets is less prevalent. FX Forwards can be achieved by the use of a Waad (unilateral promise) structure where one party (the promisor) agrees to enter into a Spot FX transaction on a pre-agreed date in the future at a pre-agreed rate.

To complement the growing number of products, Islamic financial institutions have implemented technology solutions that dovetail with services such as foreign exchange. For example, BLME launched an online foreign exchange platform that allows clients to access FX markets over the internet. Speculation and short selling is prohibited in order to comply with Shariah principles.

Another useful FX product is the FX Swap (structured as a Waad) which allows the bank to effectively fund themselves in one currency using another currency. Forward FX also makes use of the Waad in order to achieve the forward delivery of one currency versus the other.

> "Islamic treasuries are under pressure to provide competitive rates against the offerings of Islamic peers and conventional banks"

Additional liquidity management products

Repo

'Repo' (short for repurchase) involves the sale and buy back of securities in exchange for cash on pre-agreed dates at a known cost price. This product has not been approved by all Shariah scholars but is considered an important development in Islamic markets. The IIFM is working to develop a framework for repo products that will be fully Shariah compliant. It is hoped that Repo will become as regularly used as the Commodity Murabahah.

It is acknowledged across the industry that there is a dearth of liquidity management products for Islamic financial institutions. It is critical that Islamic financial institutions have access to high quality liquid instruments such as government issued Sukuk. Without access to such quality liquidity, the requirements laid down by the regulators in the UK that banks hold a liquid assets buffer adds an expensive burden on Islamic banks. This is not so for the conventional banks. A number of the more established Islamic centres already have regularly issued short term government papers. In the UK, despite some positive steps and encouraging noises from HM Treasury we are still waiting.

Islamic treasuries are under pressure to provide competitive rates against the offerings of Islamic peers and conventional banks. It is vital that Islamic financial institutions have a competitive offering, not only to attract clients per sé but also to be seen as a viable alternative to conventional financing.

BLME Premier Deposit Account

The BLME Premier Deposit Account (PDA) is an online fully Shariah compliant deposit product with competitive profit rates. The PDA provides investors with a transparent and accessible alternative to conventional 'fixed rate bond' products. Similar deposit products are offered by other UK Islamic banks such as the Islamic Bank of Britain.

The Islamic structure behind the PDA and many other Islamic deposit products is the Wakalah. A Wakalah is a contract of agency where a

continued...

Treasury Products for Islamic Financial Institutions (continued)

party/person is appointed to perform a specific task, in this case to invest for a fixed term on behalf of the investor to achieve a certain return.

The PDA has proven popular among Muslims looking for a Shariah compliant investment with good returns in a landscape previously occupied by conventional banks. However there has been significant interest from non-Muslims. The PDA now successfully competes in the conventional market space currently offering one of the highest returns for such a product available.

Netting

An important development for Islamic treasury departments has been that of netting relationships. Netting agreements allow treasury to offset the payables against the receivables for a specific counterparty. This has mutual benefits for both parties to the agreement. Netting agreements are permissible for Islamic banks under the Shariah principle of Muqasah (offset of debt). BLME was the first Shariah bank to have this agreement recognized by the UK regulator, the Financial Services Authority.

Islamic funds

Traditionally treasuries would not be directly involved in investment funds – whether they be money funds, equity, or property funds however there is a place for liquid money market funds, such as BLME's $ Income Fund. Money market funds can provide a treasury department with a return better than money market rates with the additional benefit of being able to access the liquidity at short notice.

Managed account structures

This product is used by Islamic financial institutions to manage liquidity and is offered to clients as a liquidity management tool. Generally the managed account invests in Islamic products such as a Sukuk with specific risk and return parameters which are set internally or by the client.

Risk management products

Profit rate swaps

Profit rate swaps (PRS) are vital for treasury departments to manage their fixed or floating profit rate assets and liabilities. Islamic institutions are often exposed to a mismatch in funding and lending maturities which, if not hedged correctly leaves them open to market interest rate risk.

PRS involves swapping profit distribution payments on fixed rate investments for profit payments on a floating-rate basis. An agreed base index is used such as LIBOR or EIBOR or vice versa to swap floating into fixed rate if required.

PRS are not necessarily single currency, either side/leg of the PRS can be in a different currency if required. This allows the bank to hedge market interest rate risk and FX risk in its simplest form both legs of the PRS are in the same currency.

There are a number of ways of structuring PRS but the most common is the incorporation of Musawamah (trading negotiation) in the structure. At inception both parties agree a future schedule to buy and sell commodities on fixed dates. The Musawamah allows either party, at a mutually agreeable time during the life of the PRS to request early termination of the outstanding schedules — at a mutually agreeable cost.

Conclusion

The above are a small selection of tools available to the Islamic treasury but collectively they have a huge bearing on a treasury's ability to run efficiently and effectively.

Islamic treasury products have developed tremendously in the past five years as customers demand more sophisticated ways of managing their investments and liquidity. Technology continues to evolve with products now being made available to a much wider, international audience.

Standardization will come but the industry is still nascent and banks continue to use the structures and documentation they created and cater to the needs of their specific clients. As the industry matures there will be more cross-fertilization of products, structures and documentation.

After the world economic events of the last three and half years, and amid calls for banks to hold ever more high quality liquidity, it is vital that all countries ensure they provide their banking fraternity with the tools such as Sukuk to enable them to comply.

Mark J Lynch
Treasurer
Bank of London and The Middle East
Email: Mark.Lynch@BLME.com
Mark J Lynch has 20 years' experience in conventional banking, mostly at Dexia Bank Belgium. He joined BLME in 2007 and was promoted to Treasurer after a year.

Shariah Compliant Investment Funds in the Middle East

By Owen Delaney

From the late 1990s, global financial markets turned an interested eye on the Middle East resulting in not only the development of Islamic financial products but also the growth of fund capabilities in general, leading to the foreseeable fusion of the two in the emergence of Shariah compliant funds.

Although many may be tempted to conclude that the ultimate success of these funds will depend on their adaptability in the face of two pressures, one exerted by regional factors and the other by investment guidelines stipulated by Shariah, the real key to their success lies in their popular perception. With several Shariah compliant funds up and running, both open and closed-ended, they have already shown themselves to be adaptable to such pressures.

So the real driver to their success will ultimately be how they are perceived and the willingness of fund managers to adapt established conventional methods to meet regional and Shariah demands (and of Islamic bankers to provide Shariah compliant leverage and acquisition financing mechanisms).

> "Many prospective foreign fund managers have underestimated the necessity of connections and relationships in the Middle East"

To date the majority of attention cast by the global fund industry in the Middle East has been in the context of attracting sovereign or private wealth investment from the region. For local funds, that is, funds developed, established, managed and marketed in the Middle East, a number of region specific factors have contributed to slow growth in the market.

For example, fund managers have been deterred by lack of trust regulations and umbrella fund structures, as well as restrictions on foreign ownership of local entities which have averted many from domiciling prospective funds in the region, who turn instead to the well trodden path of offshore jurisdictions offering comparable tax incentives.

With a high proportion of private enterprise in the region being in the form of family run businesses (in some countries it has been estimated as up to 50%) many prospective foreign fund managers have underestimated the necessity of connections and relationships in the Middle East.

While some of these considerations may indeed deter foreign fund managers they have also offered considerable advantages to local practitioners as evidenced by the emergence of successful and sophisticated regional funds.

Certain global events have also provided well needed injections into the growth of funds in the Middle East. For example, the recent global financial crisis has led to a general desire among investors to stick with what is familiar, which in the Middle Eastern context has resulted in investors keeping their funds in the region.

Some investors have reacted by developing a strategy of geographical and sector specialization (as evidenced in the recent growth of specialized Middle Eastern sector specific private equity funds). Yet even with such spurs, the successful growth of any type of market needs the appropriate legal (and in particular regulatory) regime which can strike that fine balance between providing investor protection and faith in the market without overburdening product providers.

Some jurisdictions such as Bahrain struck on a successful formula early, whereas others such as Dubai's DIFC have found themselves needing to revise their legislation to establish the right balance. Indeed the nature and degree of fund regulation is very diverse in the region. For example Bahraini fund regulations prescribe categories of funds and also set out fund-specific requirements for Shariah compliant funds whereas Saudi laws stipulate categories of offering (as opposed to fund) and are silent on fund specific Shariah requirements, instead defaulting to general Shariah principles.

Aside from regional considerations, Islamic funds face another challenge, presented by their intrinsic nature. From a legal structuring perspective a Shariah compliant fund as a specific market instrument per se is arguably a myth.

While Mudarabah and Wakalah structures fuse well with conventional fund structures (such as limited partnerships) to create what is regarded as an Islamic fund, many market participants appear to remain unaware that an exclusively Islamic structure is not absolutely necessary to create a Shariah compliant fund; conventional structures with straight forward investment management agreements or advisory agreements can also suffice.

Although structuring is vital to the success of any fund, it is not the make-or-break aspect of a Shariah compliant fund. It is the given fund's adaptability to the principles of Shariah that will define it as an Islamic product as opposed to its classification as a collective investment scheme.

Perhaps the greatest obstacle posed to the Islamic fund manager is the limitation on the fund's investment universe. The prohibition of riba does not only apply to the fund itself but also extends to the target investments of the fund.

Isolating companies who are not financed to some extent can be challenging in itself, and in some contexts, for example venture capital, the search for appropriate investments without debt can be even more arduous. In practice this obstacle is overcome by the acceptance of low gearing ratios in the targets.

Investment in geared companies also creates, for Shariah compliant funds alone, the issue of purification; an issue which has stimulated debate and diverse viewpoints among Islamic scholars. The principle is that a certain proportion, albeit a low one, of the income and capital gains made by the fund, and beneficially attributable to the individual investors, has originated from forbidden activities, that is, riba.

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Shariah Compliant Investment Funds in the Middle East (continued)

As a result such gains must be purified which in practice results in the donation of the attributable portion of the gain to charity as a zakat payment. There is little disagreement about the purification of the income gains of a fund, but for capital gains there are different viewpoints among scholars; some insist such gains must be purified while others maintain the opposite, on the basis that the gains are both indiscernible and negligible in the context of the overall net asset value of the fund.

However, albeit an extra administrative requirement, whether it may be regarded as disadvantage unique to an Islamic fund, is a matter of opinion. Some funds conduct purification at fund level before returns are distributed to investors, while others pass the gains straight through, leaving purification as a matter for the individual investor. Whichever method adopted is a product of the Shariah board's decision (which will ultimately need to be disclosed in the fund documentation) as opposed to a regulatory requirement.

The limitations on investing in geared companies have also led to a perception that Islamic funds suffer a risk unique to them; they may be required to dispose of investments at a loss ahead of forecast maturity if the investment target breaches the acceptable gearing ratio and does not refinance its debt or restructure its holding in the portfolio company within a grace period of two-to-three years.

While the consequence of increased gearing in an investment would indeed make the fund breach its Shariah compliance requirements, this can be averted in practice by the prudent participation of the fund manager in the management and operations of the target or by appropriate covenants by the target at the inception of the fund's investment.

In addition, Islamic banks will need to play more proactive roles in supporting the Islamic private equity industry through making Shariah compliant facilities available to managers of Islamic funds. Until they do, the Islamic private equity (and real estate) fund industry will lag behind the conventional one.

While some may regard the prohibition of riba as a limitation for Islamic funds, in certain cases it could conversely provide a market advantage. In a venture capital context, the ability to provide equity financing on a Shariah compliant basis for a Shariah compliant start-up ventures is an exploitable opportunity unique to Islamic funds.

Another limitation placed on an Islamic fund's investment universe is the activity of its target. Investment in companies involved in pork products, arms, gambling or pornography is absolutely prohibited. Due diligence on prospective targets should always extend to ensure that subsidiaries or investment holdings of the target are not involved in such activities either.

Needless to say, the analysis is not always straightforward, as practitioners would testify for in the context of investments, for example, in real estate assets which include non-compliant tenants or in media companies which may produce some non-compliant content.

The Shariah approval and on-going monitoring of a fund is also viewed by many as an extra burden on an Islamic fund. The prevalent perception is that the Shariah board may lead to increased costs and time delays associated with the fatwas required for the fund's structure and each of its investments.

A further perception is that the fatwa requirements shall also inhibit an Islamic fund's ability to act promptly when timing is critical. Indeed in theory, these limitations are undeniable as the Shariah governance component is an extra procedural cog that conventional counterparts do not require, but in practice, this hurdle may be mitigated.

With the development of Islamic finance in general, an already proven Shariah compliant investment universe has evolved naturally and regulators have shown themselves willing to embrace this evolution.

For example, the Dubai Financial Services Authority has dispensed with the requirement for a Shariah board at fund manager level where the fund adopts a Shariah screening approach to its investments, like investing only in entities listed on an established Islamic index (for example the Dow Jones Islamic Market GCC Index).

In certain cases, regulators are willing to leave Shariah compliance as a matter between the fund manager and the investors in the fund. Time delays in obtaining fatwas can and do occur in practice, however the development of the Islamic market has led to a greater experience base among scholars and a movement towards the institutionalization and standardization of scholarly activities, which in turn should lead to faster approval processes in some instances.

Further while speed of response is a desirable trait in any investment vehicle, in practice a decision to invest is often a slow process (it is a regular occurrence for funds established in the Middle East with undrawn commitments to wait up to a number of years before deploying those commitments).

The subsequent investment will also entail a protracted deal process. A prudent fund manager may mitigate the delays associated with the fatwa by involving the Shariah board at an early stage.

While there are undeniable considerations unique to Shariah compliant investment funds, the majority are surmountable as long as the necessary procedural steps are taken and a certain degree of prudence is exerted by the fund manager.

The decision on whether to structure in a conventional or Shariah compliant manner ultimately rests with the fund manager, and while some of the drivers of this decision may be Shariah based, the economic reality exists that the region is well populated with high net worth individuals and sovereign entities looking to deploy their investments in a manner suitable to them, wherein, if perceived accurately, Islamic funds may yet have the opportunity to move further towards centre stage.

The author wishes to thank Ayman Khaleq for his assistance in writing this article.

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Owen Delaney practices in regional corporate matters such as mergers and acquisitions, investment structuring, corporate finance and transactional aspects of corporate restructuring.

While the Islamic finance market in Singapore remained lax with limited activity to market, it recently stepped up with the dollar-denominated Khazanah Sukuk and Shariah compliant Sabana REITs. What is in store for Singapore this year?

Islamic banking and finance is well established in Singapore with services provided by OCBC Bank, Islamic Bank of Asia, a subsidiary of DBS Bank, and Malaysia's Maybank is also active on the island. There has been steady growth in Islamic retail banking for Singapore's small Muslim community and some Shariah compliant corporate finance.

Capital market activity has been disappointing to date, and was adversely affected by the financial crisis. Singapore has rebounded strongly, and the Islamic REIT by Sabana Real Estate Holdings could be the first of many, as could be the Khazanah Sukuk. However it is unlikely that 2011 will see a flood of new issuances, and future developments will depend on how much interest from the Gulf and elsewhere there is in Singapore originated capital market products. As investors remain cautious about Islamic capital market products generally, activity is likely to remain subdued, at least in the short term.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

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Singapore has established a sensible regulatory and legal framework and is building its talent base. We can expect Singapore to grow as the overall Islamic finance market in ASEAN becomes more robust with Indonesia, Thailand and the Philippines becoming more active. Singapore has key strengths in fund management and private banking. These are sure to create long term success for Singapore in the Islamic finance market as well as improving the regional competitive position and delivering better services. If the economic recovery holds, the formula for success is already in place for Singapore to grow its contributions to Islamic financial services consumers.

ABDULKADER THOMAS: CEO and President, SHAPE — Financial Corp

Next Forum Question

Indonesia has delayed its global Sukuk issuance for the second time. Will the issuance take place this year and how will it affect its status as a global Sukuk issuer?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Monday, 28th February 2011.

Islamic Finance *news* talks to leading players in the industry

Name: Mohammad Aslam

Position: Head, Islamic banking

Company: Habib Bank

Based: Karachi

Age: 62

Nationality: Pakistani/British

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

I joined Habib Bank (HBL) in 1970. After working in Pakistan until 1977, I was transferred to HBL (UK) operations as manager, export UK.

I worked in the UK for about 14 years as manager of exports, senior FX and MM dealer, manager of Knightsbridge branch London, manager of international banking UK and zonal chief principal office London before being transferred to Pakistan in December 1991.

In Pakistan I worked as a circle executive in HBL Peshawar, the general manager of finance, and general manager of ARM Khyber Pukhtunkhuwa from 1992 to 1997. In October 1997, I was transferred to Brussels in Belgium and became regional general manager for HBL Europe. While based in Brussels I was responsible for branches of HBL in Brussels, Rotterdam, Paris and Turkey.

After completing my tenure as regional general manager of Europe, I was transferred to Sydney and promoted as CEO of Habib Finance Australia, a 100% owned subsidiary of HBL with additional responsibility as regional general manager of the Pacific region, to oversee operations of HBL in Fiji. In the second half of 2005, I was asked to set up HBL's representative office in Beijing, China. I remained country head of China until June 2009.

In July 2009, I was mandated to build HBL's Islamic banking operations, initially in Pakistan, and later extending it to the UAE, the UK and other areas of HBL's presence on a need basis. Within 18 months one branch operation was extended to become 22 Islamic banking branches and 227 windows throughout Pakistan.

What does your role involve?

My role involves planning and implementing the expansion of HBL Islamic banking, hiring and building the Islamic banking team, and capacity building of internal resources — not only of those directly involved in Islamic banking but also support staff who need to understand the essential features of Islamic banking.

What is your greatest achievement to date?

I have many satisfying achievements, but to single out one I would have to say the setting up of the representative office in eight weeks and the signing of an MoU with a local Chinese bank within four months of landing in China, for HBL to acquire a 20% stake in the bank and to gain entry into the country.

Which of your products / services deliver the best results?

In Europe, the letter of credit confirmation and trade finance in the background of sanctions imposed on Pakistan in 1998. This was done by making special arrangements with the bigger European banks which were barred from dealing with Pakistan. In my current assignment, the HBL Al-Ziarat Account (Hajj and Umrah saving plan with free Takaful coverage) is very popular.

What are the strengths of your business?

Our brand name, large network and substantial resources, professional management and state-of-the-art information technology system are the business' strengths. Also, the State Bank of Pakistan plays a major role in providing guidelines for implementing Islamic banking in the country.

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

Our success can be attributed to our belief in investing in the people, meritocracy, customer care, continuous development in information technology, effective internal control and introduction of new products according to market needs.

What are the obstacles faced in running your business today?

The obstacles we face are the lack of awareness among stakeholders, limited liquidity management products, and the scarcity of trained human resources. We also face the dilemma of replication of conventional products instead of developing new products, limited size of the interbank market, lack of cooperation among players out of the fear of losing business to competitors, delay in resolving the taxation issues and a lack of focus from the government to build the Islamic banking industry.

Where do you see the Islamic finance industry in, say, the next five years or so?

It has great potential to increase both in Pakistan and globally. The need is to develop a set of Shariah and accounting standards for products and services for standardization and userfriendliness. Greater cooperation among Islamic banks and continuous efforts to promote Islamic banking will increase the size of the Industry.

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

The attitude and realization that Islamic bankers have not yet come up with a perfect model. It is a long and hard journey. Each stakeholder has to play his part. However, we must be able to convince stakeholders that it is and can be a viable solution to conventional banking.

We must offer Islamic banking as a safe alternative to conventional banking not only for Muslim countries but world economies too. The world will be lot better if all banking transactions create value in the real sense, that will help provide employment, eliminate uncertainty, contribute to the economic growth of countries and stakeholders will benefit according to the shares of their investments.

SUMMARY OF TERMS & CONDITIONS

Pengurusan Aset Air Government Guaranteed IMTN Sukuk

RM2.7 billion (US$886 million) IMTN guaranteed by the government of Malaysia pursuant to an IMTN program of RM20 billion (US$6.6 billion) in nominal value

8th February 2011

Issuer	Pengurusan Air SPV (PASB)
Tenor	Up to 30 years
Return	Tranche 1 — 3.64% Tranche 2 — 3.92% Tranche 3 — 4.43%
Payment	8th February 2011
Maturity date	Tranche 1 — 7th February 2014 Tranche 2 — 8th February 2016 Tranche 3 — 8th February 2021
Lead arrangers	CIMB Investment HSBC Amanah Malaysia
Lead managers	CIMB Investment HSBC Amanah Malaysia
Bookrunners	CIMB Investment HSBC Amanah Malaysia
Legal advisors	Adnan, Sundra & Low
Governing law	Malaysia
Purpose of issuance	The proceeds of the Islamic Medium Term Notes (IMTNs) shall be utilized by the issuer to pay the purchase price for the purchase of commodities from commodities vendor(s) in the Bursa Suq Al-Sila commodity market through a commodity trading participant (CTP). The purchase price will then be utilized as a Shariah compliant financing to Pengurusan Aset Air (PAAB).
Rating	Nil as issuance is government guaranteed
Shariah advisor	CIMB (backed by CIMB Islamic Shariah committee) and HSBC Amanah Malaysia Shariah committee
Structure	Murabahah principle utilizing commodities and/or such other Islamic principles
Tradability	Tradable

The Q&A was conducted with CIMB:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   The Murabahah principle utilizing commodities was adopted to meet PASB's requirements for a generally accepted Shariah compliant structure. Apart from Murabahah, we had also considered all available Shariah compliant structures.

2. **What will this capital be used for?**
   The proceeds of the IMTNs shall be used by the issuer to pay the purchase price for the purchase of commodities from commodities vendor(s) in the Bursa Suq Al-Sila commodity market. The purchase price will then be utilized as a Shariah compliant financing to PAAB for its Shariah compliant general purposes.

3. **What were the challenges faced and how were they resolved?**
   There were no major challenges for this transaction.

4. **Geographically speaking, where did the investors come from?**
   The investors who subscribed to the RM2.7 billion (US$886 million) IMTNs were mainly local investors.

5. **Was this deal rated? If not, explain why.**
   The IMTNs are not rated as it is a government guaranteed issuance.

Deal tracker

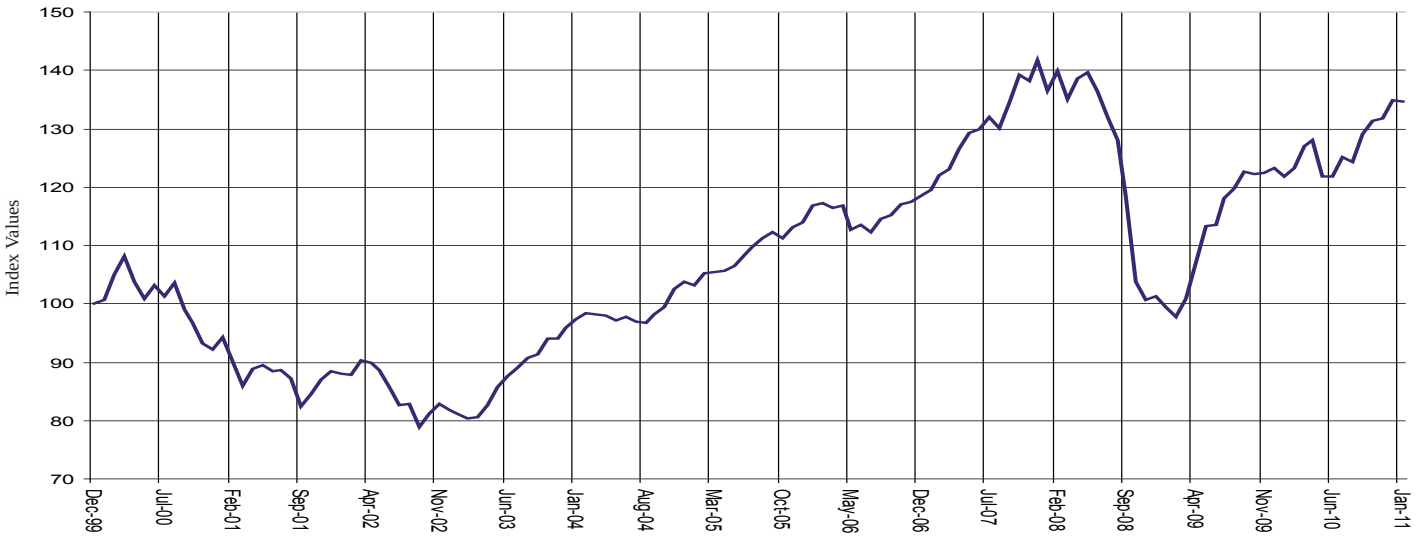
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Central Bank of Yemen	US$500 million	Sukuk
Qatar International Islamic Bank	US$500 million	Sukuk
Malaysian government	TBA	Sovereign Sukuk
Dana Gas	US$1 billion	Sukuk
Amana Takaful	LKR750 million	Sukuk
Bizim Securities, Turkey	TRL100 million	Sukuk
Antara Steel Mills	RM300 million	Sukuk
Brazil	TBA	Sukuk
General Authority of Civil Aviation, Saudi Arabia	SAR15 billion	Sukuk
Kazakhstan	TBA	Sukuk
Albaraka Turk Katilim Bankasi	TBA	Sukuk
Franklin Templeton	TBA	Sukuk
Gulf Investment Corporation	RM3.5 billion	Sukuk
CIMB Islamic	TBA	Sukuk
France	TBA	Sukuk
Bank Negara Malaysia	TBA	Sukuk
Nakheel	TBA	Sukuk
General Electric	TBA	Sukuk
Kenchana Petroleum Malaysia	RM350 million	Sukuk
Senegal Ministry of Finance	TBA	Sovereign Sukuk
Palestine Monetary Authority	US$50 million	Sukuk
Credit Agricole	US$3 billion	Sukuk
Saudi International Petrochemical Company	SAR1.5 billion	Sukuk
UK Islamic Finance Secretariat	TBA	Sterling denominated Sukuk
Sabah Credit Corporation	RM1 billion	Sukuk
Dubai Department of Finance	US$1.5 billion	Sukuk
International Islamic Liquidity Management	TBA	Sukuk
National Commercial Bank, Saudi Arabia	TBA	Sukuk
KPJ Healthcare Malaysia	RM500 million	Sukuk
Karachi Stock Exchange	TBA	Sukuk
Islamic Bank of Thailand	THB5 billion	Sukuk
Al Barakah Bank Egypt	TBA	Sukuk

For more details and the full list of deals visit
www.islamicfinancenews.com

Top 10 Islamic Funds by Key Performance Statistics



Annualized returns for ALL funds (as of the 14th February 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Meezan Islamic	Al Meezan Investment Management	4.91	Pakistan
2	Meezan Tahaffuz Pension Fund - Equity Sub	Al Meezan Investment Management	4.71	Pakistan
3	Al Meezan Mutual	Al Meezan Investment Management	4.52	Pakistan
4	AmOasis Global Islamic Equity	AmInvestment Management	4.09	Malaysia
5	CIMB Islamic Equity Aggressive	CIMB-Principal Asset Management	3.79	Malaysia
6	Atlas Pension Islamic Fund - Equity Sub	Atlas Asset Management Limited	3.54	Pakistan
7	AlAhli Islamic US Equitybuilder Certificates	The National Commercial Bank	3.47	Germany
8	UBS Islamic - Global Equities (USD)	UBS Islamic Fund Management Company SA	3.44	Luxembourg
9	Meezan Balanced	Al Meezan Investment Management	3.09	Pakistan
10	Public Islamic Select Enterprises	Public Mutual	2.87	Malaysia
	**** Eurekahedge Islamic Fund Index***		**-0.30**	

Annualized Standard Deviation for ALL funds (as of the 14th February 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Meezan Tahaffuz Pension Fund - Money Market Sub	Al Meezan Investment Management	8.79	Pakistan
2	Atlas Pension Islamic Fund - Debt Sub	Atlas Asset Management	5.28	Pakistan
3	Meezan Tahaffuz Pension Fund - Debt Sub	Al Meezan Investment Management	4.14	Pakistan
4	SR International Trade Finance - (Al Sunbula)	Samba	3.70	Saudi Arabia
5	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	3.48	Saudi Arabia
6	Commodity Trading - SAR	Riyad Bank	3.38	Saudi Arabia
7	USD International Trade Finance - (Al Sunbula)	Samba	3.20	Saudi Arabia
8	Public Islamic Money Market	Public Mutual	2.93	Malaysia
9	AlAhli Saudi Riyal Trade	The National Commercial Bank	2.64	Saudi Arabia
10	AlAhli International Trade	The National Commercial Bank	2.61	Saudi Arabia
	**** Eurekahedge Islamic Fund***		**0.08**	

EUREKAHEDGE

Contact Eurekahedge

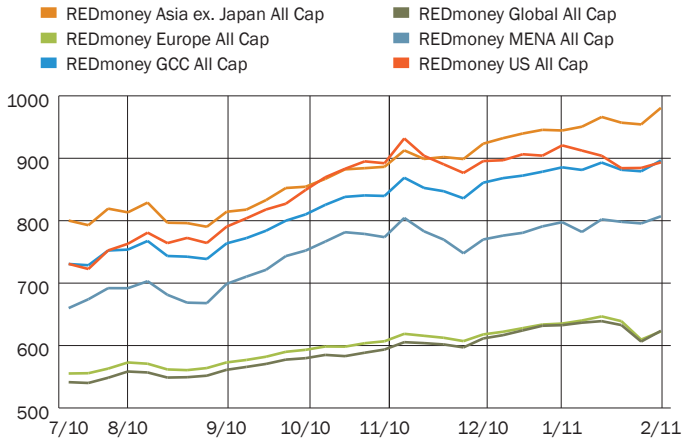
To list your fund or update your fund information: islamicfunds@eurekahedge.com

For further details on Eurekahedge: information@eurekahedge.com

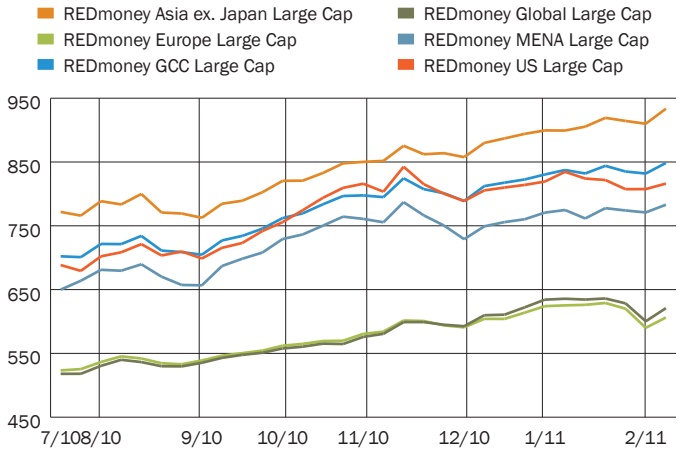
Tel: +65 6212 0900

EUREKAHEDGE

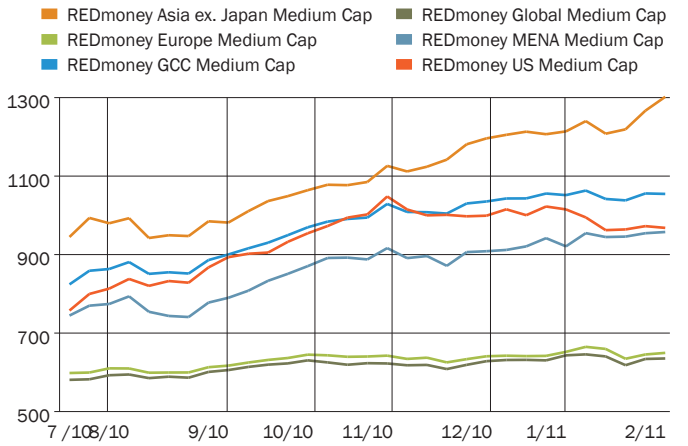
REDmoney GLOBAL SHARIAH INDEX SERIES (All Cap) *6 Months*



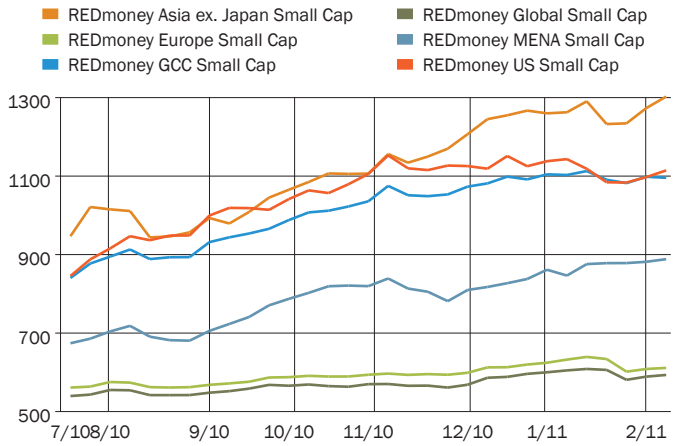
REDmoney GLOBAL SHARIAH INDEX SERIES (Large Cap) *6 Months*



REDmoney GLOBAL SHARIAH INDEX SERIES (Medium Cap) *6 Months*



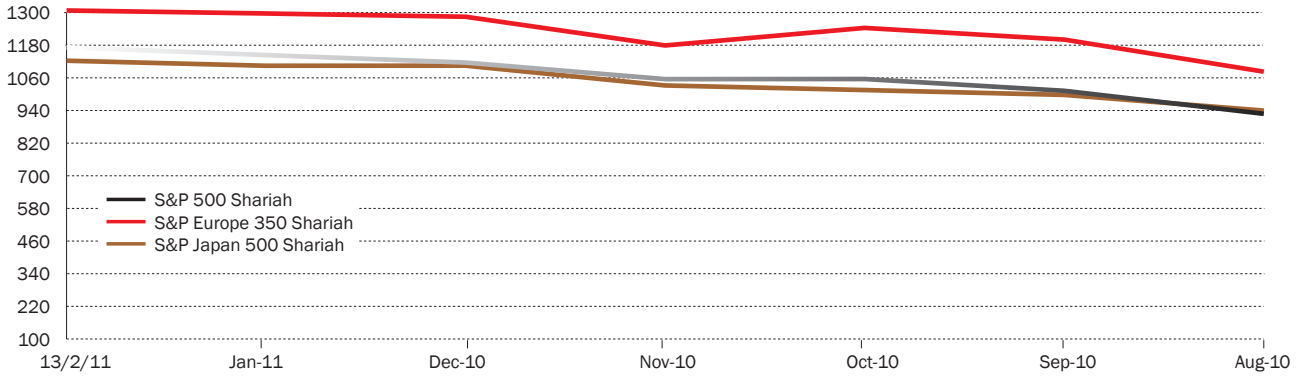
REDmoney GLOBAL SHARIAH INDEX SERIES (Small Cap) *6 Months*



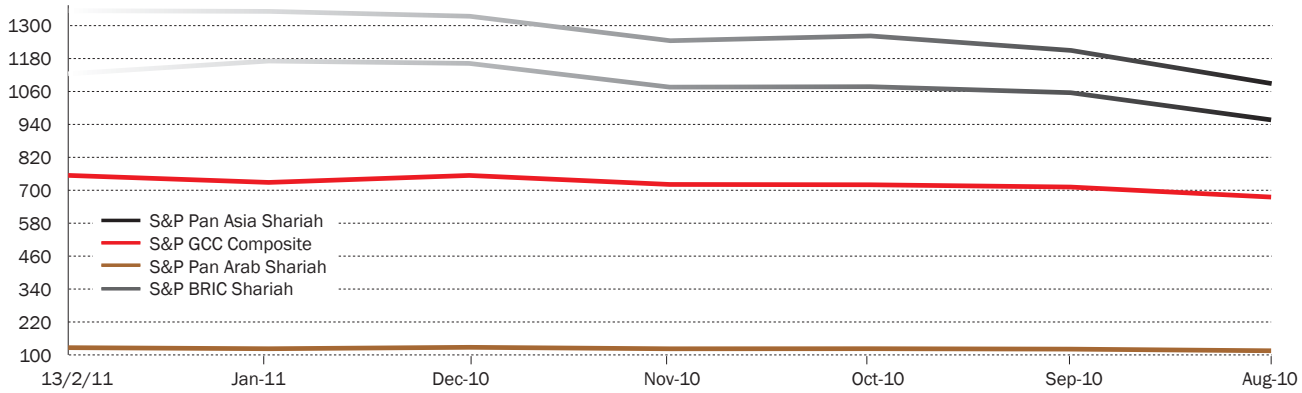
INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US Large Cap	938.60	2.23	7.78	17.17	4.37	13.60	39.26
REDmoney Europe Large Cap	782.26	0.86	2.65	15.27	0.97	10.38	41.53
REDmoney Global Large Cap	843.81	0.85	5.24	16.40	0.77	15.98	50.62
REDmoney MENA Large Cap	608.36	2.86	1.25	8.63	-2.19	13.86	41.38
REDmoney GCC Large Cap	622.83	3.36	3.76	11.69	-1.45	18.63	48.85
REDmoney Asia ex. Japan Large Cap	788.04	-2.40	0.50	14.45	-5.57	20.94	77.55

INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US All Cap	989.61	2.84	0.56	18.30	4.77	16.95	46.68
REDmoney MENA All Cap	625.41	2.63	0.41	6.64	-1.16	7.48	33.78
REDmoney GCC All Cap	625.62	3.10	2.22	8.85	-0.66	10.93	38.89
REDmoney Europe All Cap	807.01	0.85	3.43	16.83	1.17	18.46	49.00
REDmoney Global All Cap	893.68	1.13	5.24	17.65	0.81	19.32	61.30
REDmoney Asia ex. Japan All Cap	876.08	-1.01	-0.78	16.40	-4.81	24.72	94.82

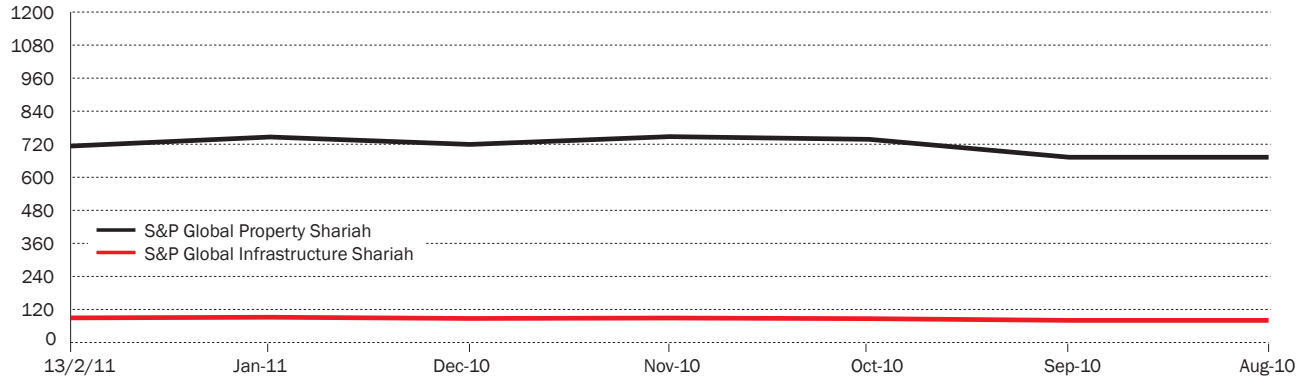
S&P Shariah Indices Price Index Levels



Index Code	Index Name	13/2/11	Jan-10	Dec-10	Nov-10	Oct-10	Sep-10	Aug-10
SPSHX	S&P 500 Shariah	1172.382	1143.662	1116.185	1055.305	1055.737	1012.387	927.814
SPSHEU	S&P Europe 350 Shariah	1307.736	1296.598	1284.601	1179.078	1243.62	1200.681	1082.714
SPSHJU	S&P Japan 500 Shariah	1122.967	1104.465	1104.726	1032.02	1015.125	997.313	939.684



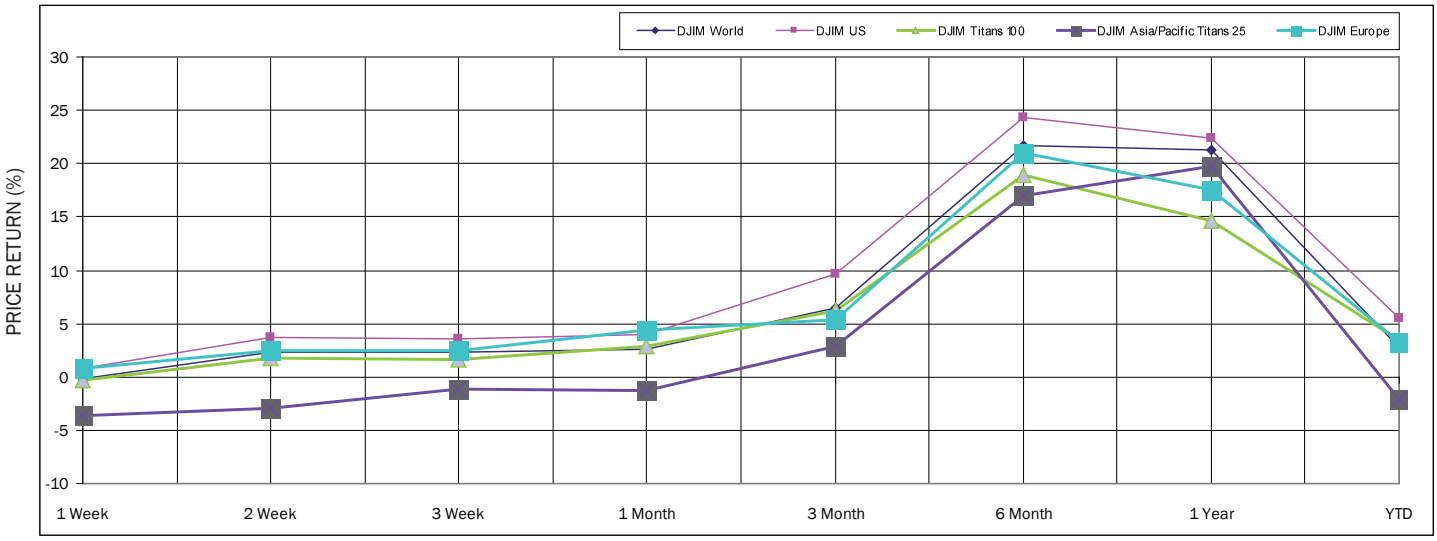
Index Code	Index Name	13/2/11	Jan-10	Dec-10	Nov-10	Oct-10	Sep-10	Aug-10
SPSHAS	S&P Pan Asia Shariah	1124.438	1170.956	1162.323	1075.868	1077.471	1055.516	956.455
SPSHG	S&P GCC Composite Shariah	754.162	728.593	753.965	721.171	720.021	711.722	675.181
SPSHPA	S&P Pan Arab Shariah	126.437	122.54	127.698	122.361	122.657	121.1	115.09
SPSHBR	S&P BRIC Shariah	1358.768	1356.222	1338.497	1249.391	1266.724	1213.917	1093.125



Index Code	Index Name	13/2/11	Jan-10	Dec-10	Nov-10	Oct-10	Sep-10	Aug-10
SPSHGU	S&P Global Property Shariah	713.365	743.73	746.209	719.266	747.598	737.706	672.74
SPSHIF	S&P Global Infrastructure Shariah	89.345	89.978	91.68	87.253	88.875	86.53	80.314

Data as of the 13th February 2011

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-0.14	2.25	2.25	2.63	6.45	21.71	21.31	2.78
DJIM US	0.78	3.73	3.6	4.01	9.62	24.27	22.34	5.45
DJIM Titans 100	-0.35	1.73	1.65	2.94	6.15	18.87	14.59	3.46
DJIM Asia/Pacific Titans 25	-3.68	-2.89	-1.18	-1.28	2.81	16.99	19.8	-2.14
DJIM Europe	0.74	2.46	2.48	4.39	5.36	21.03	17.52	3.29

*all performance is cumulative, based on price return and US$

DESCRIPTIVE STATISTICS	Market Capitalization (US$ billion)							Component Weight (%)	
INDEX	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2470	17832.65	14085.3	5.7	1.15	417.62	0.008297	2.965	0.000059
DJIM US	581	7634.26	7185.85	12.37	3.55	417.62	0.18239	5.8118	0.002538
DJIM Titans 100	100	7451.02	6663.78	66.64	44.28	417.62	14.121862	6.2671	0.21192
DJIM Asia/Pacific Titans 25	25	1139.26	760.78	30.43	26.38	78.6	14.121862	10.332	1.856245
DJIM Europe	263	3384.22	2720.82	10.35	2.51	142.87	0.29189	5.2509	0.010728
DJIM GCC	114	208.8	88.56	0.78	0.31	9.94	0.028469	11.2249	0.032147
DJIM MENA	163	386.95	113.81	0.7	0.18	15.24	0.008297	13.39	0.00729
DJIM ASEAN	232	456.7	181.84	0.78	0.16	16.61	0.003173	9.1334	0.001745

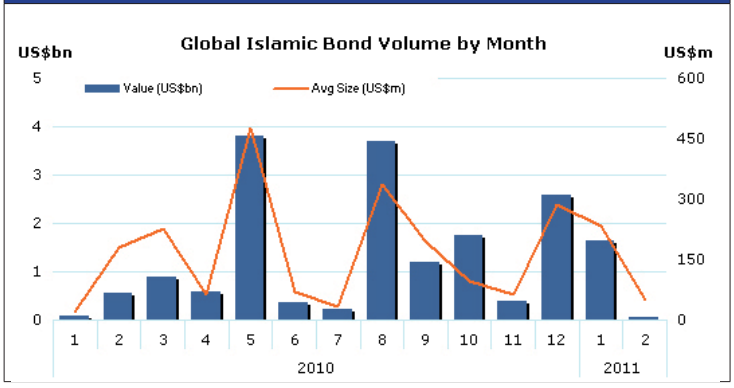
TOP 30 ISSUERS OF ISLAMIC BONDS — *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	10.8	HSBC, Samba Capital
2	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue; Foreign market private placement	1,700,000,000	2	9.9	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB, DBS
3	Cagamas	Malaysia	Sukuk	Domestic market private placement; Domestic market public issue	1,393,000,000	10	8.1	AmInvestment Bank, Maybank Investment Bank, RBS, RHB Capital, Al-Rajhi Banking & Investment, HSBC, Standard Chartered
4	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	7.7	CIMB, Maybank Investment Bank
5	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275,000,000	2	7.4	Maybank Investment Bank
6	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	7.3	HSBC, Barclays Capital, CIMB
7	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	884,000,000	1	5.1	HSBC, CIMB
8	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	792,000,000	2	4.6	CIMB, Citigroup
9	Qatar Islamic Bank	Qatar	Sukuk Murabahah	Euro market public issue	750,000,000	1	4.4	HSBC, Credit Suisse, QInvest
9	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750,000,000	1	4.4	Standard Chartered, HSBC, Barclays Capital
11	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	1	2.9	Standard Chartered, HSBC, CIMB, Citigroup
11	Emaar Properties	UAE	Sukuk	Euro market public issue	500,000,000	1	2.9	Standard Chartered, HSBC, RBS
13	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393,000,000	1	2.3	RBS, Citigroup
14	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	312,000,000	2	1.8	HSBC, Maybank Investment Bank, RBS
15	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.8	CIMB
16	Konsortium Lebuhraya Utara-Timur	Malaysia	Sukuk Musharakah	Domestic market public issue	280,000,000	13	1.6	CIMB
17	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	240,000,000	2	1.4	Standard Chartered, Bank Muamalat Malaysia
18	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	228,000,000	1	1.3	Standard Chartered, CIMB
19	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195,000,000	1	1.1	HSBC, CIMB
20	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.0	AmInvestment Bank
21	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	1.0	CIMB
22	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	1	1.0	RHB Capital, Maybank Investment Bank
23	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	0.9	CIMB, AmInvestment Bank, Maybank Investment Bank
24	Malaysia Debt Ventures	Malaysia	Sukuk Musharakah	Domestic market public issue	158,000,000	1	0.9	Lembaga Tabung Haji, RHB Capital, CIMB Group
25	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	0.9	Lembaga Tabung Haji, RHB Capital, CIMB Group
26	Naim Cendera Holdings	Malaysia	Sukuk	Domestic market public issue	148,000,000	3	0.9	HSBC, CIMB
27	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	133,000,000	1	0.8	OCBC, Public Bank, Affin Investment Bank
28	Nomura Sukuk	Japan	Sukuk Ijarah	Euro market public issue	100,000,000	1	0.6	KFH
28	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk Murabahah	Euro market public issue	100,000,000	1	0.6	KFH, Citigroup
30	Gamuda	Malaysia	Sukuk Musharakah Sukuk Murabahah	Domestic market private placement	97,000,000	1	0.6	CIMB, AmInvestment Bank
	Total				**17,249,000,000**	**93**	**100**	

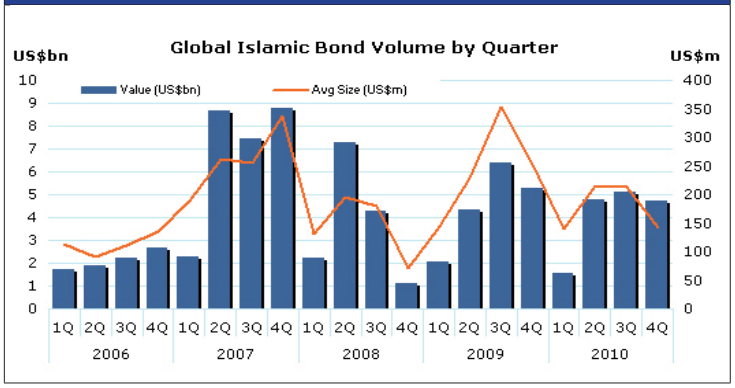
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
27th Jan 2011	Emaar Properties	UAE	Sukuk	Euro market public issue	500,000,000	Standard Chartered, HSBC, RBS
25th Jan 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	884,000,000	HSBC, CIMB
10th Jan 2011	Padiberas Nasional	Malaysia	Sukuk	Domestic market public issue	114,000,000	Standard Chartered, Bank Muamalat Malaysia
29th Dec 2010	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,192,000,000	Maybank Investment Bank
14th Dec 2010	National Bank of Abu Dhabi	UAE	Sukuk	Foreign market public issue	159,000,000	HSBC, RBS, Maybank Investment Bank
10th Dec 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	287,000,000	HSBC, CIMB
8th Dec 2010	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	400,000,000	RBS, Citigroup
3rd Dec 2010	Malaysia Airports Capital	Malaysia	Sukuk	Domestic market public issue	476,000,000	CIMB, Citigroup
29th Nov 2010	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	133,000,000	OCBC, Public Bank, Affin Investment Bank
5th Nov 2010	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk	Domestic market private placement	195,000,000	HSBC, CIMB
28th Oct 2010	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	750,000,000	Standard Chartered, HSBC, Barclays Capital
20th Oct 2010	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	Standard Chartered, HSBC CIMB, Citigroup
20th Oct 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	161,000,000	AmInvestment Bank
30th Sep 2010	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750,000,000	HSBC, Credit Suisse, QInvest
21st Sep 2010	Putrajaya Holdings	Malaysia	Sukuk	Domestic market public issue	161,000,000	CIMB, AmInvestment Bank, Maybank Investment Bank
15th Sep 2010	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	177,000,000	AmInvestment Bank
30th Aug 2010	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	RHB Capital, Maybank Investment Bank
20th Aug 2010	Malaysia Airports Capital	Malaysia	Sukuk	Domestic market public issue	316,000,000	CIMB, Citigroup
18th Aug 2010	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	CIMB Maybank Investment Bank
18th Aug 2010	Padiberas Nasional	Malaysia	Sukuk	Domestic market public issue	127,000,000	Standard Chartered, Bank Muamalat Malaysia

GLOBAL ISLAMIC BOND VOLUME BY MONTH



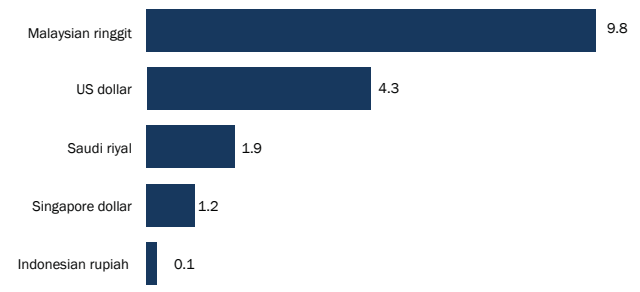
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



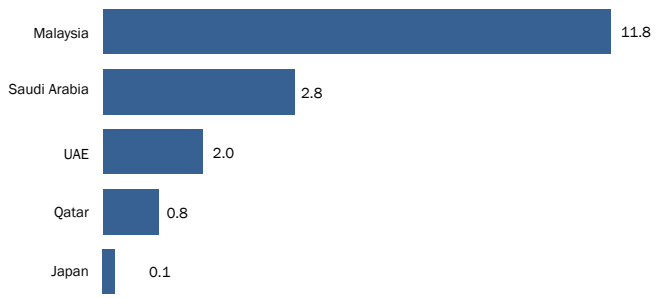
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB Group	4,242,000,000	47	24.6
2	HSBC	3,172,000,000	15	18.4
3	Maybank Investment Bank	2,479,000,000	22	14.4
4	AmInvestment Bank	1,014,000,000	12	5.9
5	Samba Capital	933,000,000	1	5.4
6	Standard Chartered	929,000,000	10	5.4
7	Citigroup	767,000,000	5	4.5
8	Barclays Capital	667,000,000	2	3.9
9	OCBC	530,000,000	3	3.1
10	RBS	522,000,000	4	3.0
11	RHB Capital	380,000,000	5	2.2
12	DBS	363,000,000	1	2.1
13	QInvest	250,000,000	1	1.5
13	Credit Suisse	250,000,000	1	1.5
15	Bank Muamalat Malaysia	168,000,000	3	1.0
16	KFH	150,000,000	2	0.9
17	Al-Rajhi Banking & Investment	122,000,000	2	0.7
17	Lembaga Tabung Haji	59,000,000	2	0.3
17	Public Bank	44,000,000	1	0.3
20	Affin Investment Bank	44,000,000	1	0.3
21	Kenanga Investment Bank	33,000,000	1	0.2
22	Mitsubishi UFJ Financial Group	25,000,000	3	0.1
22	Malaysian Industrial Development Finance	19,000,000	4	0.1
24	Trimegah Securities	18,000,000	1	0.1
25	Bank Mandiri	18,000,000	1	0.1
26	(Persero) Danareksa	18,000,000	1	0.1
27	EON Bank	12,000,000	1	0.1
27	Indo Premier Securities	11,000,000	1	0.1
27	OSK	9,000,000	2	0.1
	Total	**17,249,000,000**	**93**	**100**

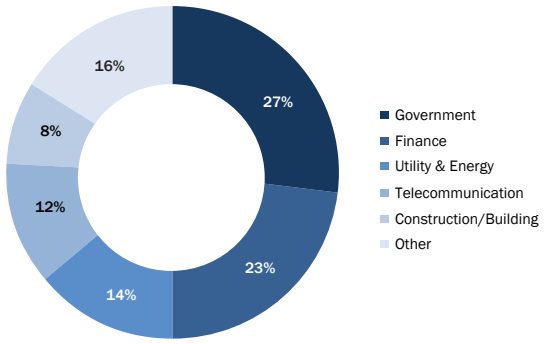
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



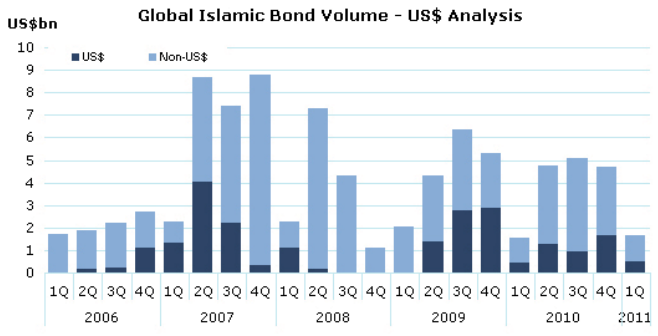
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



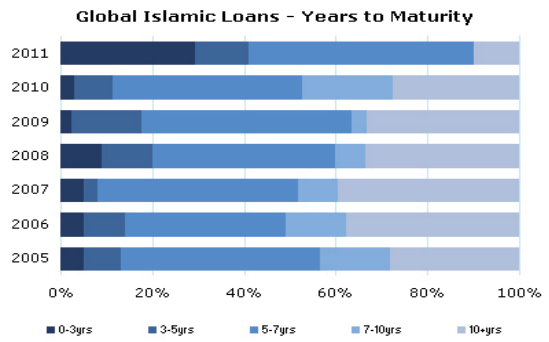
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



GLOBAL ISLAMIC LOANS - YEARS TO MATURITY *(YTD Comparison)*



ALL DATA AS OF THE 13th FEBRUARY 2011

SUKUK MANAGERS (12 months) FEB 2010 – FEB 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	26,967,378,550	118	59.7
2	CIMB	5,960,686,729	95	13.2
3	Malayan Banking	2,961,450,036	120	6.6
4	HSBC Banking Group	1,688,309,534	29	3.7
5	AMMB Holdings	983,057,501	63	2.2
6	RHB Banking Group	907,779,785	26	2.0
7	Malaysian Industrial Development Finance	838,026,530	192	1.9
8	Barclays Bank	566,666,667	2	1.3
9	Standard Chartered Bank	535,206,154	9	1.2
10	Cagamas	414,455,098	19	0.9
11	Bukhary Capital	405,562,190	6	0.9
12	Citigroup	356,170,953	4	0.8
13	Kuwait Finance House	200,000,000	2	0.4
14	Indonesia (Government)	196,881,427	6	0.4
15	EON Capital	184,529,977	62	0.4
16	Affin Holdings	180,976,790	16	0.4
17	RBS	159,113,250	2	0.4
18	OSK Holdings	156,210,113	19	0.3
19=	Unicorn Investment Bank	150,000,000	1	0.3
19=	Deutsche Bank	150,000,000	1	0.3
19=	Goldman Sachs & Company	150,000,000	1	0.3

SUKUK MANAGERS (3 months) NOV 2010 - FEB 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	7,317,027,850	31	61.5
2	Malayan Banking	1,952,402,999	54	16.4
3	CIMB	707,522,037	17	5.9
4	HSBC Banking Group	608,782,217	4	5.1
5	Bukhary Capital	228,571,700	2	1.9
6	Standard Chartered Bank	166,666,667	1	1.4
7	Malaysian Industrial Development Finance	158,746,888	47	1.3%
8	RHB Banking Group	153,193,125	8	1.3
9=	Samba Financial Group	133,333,333	1	1.1
9=	Citigroup	133,333,333	1	1.1
11	RBS	81,606,000	1	0.7
12	AMMB Holdings	80,012,183	15	0.7
13	EON Capital	50,132,376	16	0.4
14	OSK Holdings	38,371,969	4	0.3
15	OCBC Bank	16,162,900	2	0.1
16	Affin Holdings	14,693,895	2	0.1
17	United Overseas Bank	14,668,565	4	0.1
18	Public Bank	11,362,695	3	0.1
19	Hong Leong Financial Group	11,153,240	2	0.1
20=	Andalan Artha Advisindo Sekuritas	5,503,600	1	0.0
20=	Trimegah Securities	5,503,600	1	0.0

SUKUK ISSUERS (12 months) FEB 2010 – FEB 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	22,574,740,350	92	46.5
2	Malaysia (Government)	4,468,224,700	22	9.2
3	Pengurusan Air SPV	2,002,481,940	6	4.1
4	Senai-Desaru Expressway	1,821,445,920	42	3.7
5	Cagamas	1,430,304,230	20	2.9
6	Perusahaan Penerbit SBSN Indonesia	1,420,144,579	6	2.9
7	Bank Indonesia	1,383,327,919	22	2.8
8	Celcom Transmission (M)	1,342,937,400	4	2.8
9	Pakistan, Islamic Republic of (Government)	1,038,784,845	2	2.1
10=	Qatar Islamic Bank	750,000,000	1	1.5
10=	ADIB Sukuk	750,000,000	1	1.5
12	Danga Capital	621,408,000	1	1.3
13	ESSO Malaysia	589,955,760	14	1.2
14=	Emaar Sukuk	500,000,000	1	1.0
14=	IDB Trust Services	500,000,000	1	1.0
16	Dar Al-Arkan International Sukuk	450,000,000	1	0.9
17	RAK Capital	400,000,000	1	0.8
18	Khazanah Nasional	367,252,800	1	0.8
19	Padiberas Nasional	364,357,251	4	0.7
20	Malaysia Airports Capital	319,747,000	1	0.7

SUKUK ISSUERS (3 months) NOV 2010 - FEB 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	7,645,028,950	26	54.8
2	Senai-Desaru Expressway	1,821,445,920	42	13.1
3	Pakistan, Islamic Republic of (Government)	1,038,784,845	2	7.4
4	Pengurusan Air SPV	884,231,100	3	6.3
5	Emaar Sukuk	500,000,000	1	3.6
6	RAK Capital	400,000,000	1	2.9
7	Bank Indonesia	280,292,124	3	2.0
8	Padiberas Nasional	235,428,851	3	1.7
9	Malaysia (Government)	163,212,000	1	1.2
10	National Bank of Abu Dhabi	160,003,000	4	1.1
11	Malaysia (Government)	145,029,850	4	1.0
12	ESSO Malaysia	143,214,600	5	1.0
13	MM Vitaoils	43,601,756	15	0.3
14	Goodway Integrated Industries	38,852,480	9	0.3
15	Citydev Nahdah	38,272,350	1	0.3
16	KNM Capital	37,260,670	4	0.3
17	Sunrise	32,653,100	1	0.2
18	Perbadanan Kemajuan Negeri Selangor	26,264,980	2	0.2
19	Horizon Hills Development	22,725,390	3	0.2
20	Serrisa Sinar	22,559,550	4	0.2

THOMSON REUTERS

Islamic Sukuk league tables reflect Shariah compliant bonds showing evidence of ownership of assets or their earnings. These results include (but are not limited to) the following securities/assets: Sukuk Salam, Sukuk Mudarabah, Sukuk Ijarah, Sukuk Murabahah, Sukuk Istisna and Sukuk Musharakah.

For more information please contact:

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ALL DATA AS OF THE 13th FEBRUARY 2011

LOAN MANDATED LEAD ARRANGERS (12 Months) FEB 2010 – FEB 2011

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Alinma Bank	1,350,573,846	2,792,101,042	3	18.0
2=	Credit Agricole	675,997,446	4,064,828,226	3	9.0
2=	Samba	675,997,446	4,064,828,226	3	9.0
4	HSBC	644,583,333	4,237,000,000	4	8.6
5	National Commercial Bank	631,193,862	3,975,221,058	3	8.4
6	Arab Bank	544,583,333	3,937,000,000	3	7.2
7	Saudi Hollandi Bank	499,583,333	3,712,000,000	2	6.6
8	Abu Dhabi Islamic Bank	493,610,177	677,111,177	2	6.6
9	WestLB	245,000,000	425,000,000	3	3.3
10	Standard Chartered	204,981,523	688,944,570	3	2.7
11	Al Hilal Bank	183,500,999	367,001,999	1	2.4
12=	Noor Islamic Bank	167,981,523	503,944,570	2	2.2
12=	Arab Banking	167,981,523	503,944,570	2	2.2
14=	Islamic Development Bank	119,083,333	1,429,000,000	1	1.6
14=	Riyad Bank	119,083,333	1,429,000,000	1	1.6
14=	Bank Al-Jazira	119,083,333	1,429,000,000	1	1.6
14=	Saudi Investment Bank	119,083,333	1,429,000,000	1	1.6
14=	Al Rajhi Banking	119,083,333	1,429,000,000	1	1.6
19=	Masraf Al Rayan	100,000,000	300,000,000	1	1.3
19=	Royal Bank of Scotland	100,000,000	300,000,000	1	1.3
21=	BNP Paribas	45,000,000	225,000,000	1	0.6
21=	Gulf International Bank	45,000,000	225,000,000	1	0.6
23=	Abu Dhabi Commercial Bank	37,000,000	185,000,000	1	0.5
23=	Deutsche Bank	37,000,000	185,000,000	1	0.5
23=	Mubadala GE Capital	37,000,000	185,000,000	1	0.5
23=	Development Bank of Singapore	37,000,000	185,000,000	1	0.5

LOAN BOOKRUNNERS (12 Months) FEB 2010 – FEB 2011

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Alinma Bank	1,099,879,984	1,099,879,984	1	54.4
2	Abu Dhabi Islamic Bank	310,109,178	310,109,178	1	15.4
3	WestLB	275,000,000	425,000,000	3	13.6
4=	Deutsche Bank	92,500,000	185,000,000	1	4.6
4=	Standard Chartered Bank	92,500,000	185,000,000	1	4.6
6=	HSBC	75,000,000	225,000,000	1	3.7
6=	BNP Paribas	75,000,000	225,000,000	1	3.7

ISLAMIC LOANS RAISED (12 Months) FEB 2010 – FEB 2011

	Borrower	Country	Islamic Loan Amount (US$)
1	Power & Water Utility Co for Jubail & Yanbu (Marafiq)	Saudi Arabia	2,283,000,000
2	Saudi Aramco Total Refining & Petrochemical Co [Jubail 2 Refinery]	Saudi Arabia	1,429,000,000
3	Arabian Centres	Saudi Arabia	1,099,879,984
4	Riyadh Independent Power Plant	Saudi Arabia	616,049,284
5	Emirates Steel Industries	UAE	367,001,999
6	Majid Al Futtaim Group	UAE	310,109,178
7	Qatari Diar Real Estate Investment	Qatar	300,000,000
8	Asya Katilim Bankasi	Turkey	253,944,570
9	Albaraka Turk Katilim Bankasi	Turkey	250,000,000
10	Ras Al Khaiman Ceramics	UAE	225,000,000
11	GMMOS Group	UAE	185,000,000
12	Gulf Finance House	Bahrain	100,000,000
13	Emirates Trading Agency	UAE	100,000,000
14	Emirates Trading Agency	UAE	100,000,000
15	Gulf Finance House	Bahrain	100,000,000

ALL DATA AS OF THE 13th FEBRUARY

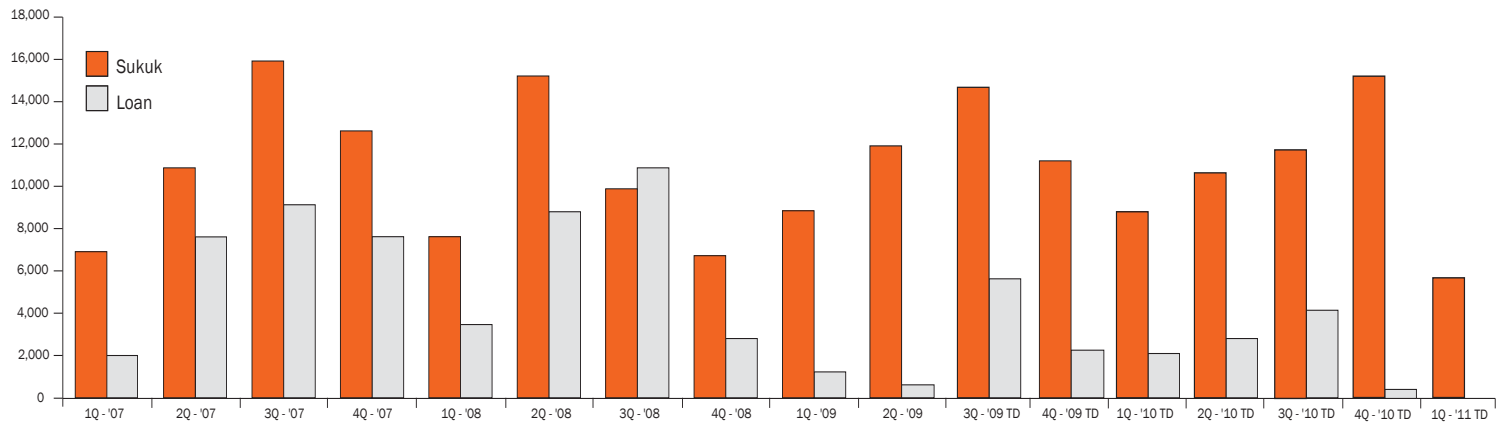
SUKUK BY COUNTRY	(12 Months)	FEB 2010 – FEB 2011
Country	**Volume Issued**	**Volume Outstanding**
Malaysia	40,741,736,919	23,999,109,376
Eurobond	3,000,000,000	3,000,000,000
Indonesia	2,899,749,073	1,884,227,433
Pakistan	1,038,784,845	1,038,784,845
US	575,000,000	575,000,000
Bahrain	254,641,280	196,255,500
Singapore	74,243,950	74,243,950
Saudi Arabia	-	-
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	FEB 2010 – FEB 2011
Country	**Volume (US$)**	**Market Share (%)**
Saudi Arabia	5,427,929,268	72.2
UAE	1,187,111,177	15.8
Turkey	503,944,570	6.7
Qatar	300,000,000	4.0
Bahrain	100,000,000	1.3

SUKUK BY INDUSTRY	(12 Months)	FEB 2010 – FEB 2011
Industry	**Volume Issued**	**Volume Outstanding**
Other financial	32,938,161,105	17,917,145,995
Sovereign	6,890,337,464	5,843,638,924
Agency	1,919,543,589	1,858,057,139
Manufacturing	1,885,605,276	1,139,523,918
Telephone	1,342,937,400	1,342,937,400
Banks	1,256,424,450	1,256,424,450
Energy company	652,977,170	113,346,580
Transportation	599,717,140	433,434,245
Consumer goods	394,337,751	394,337,751
Electric power	372,633,000	216,991,000
Service company	331,481,722	251,783,702
Gas distribution	-	-

LOANS BY INDUSTRY	(12 Months)	FEB 2010 – FEB 2011
Industry	**Volume (US$)**	**Market Share(%)**
Construction	2,608,000,000	34.7
Oil and gas	1,614,000,000	21.5
Retail & supermarkets	1,099,879,984	14.6
Utilities	616,049,284	8.2
Financial services	603,944,570	8.0
General manufacturing	367,001,999	4.9
Services	310,109,178	4.1
Real estate	300,000,000	4.0

GLOBAL ISLAMIC VOLUME SUKUK/LOANS (US$ IN MILLIONS)



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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
February			
21st – 22nd	8th Annual Middle East Trade & Export Finance Conference	Dubai	Exporta Group
21st – 23rd	10th Anniversary Islamic Finance Summit	London	Euromoney
24th	IFN Awards	Kuala Lumpur	REDmoney *events*
28th	IFN Awards	Dubai	REDmoney *events*
March			
7th – 10th	Middle East Investment Summit	Dubai	Terrapinn Middle East
8th – 9th	Hedge Funds World Middle East 2011	Dubai	Terrapinn Middle East
12th	Islamic Finance: Making it Real *(Featuring an in-depth Sharia panel discussion)*	Dubai	Globe Law and Business
22nd	IFN Roadshow Indonesia	Jakarta	REDmoney *events*
24th	IFN Roadshow Singapore	Singapore	REDmoney *events*
28th – 29th	World Islamic Finance Conference	—	Fleming Gulf Conferences
29th – 31st	The First International Islamic Banks Conference in Qatar	Qatar	Echo Media WLL
April			
7th	IFN Roadshow Hong Kong	Hong Kong	REDmoney *events*
10th – 11st	6th Annual World Takaful Conference (WTC 2011)	Dubai	MEGA Events
12th	Islamic Finance: Making it Real	London	Globe Law and Business
27th	IFN Roadshow Thailand	Bangkok	REDmoney *events*
29th – 31st	The First International Islamic Banks Conference in Qatar	Qatar	Echo Media WLL
May			
12th	IFN Roadshow Australia	Melbourne	REDmoney *events*
June			
20th – 21st	IFN Europe Forum	London	REDmoney *events*
July			
19th	IFN Roadshow Pakistan	Karachi	REDmoney *events*
21st	IFN Roadshow India	Mumbai	REDmoney *events*
October			
17th – 19th	IFN Asia Forum	Kuala Lumpur	REDmoney *events*
24th	IFN Roadshow New York	New York	REDmoney *events*
November			
1st	IFN Roadshow Turkey	Istanbul	REDmoney *events*
3rd	IFN Roadshow Egypt	Cairo	REDmoney *events*
14th	IFN Roadshow Japan	Tokyo	REDmoney *events*
17th	IFN Roadshow Korea	Seoul	REDmoney *events*
22nd	IFN Roadshow Brunei	Brunei	REDmoney *events*

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