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The zest in Shariah finance

When the student is ready, the master appears, so goes the proverb. If this is true for Islamic finance, then it is no wonder some quarters are tackling issues and concerns with much zeal and enthusiasm.

On the other hand, some cynics may take the view that while opportunity may come knocking, it takes a whole load of openness and willingness to be able to see it.

For one, Dr Alam Khan Hamdard, chief of Islamic banking at Kabul Bank, Afghanistan in Meet the Head would like to see a change in the attitude of not sharing one's knowledge and experience in Islamic finance to others.

This change can be brought about by simply opening up channels of communication between industry players.

Fortunately for us, Imran Iqbal of Saudi Hollandi Bank is generous with his knowledge of treasury products in his report, including what lies ahead for these instruments.

Law firm SNR Denton too gives a comprehensive account of Islamic leasing in the UAE, complete with tactics for Islamic financiers to deal with, among others, the risk of re-characterization of an Ijarah transaction.

We are also treated to a meticulous study of the universal Islamic deposit insurance system by Mohammed Khnifer, even as the concept is relatively new and practitioners are still struggling to comprehend whether deposit insurance conforms to Shariah.

Lessons from the political turmoil can also be found in our monthly Dow Jones Islamic Markets report for February, where it comes as no surprise that the Dow Jones Islamic Market Index (DJIM) covering Arab stock markets suffered the largest loss. Expectedly, investors are advised to remain cautious in these markets at least for the next few months.

It might also pay to be cautious when dealing with South Korea at this point. Surely, behind its vehement rejection of the tax concession bill for Sukuk, lie lessons for us all, specifically on how to deal when a non-Muslim society outwardly rejects Islamic finance claiming it as an extension of the religion.

Robert Ryu of Shariah Finance, who was privy to the South Korean parliamentary drama in recent weeks, shares his views on the situation in his report.

Our IFN reports covers the same South Korean Sukuk issue, in addition to situations in Kuwait, Bahrain and Australia, ISRA's derivative rules and top management moves within Islamic banks in Malaysia.

Indonesia takes center stage this week as we take a look at its maturing Islamic finance and Takaful industry. Bank Muamalat Indonesia provides us with the country's master plan, where four programs have been exclusively drawn up for the development of its Islamic capital market industry.

Madani Syariah Insurance Broker, after a brief roundup of the country's 16-year old Takaful industry, features three important factors for a Takaful operator to thrive in the Indonesia market in its report. Finally, the US$672 million Indonesian Haj Sukuk Series 2014 is featured in our Termsheet.

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AFRICA

Islamic banking soon

NIGERIA: Two Islamic banks will open by year end as the banking industry undergoes consolidation, said Kingsley Moghalu, deputy governor of Central Bank of Nigeria.

He said the industry will see 10 conventional bank mergers, with five to take place within a week. The move is part of the central bank's reform measures.

Moghalu also said up to three of the banks had shown interest in opening Islamic windows.

Meanwhile, the country is also expected to issue its first Sukuk by year-end as part of its bid to become the continent's centre for Islamic finance.

Sukuk law by year end

KENYA: The government is looking to launch Islamic treasury bills and Sukuk as an option to raise funds, and may pass legislation to eliminate tax barriers to Sukuk by end of the year, said Njuguna Ndung'u, governor of the Central Bank of Kenya.

Ndung'u said requests have been made for a project to be financed through the issuance of a Sukuk, and discussions on this are still ongoing with the Treasury's debt management office.

The central bank had previously issued an infrastructure bond with a Sukuk portion in 2009, but the lack of supportive tax legislation formed a barrier to the development of the Sukuk market.

ASIA

Laudable financial feat

MALAYSIA: BIMB Holdings' has recorded a profit before Zakat and tax of RM593.1 million (US$194 million) for the 18-month financial period ended on the 31st December 2010.

The profit was attributed to its sustainable revenue growth, enhanced capital adequacy and improved asset quality, besides the contribution of its subsidiaries Bank Islam Malaysia and Syarikat Takaful Malaysia. These subsidiaries achieved a profit before Zakat and taxation of RM501.5 million (US$164 million) and RM102.6 million (US$34 million) respectively.

Assets reach US$17.6 million

PAKISTAN: Islamic income funds have soared 158% between July 2010 and January 2011 contributing to a 19% growth to PKR238 billion (US$2.8 billion) of the mutual funds industry, said InvestCap Research.

It also said assets of Islamic income funds reached PKR15 billion (US$17.6 million) as at the end of January.

Sukuk bill delayed again

SOUTH KOREA: The National Assembly has postponed the consideration of a bill on tax concessions for Sukuk issuance by Korean companies until after by elections to be held on the 27th April.

The proposed bill faced strong opposition from local Christian groups that threatened to launch campaigns against lawmakers who support the legislation.

David Yonggi Cho, pastor of the country's largest church has criticized the proposal saying he will campaign for the resignation of South Korean president Lee Myung-bak if the legislation is passed.

Mahathir Mohamad, former prime minister of Malaysia, said Sukuk is not about religion but about doing business, as he defended Islamic finance on the controversy in South Korea.

(See IFN Report on page 10)

SLR hike for Islamic banks

PAKISTAN: The central bank, State Bank of Pakistan will raise the statutory liquidity requirement (SLR) for Islamic banks to 14% of total demand liabilities, including time deposits with tenors of less than a year.

The increase is effective from the 1st April.

The central bank added that all assets of the government's Ijarah Sukuk will be fully counted under this new requirement, and the assets of public sector Islamic bonds counted up to 7% of total time and demand liabilities.

Breaking new ground

MALAYSIA: Bank Islam Malaysia has advised its first initial public offering (IPO), making it the pioneer commercial Islamic bank to do so in the country.

The bank is the principal advisor, managing underwriter, underwriter and placement agent for the listing of Asia Pacific Flight Training (APFT). APFT is a flight education and training service provider targeted to list on Bursa Malaysia Securities' main market on the 18th March 2011.

"Bank Islam is the only commercial bank, Islamic or conventional, to gain admission to the Securities Commission's (SC) Approved List of Principal Advisers. Only those on the list are permitted to undertake submissions of specific equity-related corporate proposals, such as IPOs, to the SC," said Zukri Samat, managing director.

Zukri told Islamic Finance *news* that Bank Islam, as an Islamic financier will only provide advisory services to Shariah compliant companies.

Sukuk in the pipeline

PAKISTAN: Engro Corporation is planning to issue a PKR3 billion (US$35 million) Sukuk before June.

Pasha Bank to shadow the IDB

AZERBAIJAN: Pasha Bank is discussing the possibilities of crediting on conditions of Islamic banking with the Islamic Development Bank (IDB) within IDB programs in Azerbaijan and globally.

Farid Akhundov, chairman of Pasha Bank said details of the agreement have not been finalized, but the experience of working with the IDB will enable the bank to understand to which degree Islamic products are being realized and ready to use in Azerbaijan.

CIMB tops lead manager

MALAYSIA: CIMB Investment has emerged first on Malaysian Rating Corporation (MARC)'s league table for 2010 in terms of value and number of issues, with Maybank Investment Bank coming a close second.

CIMB lead-managed five issuances amounting to RM6.72 billion (US$2.19 billion) and Maybank Investment lead-

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managed four totaling RM6.22 billion (US$2.03 billion).

In 2010, MARC said it rated 22 corporate debt issues worth RM19.97 billion (US$6.56 billion) where half were Islamic finance structures, in which Sukuk accounted for close to 60%, or RM11.9 billion (US$3.9 billion) of total issuances.

Tapping the mining industry

AUSTRALIA: The Crescent Sharia Compliant Australian Equity Fund is planning to invest in resource companies and mining stocks, according to fund management firm Crescent Investments Australasia.

The resource companies include engineering services provider Cardno, explosives maker Incitec Pivot, and aluminium manufacturer Alumina. The mining stocks are BHP Billiton and oil and gas producer Woodside.

(See IFN Report on page 13)

Capital hike

INDONESIA: Induk Koperasi Syariah, a co-operative firm is planning to increase its capital by 78.5% to IDR15 billion (US$1.7 billion) this year.

Abdullah Yazid, its chairman said the hike will change the share composition of the firm, where Permodalan Nasional Madani will own a 75% stake instead of 80%, while 25% will go to Induk Koperasi Syariah, as compared to 20% previously.

UAE REITs for Bursa Malaysia

MALAYSIA: Two property developers from the UAE are planning to list Islamic real estate investment trusts worth RM2 billion (US$656 million) on Bursa Malaysia

The properties include residential and commercial real estate in the UAE.

Being accountable

BANGLADESH: The home ministry has ordered Islami Bank Bangladesh to submit a report on its profit disbursements before the 7th April.

According to Shamsul Huq Tuku, state minister for home affairs, the order came as the ministry received an intelligence report which revealed that the bank is using its profit to fund militant activities through the Islami Bank Foundation.

EUROPE

New Shariah indexes

SWITZERLAND: Global index provider STOXX has launched three Shariah compliant indexes, the STOXX Europe Islamic Index, and two blue-chip sub-indexes — STOXX Europe Islamic 50 and EURO STOXX Islamic 50.

The three new indexes will measure the performance of Shariah compliant companies selected from the STOXX Europe 600 index.

STOXX is a joint venture between Deutsche Borse and SIX Group.

Going for Sukuk

UK: Gatehouse Bank is planning to issue a GBP60 million (US$97 million) Sukuk by end of the first quarter this year, said Richard Thomas, its CEO.

GLOBAL

Top honors

GLOBAL: The 2010 Islamic Finance *news* awards ceremony in Kuala Lumpur and Dubai saw a large gathering of key Islamic finance practitioners from all over the world with the attendance of over 700 individuals.

Notable senior Islamic finance practitioners arrived from Indonesia, Kuwait, Singapore, Sri Lanka, Thailand, the UAE, the UK, Malaysia, Qatar, Abu Dhabi, Yemen, Turkey, Lebanon, and Pakistan.

The three distinct award groups recognized were the Best Service Providers Poll 2010, Best Banks Poll 2010 and Deals of the Year 2010.

Officiated by REDmoney Group's managing directors Andrew Morgan and Andrew Tebbutt, accolades were disseminated to some of the industry's elite. CIMB Islamic collected a host of awards including Best Islamic Bank, while the Best Law Firm in Islamic Finance award went to Norton Rose.

Among those present to receive the awards on behalf of their issuers were, Steven Choy, CEO of Cagamas for both Malaysian Deal of the Year and Tawarruq Deal of the Year; Bobby Tay, co-founder and chief strategy officer of SABANA Real Estate Investment Management for IPO Deal of the Year; and Nuraini Ismail, vice president of Treasury at Petronas for Trans-Thai Malaysia's Cross Border Deal of the Year.

Also present to receive the awards were Carl McMillan, director of legal affairs for the investment and development office at Ras Al Khaimah for Most Innovative Deal of the Year and Hulusi Horozoglu, director of global Islamic banking at Citi for Deal of the Year and Turkish Deal of the Year.

Faisal Fazli, assistant vice president of global Islamic banking at Citi, accepted the award on behalf of Citi for Sukuk Deal of the Year and Matthew Sapte, partner at SNR Denton, received the award for Denton Wilde Sapte's Most Innovative Deal of the Year.

Among key Islamic finance practitioners who attended the event were Sohail Zubairi, CEO of Dar Al Sharia; Mohammed Suktan Al Qadi, managing director of Ras Al Khaimah; Tirad Mahmoud, CEO of Abu Dhabi Islamic Bank; and Nurlan Tleubayev, chairman of Corporation AIC Invest.

MIDDLE EAST

Profits surge

QATAR: Barwa Group has recorded an 84% increase in net profit to QAR1.4 billion (US$384.5 million) in 2010 due to increased revenues from the sale of properties.

Total revenues increased to QAR8 billion (US$2.2 billion), compared to QAR3 billion (US$824 million) in 2009, while total assets rose 111% to QAR74 billion (US$20 billion).

Closing Islamic operations

QATAR: Conventional banks have started to close their Islamic operations by transferring their assets and liabilities to Islamic banks, following the central bank's order to shut down Islamic windows by year end.

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These banks are also expected to receive a circular from the central bank outlining the procedures for reconciliation and settlement of accounts.

However, according to Raghavan Seetharaman, CEO of Doha Bank, the closure of subsidiary Doha Islamic Bank will not affect profitability as the bank will continue to invest in the Islamic finance industry.

Seetharaman said the bank will explore opportunities in Islamic asset sales, retail, contract and project financing to compensate the closure. He added that Doha Bank has no plans to convert Doha Islamic Bank into a fully fledged Islamic bank.

Turmoil derails economic plans

BAHRAIN: Recent unrest has jeopardized the kingdom's plans to diversify its economy and move away from oil dependence, as well as raised concerns over its position as a regional offshore banking and Islamic finance services hub.

"Diversification, particularly into the financial sector which is sensitive to shocks, will be a challenge for a country that depends highly on oil but is not an oil superpower like Saudi Arabia with reserves for many years to come," said Moritz Kraemer, managing director and head of sovereign ratings group for EMEA at Standard and Poor's Ratings Services (S&P).

According to S&P research, nearly 80% of Bahrain's government revenue comes from oil and natural gas sales, although it holds only 0.01% of the world's proven oil reserves, compared with 19.8% in Saudi Arabia and 7.3% in the UAE.

(See IFN Report on page 11)

Firm position

UAE: Daman Investments has reported the steady performance of its Islamic fund for the month ending the 31st January 2011.

Daman Islamic Fund's net asset value stood at AED98.2 (US$26.7) declining 0.89% from the previous month. The National Bank of Abu Dhabi Islamic Index, the fund's benchmark, fell 5.08% in the same period.

Changing rating agency

UAE: Dubai Islamic Bank has replaced Standard & Poor's Ratings Services (S&P) with Fitch Ratings (Fitch) as its ratings agency.

According to the bank, the change is in line with its increased focus on the local banking market.

Free to proceed

UAE: Islamic Finance Company will convert into a public shareholding company, following its board of directors' approval.

Leap in profit

KUWAIT: Kuwait Financial Centre's net profit has risen by 222% to KWD8.17 million (US$29 million) in 2010.

Operating income increased 70% to KWD15.27 million (US$54.8 million), while assets under management climbed 29% to KWD1.03 billion (US$3.7 billion).

Lucrative year

BAHRAIN: Al Baraka Banking Group's net income has risen by 15% to US$193 million for 2010.

Total assets increased 21% to US$16 billion, while total finance and investment climbed 21% to US$11.4 billion.

Customer deposit and unrestricted investment accounts went up 23% to US$13.6 billion.

TID sells stakes in banks

UAE: The Investment Dar (TID) has proposed to creditors asset sales of US$1.69 billion over three years as part of its US$3.58 billion restructuring plan. The move includes selling its stakes in Kuwait's Boubyan Bank and Bahrain Islamic Bank.

The proposal would see TID make US$939.9 million from asset sales in the first year, US$588.2 million in the second year and US$157.8 million by the third year for a total of US$1.69 billion.

The funds will be used to repay a proposed senior facility of US$1.45 billion plus an annual profit payment in three years time.

Fall in profit

BAHRAIN: ABC Islamic Bank has announced a net profit of US$2.1 million for 2010 compared to US$10.1 million for 2009.

Total operating income was US$15.9 million compared to US$20.4 million for 2009, due to lower rates and de-risking of balance sheet asset size, while operating costs of US$4.9 million were also lower than the previous year of US$5 million.

Impairment provisions of US$8.6 million were taken for regional exposures during the year, US$3.6 million higher than the previous year.

Total assets declined to US$1.21 billion as of the 31st December 2010 from US$1.32 billion as at the 31st December 2009 largely due to a decline in investments, Murabahah receivables and Ijarah assets caused by further de-risking of the balance sheet.

New Islamic repo in March

UAE: National Bank of Abu Dhabi will be launching the first Shariah compliant repurchase agreement in the country to encourage secondary market trading, according to Sameh Al Qubaisi, general manager for institutional and corporate coverage in the financial markets division.

Sameh added that these repos, which are expected to be launched this month, will start trading on the Eurobond Sukuk in the Middle East region.

Approval for Sukuk

UAE: Aldar Properties' shareholders have approved the planned issuance of a mandatory convertible US$1.5 billion Sukuk.

It will also be permissible for the company to delay the conversion of the Sukuk into shares until December 2013.

Freedom to operate

UAE: The Central Bank of the UAE will not follow Qatar's footsteps in banning conventional banks from providing Islamic windows, as the UAE's financial system has a

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different legal framework from Qatar, said Sultan Nasser Al Suwaidi, its governor.

Sultan Nasser explained that the UAE banks are governed by the same legislation whereas Qatar has separate laws governing conventional and Islamic banks.

Possible Qatar listing

QATAR: QInvest will offer its shares for subscription at the end of 2011, said Abdul Latif Al Meer, member of its board of directors.

After which, the bank will consider listing on the Qatar Exchange, he added.

Winner announced

YEMEN: Al Amal Microfinance Bank of Yemen has won a global Islamic microfinance competition, with a winning proposal for the introduction of an Islamic leasing product financed by its Islamic investment funds.

The competition was organized by CGAP, Deutsche Bank, Grameen-Jameel Pan Arab Microfinance, and Islamic Development Bank. Over 130 applications from 43 countries were received for this competition including Islamic and conventional microfinance institutions, multi sector non-governmental organizations, consultants, and academics.

Positive growth

YEMEN: Saba Islamic Bank has posted a profit rate of 14.5% for its YER-domiciled deposits and 7.52% for foreign currency rate deposits.

Financing for manufacturer

UAE: Abu Dhabi Islamic Bank (ADIB) has completed an AED250 million (US$68 million) syndicated Islamic financing deal for Emirates National Factory for Plastic Industries.

The financing will be used to expand the company's production facilities, purchase new machinery and refinance its existing conventional debt through Islamic financing.

ADIB was the initial mandated lead arranger, sole bookrunner and investment and security agent bank. Al Hilal Bank, Mubadala GE Capital were the lead arrangers while Al Khalij Commercial Bank, Ajman Bank and First Gulf Bank were the arrangers.

Clampdown on financing

UAE: The Central Bank of the UAE has introduced new retail banking rules to curb excessive financing and high services fees. The new rules cover personal and car financing.

Under the rules, personal financing have been capped at 20 times the salary or monthly income of a borrower with a repayment period set at 48 months, said the central bank.

The central bank added that all retail banking service charges have also been streamlined for both local and foreign banks.

Low rates for cars

QATAR: Qatar International Islamic Bank has launched a new scheme to finance the purchase of new and used cars with a profit rate starting from 2.42%.

The financing also includes a grace period for initial repayment and does not require down payment, collateral or a guarantor.

Monthly Sukuk oversubscribed

BAHRAIN: The Central Bank of Bahrain's monthly issue of Sukuk Al-Salam was oversubscribed to reach BHD47.2 million (US$125 million).

The BHD12 million (US$12 million) issue which began on the 2nd March carries a maturity of 91 days and has an expected return of 0.85%.

ASIA

Higher aim for 2011

MALAYSIA: Syarikat Takaful Malaysia is planning to raise RM100 million (US$33 million) this year in housing premiums from government servants.

Mohamed Hassan Kamil, its group managing director said last year's premium collection amounted to RM70 million (US$23 million).

MIDDLE EAST

Approval in hand

QATAR: The QFC Regulatory Authority has approved Bahrain based Takaful International Company's application to establish a branch in the Qatar Financial Centre.

Moving upwards

BAHRAIN: Takaful International Company's profit from Takaful operations rose to US$8.7 million last year compared to US$7.7 million in 2009.

Total Takaful revenue rose to US$23 million in 2010 from US$21.5 million in 2009.

Listing soon

UAE: Wataniya Takaful is planning to raise US$22.6 million through an initial public offering by April.

MOVES

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BARCLAYS BANK

UK: Barclays Bank has appointed Dominic Selwood as director of financial institutional structuring, responsible for Islamic products services.

He was previously in Deutsche Bank where he initiated its Islamic finance business.

FIRST ENERGY BANK

BAHRAIN: First Energy Bank has appointed Khadem Abdulla Al Qubaisi as its new chairman, replacing Esam Janahi.

Khadem is also the board member and managing director of International Petroleum Investment Company in Abu Dhabi.

TAKAFUL EMARAT

UAE: Takaful Emarat has appointed Ghassan Marrouche as general manager.

Marrouche has over 25 years experience and is a veteran of the region's insurance industry, having held senior positions in insurance companies in Saudi Arabia and Oman.

BURSA MALAYSIA

MALAYSIA: Bursa Malaysia has appointed Tajuddin Atan as CEO, effective from the 1st April, replacing Yusli Mohamed Yusoff who will be in office until the 31st March.

Tajuddin is currently the group managing director of RHB Capital and managing director of RHB Bank.

BANK ISLAM MALAYSIA

MALAYSIA: Bank Islam Malaysia has appointed Zamani Abdul Ghani as its new chairman, replacing Bakke Salleh.

Zamani was previously the deputy governor of Bank Negara Malaysia, the central bank.

MORI HAMADA & MATSUMOTO

JAPAN: Legal firm Mori Hamada & Matsumoto, which advised Nomura Holdings on its US$100 million Sukuk, has promoted six of its associates to partners.

The new partners are Akira Ehira, Hiroki Aoyama, Takeshi Komatsu, Takeshi Okuyama, Yo Uraoka and Yusuke Ishii.

ABU DHABI COMMERCIAL BANK

UAE: Abu Dhabi Commercial Bank has appointed Jerry Mollenkramer as group chief operating officer.

Mollenkramer was previously the chief operating officer at The Royal Bank of Scotland for the MENA region.

ASIA

Smooth performance

INDONESIA: AM Best has affirmed the financial strength rating of Asuransi Jasa Indonesia, parent of Jasindo Takaful Insurance, at 'B++' and issuer rating at 'bbb'. The outlook for both ratings is stable.

The ratings are based on the firm's long operating history, strong market profile, improved underwriting performance, sound liquidity and favorable investment income.

Ranking unaffected

MALAYSIA: AMMB Holdings' proposed acquisition of AmIslamic Bank from AmBank has not affected the ratings of the two entities and their debt issuances, according to RAM Rating Services (RAM).

Both AmBank and AmIslamic carry 'AA3'/'P1' financial institution ratings, with a stable outlook.

RAM explained that AmIslamic is expected to remain closely integrated with AmBank and will continue to leverage on the bank's back-room operations, risk management system and branches.

Strong performance

MALAYSIA: Malaysia Rating Corporation (MARC) has assigned an insurer financial strength rating of 'AA' to Best Re and Best Re Family.

MARC said the rating is based on the Islamic reinsurer's franchise in its primary Asian market, geographically diversified underwriting portfolio and historical underwriting profitability.

Stepping up

INDONESIA: Fitch Ratings (Fitch) has revised the stable outlook for long-term issuer default ratings (IDRs) of seven banks to positive.

The banks are Bank Central Asia, Bank CIMB Niaga, Bank Internasional Indonesia, Bank Mandiri, Bank Negara Indonesia, Bank OCBC NISP and Bank Rakyat Indonesia.

The revision follows Fitch's change in the outlook of Indonesia's long-Term IDRs of 'BB+' to positive from stable.

Off the list

MALAYSIA: Malaysian Rating Corporation (MARC) has removed and affirmed its MARCWatch Developing placements of Sunrise and Horizon Hills Development's respective debt ratings with a stable rating.

The ratings are Sunrise's long-term 'A+ID' rating for its RM400 million (US$131 million) Islamic medium term notes program and Horizon Hills' short-term 'MARC-1ID(S)' rating on its RM70 million (US$23 million) Islamic commercial paper program.

The ratings were removed following news that UEM Land Holdings is acquiring Sunrise.

MIDDLE EAST

On the watch

BAHRAIN: Standard & Poor's Ratings Services has placed Al Baraka Banking Group's long-term 'BBB-' and short-term 'A-3' counterparty credit ratings on CreditWatch Negative.

The placement is attributed to the current political instability in the MENA region.

Immaterial improvement

KUWAIT: Gulf Investment Corporation has requested Standard & Poor's Ratings Services (S&P) to withdraw its ratings on the company after S&P affirmed its 'BB-/B' long- and short-term counterparty credit ratings.

The outlook was stable at the time of withdrawal.

Influenced by sovereign risk

BAHRAIN: Standard & Poor's Ratings Services (S&P) has placed its 'BBB' long-term counterparty credit and insurer financial strength ratings on Bahrain Kuwait Insurance Company on CreditWatch with negative implications.

S&P said the rating follows its recent downgrade of the long-term local currency sovereign rating on Bahrain, adding sovereign risk is a key factor influencing insurers' financial strength.

Keeping watch

BAHRAIN: Moody's Investors Service (Moody's) has placed Bahrain's 'A3' government bond ratings on review for possible downgrade.

Following the sovereign ratings of Bahrain, Moody's has also placed 'A1'/'P-1' country ceilings for foreign currency bonds; 'Aa3' country ceilings for local currency bonds and bank deposits; and the 'Aa3'/'P-1' ceilings for the bonds and deposits of Bahrain's wholesale banks under review.

The ratings are based on the recent political turmoil in the kingdom which has sharpened fiscal and broader economic downside risks.

Bleak outlook

BAHRAIN: Moody's Investor Services (Moody's) has downgraded the rating of Arab Banking Corporation (ABC) from 'A3'/ Prime-2' to 'Baa3'/'Prime-3'. ABC is 59.4% controlled by the Central Bank of Libya. As such the downgrade is due to Libya's violence and expectations that it would not continue to provide the same level of support to ABC.

Moody's also said it was also initiating a review for possible downgrade of Gulf International Bank.

Under observation

BAHRAIN: Standard & Poor's Ratings Services (S&P) has placed its 'BBB' long-term counterparty credit and insurer financial strength ratings on Takaful International Company on CreditWatch with negative implications.

The rating action follows S&P's recent downgrade on the long-term local currency sovereign rating on Bahrain.

The majority of Takaful International's premium emanates from Bahrain and most of its invested assets are held in

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the kingdom. Therefore, its business and financial profile are affected by movements in the sovereign rating.

Good standing

YEMEN: Capital Intelligence (CI) has affirmed Tadhamon International Islamic Bank's long-term and short-term foreign currency ratings at 'B'.

CI has also affirmed the bank's financial strength rating at 'BB-', while maintaining the support rating at '4'. The outlook on all ratings is stable.

The ratings are based on the challenging operating environment with difficult banking conditions.

On shaky grounds

BAHRAIN: Moody's Investors Service (Moody's) has placed the deposit ratings and standalone bank financial strength ratings (BFSRs) of three Bahraini retail banks on review for a possible downgrade. The banks are National Bank of Bahrain, BMI Bank and Bank of Bahrain and Kuwait.

George Chrysaphinis, vice president at Moody's said there are concerns on the impact of possible economic disruptions on their asset quality and increased liquidity pressures.

Negative prospects

BAHRAIN: Standard & Poor's Ratings Services (S&P) has downgraded its long-term counterparty credit rating on Arab Banking Corporation (ABC) to 'BBB' from 'BBB+'.

It subsequently placed ABC's 'BBB' long-term and 'A-2' short-term ratings on CreditWatch with negative implications.

"The actions follow those on Libya, which reflect our reappraisal of political risks in the country," said Goeksenin Karagoez, credit analyst at S&P.

ABC is 59.4% owned by the Central Bank of Libya. S&P said ABC's asset quality could weaken due to the deteriorating operating environment in the Middle East and North Africa.

Another set of Islamic hedging rules

International Shari'ah Research Academy for Islamic Finance (ISRA) announced last week that it is currently drafting rules for regulating the use of derivatives in risk management of Islamic banks. The new rules would ensure that derivatives are used only for hedging purposes by Islamic financiers, and not speculation or arbitrage, by showing proof of an underlying economic transaction.

Dr Asyraf Wajdi Dusuki, head of research affairs at ISRA, is the key person responsible for the drafting of the new rules. He said while the introduction of Islamic derivatives is clear and noble for managing risks, it is still a controversial instrument in Islamic finance. The upcoming rules will prescribe boundaries that Shariah compliant banks have to observe to ensure that the usage of derivatives complies with Islam's ban on gambling. The new set of rules will also address legal and Shariah issues arising from the use of Waad and Tawarruq based structures for hedging products.

The initiative brings good tidings as the industry has long been at odds with the use of hedging instruments; on the one hand, market players disallow the use of hedging instruments, on the other hand, Islamic experts argue that the derivates are allowed as long as they are used to deal with currency and rate fluctuations and not for speculation.

However, exactly one year ago the International Islamic Financial Market (IIFM) ISDA/IIFM Tahawwut (Hedging) Master Agreement was launched as the first globally standardized documentation for privately negotiated Islamic hedging products. IIFM is the global standardization body for the Islamic capital and money market segment of the Islamic financial services industry. Their standards in the master agreement provide the structure under which Islamic hedging transactions can be undertaken by any Islamic institution globally. The application of ISRA's new rules, which requires approval from the central bank, Bank Negara Malaysia, is not yet clear.

Ijlal Ahmed Alvi, CEO of IIFM in response to Islamic Finance *news* said, with the volatility in prices and currencies, there is a fair amount of interest in hedging instruments. However, he said the number of hedging transactions is low in the Islamic market. This is owing to the fact that the need for hedging by Islamic institutions is driven by actual economic transactions, which is largely lower in the Islamic market than in the conventional space.

With Islamic finance being a relatively small global market, this raises the question of why Malaysia feels the need to develop further hedging standards for the market. Ijlal does not see ISRA as duplicating IIFM's master agreement. "It is a good effort as this is making the industry better, and brings in more transparency." Dr Asyraf when contacted by Islamic Finance *news* had no comments on this matter.

Industry experts have taken a cautious stand on the new rules and are waiting to see what these new drafted rules have to offer.

South Korean Sukuk bill may not pass

The ruling Grand National Party in South Korea, bowing to pressure from lawmakers and threats from Christian groups, has decided against pushing for the tax neutrality bill for Sukuk issuances in the ongoing parliament session which will end on the 12th March 2011.

The move has delayed the consideration of the bill for the second time, until after by elections slated for the 27th April. This has greatly reduced the chances of the Sukuk bill amendments being passed anytime in the near future.

Yong-Jae Chang, partner of law firm Lee & Ko, told Islamic Finance *news* that there is a lack of understanding of the mechanics of Islamic finance among parliamentarians. He said while market players and the government are fully aware of the benefits of the global Islamic finance market to Korean companies, such significance has not yet been appreciated by the lawmakers.

According to Chang, there is a huge amount of interest in Islamic finance among Korean companies as an alternative source of funding. Given the significant amount of business, South Korean companies have done in the Middle East, they are fully tuned into developments in the Islamic finance market.

With regards to "competitive disadvantage which South Korean companies will suffer from not being able to partake in Islamic financing, resolution can only really take place by convincing the opposition that their skepticism is unfounded," said Chang.

Reverend Kiel Ja-yeon, head of the Christian Council of Korea, voiced opposition citing Islamic finance as a tool to Islamize the world with the lure of petrodollars from the Middle East. Lee Hye-hoon, a member of the opposition Democratic Party, concurred saying tapping the Sukuk market is likely to pose a threat to national security. Jyu Byung-hun, the opposition party's chief policy maker cited the risk of reckless inflow and possible outflow of foreign capital in the South Korean market as the basis for opposing the bill.

Management moves at Malaysian Islamic banks

New faces have recently emerged at the top management of Malaysian Islamic banks. Among them are Muzaffar Hisham who was appointed CEO of Maybank Islamic effective the 1st March 2011 and Abd Rani Lebai Jaafar as managing director and CEO of RHB Islamic Bank.

Muzaffar was deputy CEO of CIMB Islamic and his previous post will be taken by Mohamad Safri Shahul Hamid pending approval from the central bank, Bank Negara Malaysia (BNM). Mohamad Safri was formerly deputy CEO of MIDF Amanah Investment Bank.

Abd Rani meanwhile, was previously deputy CEO of Affin Islamic Bank. The bank has yet to appoint a replacement for Abd Rani's post. Additionally, Bank Islam Malaysia has appointed Zamani Abdul Ghani as its new chairman to replace Bakke Salleh. Zamani was previously deputy governor of BNM.

With the top brass of Malaysia's Islamic banks seemingly playing musical chairs, some in the market have questioned the procedures for filling upper management roles be it in Islamic or conventional banking. While BNM provides straightforward criteria for its approval of bank directors and CEOs, some say the process is not always clear cut.

For example, talk was rife that Maybank, the conventional bank which is Maybank Islamic's parent was influenced by political powers when it appointed current president and CEO, Abdul Wahid Omar in 2008. Notwithstanding his 10-year experience as a banker, it was speculated

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that the government played a hand in his appointment at Maybank due to his previous work at government linked companies.

The role of the authorities in banking industry appointments was again highlighted when it was announced shortly after Abdul Wahid took up his current post that his predecessor, Amirsham Abdul Aziz, was chosen to become minister in the prime minister's department.

BNM however maintains that it follows a strict process in approving management moves. In a response to Islamic Finance *news*, BNM said, "The vetting process is comprehensive and takes into account the views from other regulatory agencies including overseas agencies where necessary. The time taken to complete this process is dependent on the availability of necessary information required to determine whether the 'fit and proper' criteria has been satisfied."

The central bank also said official criteria for prospective CEOs of Islamic banks are stated in the Guidelines on Corporate Governance for Licensed Islamic Banks. According to the guidelines, directors and CEOs must be "persons of high caliber" and possess the minimum qualifications, experience and qualities which will enable them to effectively perform their duties.

Additionally, the guidelines state that the board of directors of Islamic banks is responsible for developing formal policies defining "fit and proper" standards for directors and senior management and must monitor their compliance continuously. These standards take into consideration a candidate's probity, diligence, competence and soundness of judgement, reputation, character, integrity including financial integrity and honesty.

Other considerations are whether a prospective CEO has been engaged in deceitful, oppressive or improper business practices or conduct which may cast doubt on fitness, competence or soundness of judgement, including contravening any laws designed for protecting the public against financial loss due to dishonesty, incompetence or malpractice.

Meanwhile, BNM also told Islamic Finance *news* that Malaysian Islamic banks are allowed to appoint non-Malaysians as CEO. Currently however, the CEOs of all 11 locally-owned Islamic banks are Malaysian.

Political unrest in Bahrain

The political turmoil in the Middle East and North African region has kept everyone guessing with Bahrain being the latest victim of uprising, causing rating downgrades and raising market players' concerns.

The troubles have hit the Bahraini financial sector badly on the ratings front, with Standard & Poor's Ratings Services (S&P) lowering the long- and short-term credit ratings on the Central Bank of Bahrain and its Mumtalakat sovereign wealth fund to 'A-'/'A-2' from 'A'/'A-1'. S&P has also warned of possible further cuts to come.

This was followed by individual ratings cut on two Bahraini banks, Ahli United Bank and BMI Bank. In addition, Al Baraka Banking Group and two Takaful companies, Bahrain Kuwait Insurance and Takaful International's credit ratings have been placed on Creditwatch Negative.

Moody's Investor Services (Moody's) has also placed the Bahraini government bonds and three banks, National Bank of Bahrain, BMI Bank and Bank of Bahrain of Kuwait, under review for a possible downgrade owing to potential economic disruption and unrest. Moody's had earlier downgraded rating of ABC from 'A3'/prime to 'Baa3'/'Prime3'.

The kingdom is placed in the top tier of the world with a GDP per capita of US$40,000, but dissatisfaction from the Shiite population against the Sunni leaders of the country has fueled the recent uprisings.

The political crisis has impacted the yields on Bahrain's sovereign bond with the yield on the 10-year bond climbing to a record high of 6.79%. In addition, the cost of insuring Bahrain's debt climbed to its highest level since August 2009 with five-year credit default swaps rising 13% in two days to 275 basis points.

The crisis has also jeopardized diversification efforts to reduce the kingdom's dependency on oil, as well as raised concerns over its future as a financial hub. Moritz Kraemer, managing director of sovereign ratings for the Middle East, Europe and Africa at S&P said Bahrain's diversification, especially into the financial sector which is sensitive to shocks, will be a challenge for a kingdom that depends highly on oil but is not an oil superpower like Saudi Arabia with reserves for many years to come.

Bahrain is heavily dependent on oil revenue which accounts for up to 80% of the government's exchequer. The oil reserves in the kingdom are small compared to its Gulf neighbors — Bahraini oil reserves account for 0.01% of the world's reserves whereas Saudi Arabia's make up 19.8% and the UAE 7.3%.

With a limited volume of oil, Bahrain has not much funds to spend on alleviating social problems. However, the government announced last week that it would increase social spending by an extra BHD157 million (US$417 million), including on higher food subsidies, in excess of that allocated in the 2011 budget.

Earlier, Bahrain's diversification strategies initially led to the establishment of a financial industry in the 1980s that helped to make it a hub for regional offshore banking and Islamic finance services. The kingdom saw tremendous growth in the financial and banking sector with banking assets tripling between 2002 and 2008 to reach US$252 billion, almost 10 times the GDP of the Gulf nation. Currently, the kingdom has US$10 billion parked in mutual funds with the financial sector contributing 25% to the GDP of the country.

The country's economy is grappling with the turmoil and the financial sector has not seen the worst. According to Sven Richter, managing director and head of frontier markets at Renaissance Asset Management, there are still no signs of money leaving the country and the stock markets have remained flat. However, with the Bahraini dinar pegged to the US dollar, its US$3.77 billion in foreign exchange and gold reserves could quickly be depleted if the situation gets worse.

Muslim population growth to boost Islamic finance

The Muslim population growth will raise the demand for Islamic finance but the industry must keep up with customer needs. According to a recent report by Washington-based Pew Research Centre, the global Muslim population will rise to 2.2 billion by 2030 from 1.6 billion in 2010.

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Among other findings of the report is that Islam's share of the world's youth will rise to 29% in 2030 from 26% in 2010. The Muslim population is also projected to grow at an average annual rate of 1.5% in the next 20 years, which is approximately twice as fast as the growth rate of the non-Muslim population.

"I believe the increasing population will contribute to the growth of Islamic finance because Muslims especially from the younger generation seem more conscious of religious injunctions," said Sameer Tegally, senior lawyer of a prominent law firm in Mauritius.

Sameer told Islamic Finance *news* that customers would also require more sophisticated products adhering to Shariah laws. However, he said the Islamic finance industry should not systematically mimic conventional banking products. "Islamic finance should go back to the basics and offer services such as providing seed capital and engaging in joint ventures," he said.

He added that although Mauritius's 1.2 million population, of which 16% are Muslims, may seem like a negligible market for Islamic finance, opportunities do exist such as in offshore and global business banking. He said the country could be used as an efficient channel for Islamic investments into Africa, India and China and the Middle East. "The foundation has been laid, it is just a question of Islamic finance players initiating the process," Sameer added.

Hanim Hamzah, resident partner at law firm Roosdiono & Partners in Jakarta, Indonesia said Islamic finance in Indonesia needs further encouragement from the authorities in order to become more attractive to the market. Indonesia has a population of 242 million of which more than 80% are Muslims. Hanim also said Indonesian consumers require education and awareness in Islamic finance. However, she added that the adoption of Shariah banking would boil down to the competitiveness of products as opposed to religious reasons.

Commenting on the Pew Research Centre report findings which said Pakistan would overtake Indonesia as the country with the most Muslims by 2030, Hanim said, "It will be good if the development of Islamic finance in Pakistan can help facilitate the growth of the global industry." She added that Islamic finance should not be viewed as a product just for Muslims but as an alternative form of banking suitable for all.

Challenging times for Kuwait's banks

The financials of Kuwait's Islamic banks improved in 2010 but the operating environment in the country remains challenging.

Hard-hit by the recent global financial crisis, Kuwait's gross domestic product (GDP) declined 4.6% in 2009. With banks exposed to a large number of risky assets in the Middle East, the government approved a KWD1.5 billion (US$5.4 billion) stimulus package to recapitalize the banking industry.

In response to Islamic Finance *news* Rory Keelan, an analyst at Cyprus based credit rating agency Capital Intelligence said, "In general, last year was not easy for banks in Kuwait and this applies to both Islamic and non-Islamic institutions."

Kuwait Finance House (KFH) posted a 10.7% year-on-year decrease in net profit to KWD106 million (US$378.6 million) in 2010. In 2009, it reported a 24% year-on-year plunge in net profit to KWD118.7 million (US$163.3 million) after it booked KWD49.2 million (US$171.52 million) in impairment losses following the financial crisis.

Moody's Investors Service (Moody's), which has a 'C-' bank financial strength rating (BFSR) with a stable outlook on KFH, said profitability indicators result in an 'A' score on the bank's financial strength scorecard.

"The 'C- BFSR' assigned to KFH translates into a baseline credit assessment of 'Baa1'. KFH's rating continues to be supported by its strong business franchise, particularly in customer deposits where its domestic market share is greater than 20%," according to Moody's latest research report on the bank.

The report also said KFH, which also deals in the auto and real estate financing in its home market, is complemented by its foreign chain of affiliates.

Moody's said however, in common with other Islamic banks, KFH is constrained by accessing long-term funding and managing its liquidity.

The ratings agency remains neutral on KFH's overall operating environment in the country, where it has assigned a 'D' score. It said this partly reflected the significant volatility in Kuwait's economic growth.

"The Kuwaiti operating environment remains highly dependent on oil and oil derivative products – a situation that has been of great benefit to Kuwaiti banks over the past few years but also potentially exposes them to any downturn in global energy prices," it said.

Boubyan Bank, an Islamic bank in which National Bank of Kuwait (NBK) has a 47% stake, also saw an improvement in its financials. The bank announced a turnaround in net profit to KWD6.1 million (US$21.9 million) in 2010 compared to a net loss of KWD51.7 million (US$185.5 million) in 2009.

In a recent report on NBK, Global Investment House said it sees further growth from Boubyan whose profitability was contributed by NBK's acquisition.

Anouar Hassoune, an analyst at Moody's also told Islamic Finance *news* it maintained its 'D' BFSR on Boubyan, which translates into a baseline credit assessment of 'Ba2'.

Anouar added Moody's had already factored in the sale of The Investment Dar Company's (TID) 20% stake in Boubyan as part of TID's US$3.58 billion debt restructuring plan and hence saw no impact from it.

Moody's said Boubyan benefits from a growing domestic franchise, robust capitalization, ample liquidity, controlled credit growth and a strong shareholding structure.

Challenges to the bank included its small size, volatile financial performance and imbalanced funding mix, it said.

Moody's further added its ratings on KFH and Boubyan are not likely to be changed in the medium-term.

Meanwhile, the recent unrest in the Middle East has yet to make an impact on Kuwaiti banks.

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However, a UK based law firm Holman Fenwick Willan said, "The situation there is changing rapidly and the outcome remains uncertain."

Australia – Islamic funds but no banks?

Australia has been hovering at the periphery of the global Islamic financial industry for sometime. While flirting with introduction of Islamic financial products with strong governmental support, the full fledged range of Islamic financial products has not yet materialized.

Although with a Muslim minority of 1.7% of 22 million Australians, the government has shown interest and strong will in development of this industry. The landmark Johnson report in 2009 recommended review of taxation issues for Shariah compliant financial products and removal of regulatory hurdles for Islamic finance.

Australian financial market has seen the presence of Shariah compliant investment funds for over a decade now, and there has been a recent surge in activity with Crescent Investments Australasia introducing new equity and property funds.

While talking to Islamic Finance *news*, Chaaban Omran CEO of Crescent Investments Australasia highlighted strong efforts by the regulator, Australian Securities and Investments Commission, in understanding the Shariah compliant financial market, and promotion of Islamic asset management.

A senior official in one of the oldest Shariah compliant co–operative finance companies in Australia, quoted that the government has a good understanding of Islamic finance and are aware of its need and potential.

On the demand front for Shariah compliant investments, Islamic fund managers in the country have voiced strong positive demand for the products. The market for Shariah compliant financial products is huge, and not limited to Muslim investors. The target market can be extended to the large non-Muslim population under the guise of ethical financing product.

With an increasing interest for the Islamic fund management and regulatory support in place, Islamic banking have remained absent from the Australian continent. "Lack of capability to expand into full scale Islamic commercial banks of the existing Shariah finance provider is a reason behind the non introduction of Islamic banking" cites an industry player.

Chaaban highlighted that the banking system in Australia runs under strict compliance framework, and the existing commercial banks are hesitant to innovate and introduce new products. He added that this is one of the reasons commercial banks are staying away from Islamic products.

With support from the government, Islamic banking is being eyed by few industry players.

Chaaban further commented that the first step for the introduction of Islamic banking would have to be taken by one of the bigger industry players from the Middle East or Malaysia by setting up their presence in Australia. He believes that a newly established entrant offering Islamic banking products would help bring confidence and assist the local banks in innovating and moving towards Islamic finance in Australia.

Towards The Maturity of Islamic Insurance Industry in Indonesia

By Abdul Ghoni

Takaful developed in Indonesia 16 years ago, but significant growth occurred only during the last three years. Takaful Indonesia was the market leader for the first 10 years, but now the market leaders are Prudential in Family Takaful, and Astra in General Takaful.

The potential for the Takaful market in Indonesia is huge, with a population of 240 million, 88% of whom are Muslims. Key customer segmentation in the Shariah market is the loyalist and floating market. Loyalists make up about 14% and are only interested in Islamic products. The floating market is an open neutral market against Islamic and conventional products, estimated at 61.2%.

Based on the key customer segmentation above, the estimated market potential for Islamic insurance in Indonesia is up to 75.3% of the total insurance industry. But the fact remains — the realization of Islamic insurance premiums in 2009 amounted to only 2.92% of the total industry.

> "Until now, Islamic insurance operators in Indonesia have reached 45 companies, but 90% of them are in the form of Shariah business units and have limited capital"

The gap between market potential and the realization of the Islamic insurance market is predicted because the Islamic insurance industry is still experiencing constraints as follows —

- Do not have a product that complies with Shariah market, only duplications of conventional products
- Inability to access the Shariah market and so far using the conventional market access. Hence the Islamic insurance companies have difficulties and need a long time to build access to the growing Shariah market
- Lack of experienced human resources in the Shariah market
- Islamic insurance companies are in the form of Shariah business units.

Until now, Islamic insurance operators in Indonesia have reached 45 companies, but 90% of them are in the form of Shariah business units and have limited capital. In the process of developing these Islamic insurance business units, some adjustments are needed with the conventional parent company.

This process can be called the process of maturation. Over time, some Islamic business units have closed because of a lack of capital and difficulty in accessing markets. There are however, some that still exist and are even growing.

In general, the maturation process of the above is divided into three major phases —

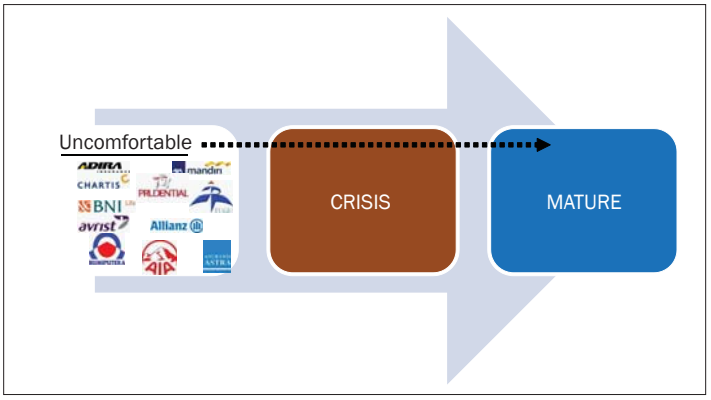
1. Uncomfortable phase
2. Crisis phase
3. Maturity phase

Initial phase (uncomfortable)

Marked by a lot of emerging Islamic insurance players, and dominated by the form of a division or business unit. Due to a lack of regulations, the customer finds it difficult to distinguish between conventional and Islamic insurance products. In this phase, most of the operators are doing the same thing, namely duplicating its conventional products into Islamic products. The difference between conventional and Islamic products is only in aqad (contract), but the characteristics are the same. This condition creates discomfort in conventional markets, because it can potentially erode the market share of the conventional, as the actual product characteristics do not fit (not comfortable) with the characteristics of Islamic products.

Second phase (crisis)

The insurance market in Indonesia is subject to cannibalism, where the Islamic market consumes the conventional market. Customers already understand the differences between Islamic and conventional products, even asking for value added Islamic products. Regulation is already complete which accommodates the Islamic insurance business in Indonesia.



In this phase, a selection process of the Islamic insurance companies occurs. If they cannot create suitable Islamic products, good market access and have strong capital, they will fall.

Third phase (maturity)

In this phase, the Islamic insurance company has already created innovative products that comply with Shariah and market conditions. It is also accompanied by adequate regulations, especially on the

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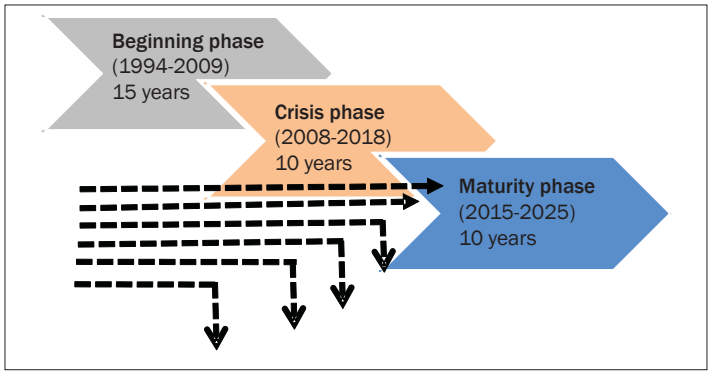
Towards The Maturity of Islamic Insurance Industry in Indonesia (continued)

spin-off of Shariah business units. In this phase, customers are able to compare the advantages of each Shariah product. Only a few operators can survive and some even become champions in this phase. Companies that are able to create innovative insurance products in accordance with the Shariah market segment, could grow in the Indonesian insurance industry.

Which road...?

For Takaful Indonesia, the beginning phase occurred for 15 years starting from its establishment in 1994 and ending in 2009. It is the crisis phase that is expected to occur during the 10 years from 2008 until 2018, while the maturity phase is expected to take place in the 10 years from 2015 to 2025.



In the crisis phase, crisis does not only occur in Islamic business units, but also in conventional companies that do not have Shariah products but whose market share would be eroded by Shariah products.

In the mature phase, the market leader is a company that has a strong brand with not only good conventional products, but also Shariah ones. The key to becoming among the top 10 in Indonesia's insurance industry is having strong brands in Shariah products.

In the start of the mature phase in 2015, the potential of Islamic insurance premiums in Indonesia was estimated to reach US$23.78 billion representing 70% of the potential premium insurance industry in Indonesia, which reached US$31.67 billion.

The key in becoming the market leader in the mature phase are as follows–

- have suitable products that comply with Shariah market
- have powerful access and strong branding in the Shariah market
- have reliable human resources in the Shariah market
- have strong capital

Conclusion

From these three phases, it is important for insurance companies with Shariah business units to design the right products with the company and market conditions, have good access to the Shariah market, and adequate capital. We hope that the Islamic insurance industry in Indonesia will be able to go through these three stages successfully.

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Abdul Ghoni has written a book on Islamic Insurance.

Addressing Challenges and Optimizing Opportunities in the Indonesian Islamic Capital Market

By Farouk Abdullah Alwyni

One way to classify financial markets is by the maturity of the claim. A financial market for longer maturity financial assets is called the capital market. Capital market plays a vital role in bridging between savings and productive activities in the society. Within the capital market, primary and secondary markets are important elements. While the primary market plays an important role in directly channeling funds for further investment of companies and/ or intitutions, the secondary market does the same but indirectly.

The secondary market has a number of important roles. First, it provides liquidity to the investors for early exit; secondly, it helps the issuer of securities to monitor price movements of shares and the required return; and finally, it brings together many interested parties and thus brings down the costs of searching for potential buyers and sellers of assets.

The growth of Islamic finance globally also creates the need for the formation of an Islamic capital market. Thus, the development of Islamic capital markets is an integral part of the development of capital markets in general. Basically, capital markets are important means for the efficient mobilization and allocation of resources. The prohibition of interest in an Islamic economy makes the capital market more important due to its risk and profit sharing nature through equity investment.

Within an Islamic context, capital markets are supposed to perform all the useful functions of conventional capital markets with fair and equitable distribution of benefit. Among the fundamental boundaries for justice and welfare in Islam is the prohibition of interest; speculation; gambling; the prohibition of taking each other's property by wrongful means; and a compulsory financial obligation to the poor through Zakat, intended to spread wealth to a wider segment of society.

Within the boundaries set above, the Islamic capital market is expected to have impact on the economic growth and the increase of wealth without interest and malpractive (taking others' assets/ property wrongfully).

The development of Islamic capital market

The capital market activities in Indonesia began in December 1912 with the establishment of the Stock Exchange by the Dutch colonial government.The exchange traded the shares and bonds of Dutch companies/farms operating in Indonesia, municipal and government bonds, American companies' securities issued in The Netherlands, and other Dutch companies' securities.

The activities of the Indonesian capital market gained ground at the end of 1988 with the issuance of 'deregulation packages related to economic and financial policies', marking the beginning of the liberalization of the Indonesian economy. The impact of these policies has successfully stimulated the Indonesian capital market until now.

The minister of finance has the highest position in the structure of the Indonesian capital market, who then appoints the capital market supervisory body (BAPEPAM) as a government entity to develop, guide, rule, and supervise the capital market. The stock exchange is set up as a means to mediate the transactions and/or trading of marketable securities among the parties involved.

Up until 2007, there were two stock exchanges in Indonesia – the Jakarta and Surabaya Stock Exchanges. But, in 2007, these two stock exchanges were merged into one to become the Indonesian Stock Exchange. With this merger, it is expected that the listing cost for companies will be cheaper since it only needs to list in one stock exchange but enjoy access to both markets, and could also enable companies to tap into a variety of investment options. At the moment, activity in the Indonesian capital market is still dominated by foreign investors.

The Shariah capital market was officially launched on the 14th March 2003 along with the MoU between BAPEPAM and the Shariah National Council — Indonesian Religious Scholar Council (DSN — MUI). Although the Shariah capital market officially began in 2003, Shariah capital market instruments appeared earlier in Indonesia in 1997 marked by the launching of the Islamic mutual fund Shariah Danareksa in July 1997 by state-owned Danarekasa Investment Management.

Danareksa Investment Management then launched the Jakarta Islamic Index in July 2000 to attract investors who prefer to make Shariah compliant investments. The next development in the Indonesian Islamic capital market was the issuance of the Shariah bond by Indosat in September 2002. This is the first Shariah instrument that was then followed by other Shariah bonds or Sukuk.

In 2004, for the first time, the first Islamic bond with Ijarah akad was issued. After that, in 2006, the new Shariah instrument launched was the mutual fund index where the underlying index is the Jakarta Islamic Index.

Islamic capital market instruments

The existing instruments in the Indonesian Islamic capital market are basically the Shariah compliant stocks, Sukuk, and Shariah mutual funds. The market has witnessed the rapid growth of these instruments in the last few years. By the end of 2010, corporate Sukuk issued cumulatively reached 47 with the total amount of IDR7.81 trillion (US$867.8 million).

Since the adoption of the law on sovereign Sukuk in 2008 up until the first half of 2010, the government of Indonesia issued around IDR35.2 trillion (US$3.9 billion) of Sukuk comprising domestic, international, and retail Sukuk. The government is also planning to issue another global Sukuk this year.

Other than the above, there are now 48 Shariah mutual funds in the market with net asset value (NAV) amounting to IDR5.23 trillion (US$581 million). In the last five years starting in 2006, the market value of Shariah products has grown significantly. The total amount of corporate Sukuk issued up until the end of 2010 has grown 242% with an average growth of 49% per year. During the same period, the net

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Addressing Challenges and Optimizing Opportunities in the Indonesian Islamic Capital Market (continued)

asset value of Shariah mutual funds has grown 622% with the average growth rate of 124% per year.

Since 2007, the Capital Market and Financial Institution Supervisory Agency (BAPEPAM-LK) has periodically published the List of Shariah Equity (DES) containing all Shariah compliant equities. The number of stocks contained in DES has been increasing over the years. At this time, there are 226 stocks that have met Shariah criteria accounting for 47% of the total 478 listed on the exchange.

However, compared to the total shares available in the capital market as a whole, the market value of Shariah products is still relatively small. By the end of 2010, the NAV of Shariah mutual funds is still only around 3.5% of the total NAV of mutual fund industry. Whereas the total value of corporate Sukuk is only around 3.7% of the total value of bonds in the capital market. However, the percentage of Islamic capital market instruments are expected to increase gradually over the years.

Growth in Islamic banking and Islamic capital market

The asset growth of Islamic banking in Indonesia will at the end contribute directly to the growth of the Islamic capital market through the increase of treasury assets. At the initial stage of its development, it was very common for Islamic banks to have reached or even exceeded 100% financing to deposit ratio (FDR) due to the limited revenue generating money and/or capital market instruments, if it existed at all. Under this situation, all the funds mobilized through deposits were used for financing. This was due to the fact that financing used to be the only revenue generating activity possible for the Islamic banks.

Actually, the conditions where all the funds used for medium to long-term financing were quite risky for the Islamic banks since they could create a maturity mismatch resulting in a liquidity issue.

In view of this, the development of Islamic money and/or capital market instruments is imperative for the growth of Islamic banking itself. The Islamic banks cannot rely only on medium to long-term financing in growing its assets. They will also need to have some liquidity cushion in the form of treasury assets. Thus, at the end, the growth of the Islamic banking industry will also foster the growth of the Islamic money and/or capital market.

The case in point is Bank Muamalat Indonesia (BMI). In 2011, it plans to increase its Sukuk holding for more than four times, from IDR506 billion (US$56.2 million) to IDR2.34 trillion (US$260 million). Placing more assets in Sukuk is expected to generate more returns for BMI and at the same time it can be used for liquidity management considering the bank's assets reached IDR21.4 trillion (US$2.38 billion) in 2010, around 32% growth from IDR16.2 trillion (US$1.8 billion) in 2009.

On the whole, the total Indonesian Islamic banking assets grew to IDR100.2 trillion (US$11.1 billion) from IDR67 trillion (US$7.4 billion) in 2009. The total growth in Islamic banking assets is expected to result in more demands for Islamic capital market instruments like Sukuk in 2011, as is the case for BMI.

Addressing challenges and optimizing opportunities

Islamic finance has now become a more than US$1 trillion industry. More conventional institutions now have created Islamic windows to tap these opportunities. Indonesia, as the largest Muslim country and among the largest economy (G-20) in the world, has a lot of potential to be the largest Islamic capital market tapping the benefits of global Islamic capital and other investors looking for an alternative investment destination. However, to realize this potential, challenges need to be addressed through government policies.

Within the above context, the government of Indonesia through the BAPEPAM-LK has incorporated strategic initiatives for the development of the Indonesian Islamic capital market within the master plan on capital market and non-bank financial industry 2010-2014. In this masterplan, there are four programs to be implemented for the further development of Islamic capital market in the country.

These programs include the development of regulation that can foster the growth of the Islamic capital market; the development of more Islamic capital market instruments; the effort to make the Islamic capital market products equal with the conventional capital market products, especially on tax related matters; and the development of human resources in Islamic capital market.

Addressing the above issues successfully will pave the way for Indonesia to optimize opportunities in the global rise of the Islamic capital. Globally, the fact that Europe and the US have somehow reached their saturation point in terms of growth means global investors may seek alternative investment destinations.

In addition, the current political crisis in the Middle East may also prompt the region based investors to identify overseas investments. These are among the global opportunities that may be tapped by the Indonesian capital market.

In fact, it was reported that in 2010 several Hong Kong investors were interested in investing in Indonesian Islamic capital market instruments as they had expressed during their visit to the BAPEPAM-LK and told officials that they would invite investors here at the next meeting .

Domestically, there are also opportunities for further growth of the Islamic capital market in the country. Domestic financial institutions and the public sector are also looking for more Shariah compliant investment options and Islamic capital market instruments. The case in point is the ministry of religious affairs in Indonesia that has used a substantial amount of Hajj funds for the purchase of Sukuk.

By March 2011, it is reported that the ministry has planned to invest IDR20 trillion (around US$2.2 billion) in government Sukuk. Furthermore, as discussed above, the growth of Islamic banking assets will also create more demand for capital market instruments as a liquidity management tool.

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Islamic Leasing Industry in the UAE

By Paul Jarvis and Michelle Teng

The Ijarah, or Islamic lease, remains one of the most popular Shariah compliant financing techniques used in the UAE. An Ijarah involves the Islamic financier taking title to an asset, and then entering a lease-back arrangement with the customer. It typically features assets such as real estate, plant and machinery.

Each of these asset types raises different issues for the Islamic financier. This article considers some of those asset-specific issues and how Islamic financiers commonly deal with them in the UAE. It also discusses two areas of interest to Islamic financiers which are continuing to develop in the UAE — the risk of re-characterization of the Ijarah transaction, and how to deal with total loss of the asset.

Real estate

Unregistered sale

The basic Shariah principle is that a sale contract becomes effective as soon as the parties sign it. From a Shariah perspective, it is irrelevant whether registered title in the land is in the name of the Islamic financier or the seller (being the customer). On this basis, the parties often do not want to register the sale of land with the land's department of the relevant emirate.

However, the question to consider is whether non-registration means that the entire contract is void. The position differs from emirate to emirate. For instance, in the Emirate of Sharjah, the relevant laws provide that an unregistered sale transaction has no effect against third parties. However the laws do not provide that such a transaction is ineffective as between the seller and buyer.

Accordingly, it is possible that the courts in Sharjah would view an unregistered sale as creating personal rights between the seller and the buyer rather than a transfer of a proprietary interest in the land itself. However, the important issue is that the contract should still be binding as between the parties.

Protection through mortgage

As legal title in the land remains with the customer, an Islamic financier sometimes seeks to bolster its rights by taking a mortgage over the land before entering the sale contract. Registering such a mortgage can raise further issues.

For example, in Sharjah, it is not possible to register a long form mortgage document due to the current procedures followed by the Sharjah Lands Department. Instead, the parties sign and register a standard registration form, which does not fully describe the mortgage arrangements but does provide basic details of the amount secured and such.

The registration achieves two important things — it puts third parties on notice that the real estate is encumbered in favor of the Islamic financier; and it creates an in rem right in the real estate that would not otherwise be achieved through and unregistered sale and leaseback.

Moveables

As in many other jurisdictions, in the UAE there is no central register of interests for moveable assets such as plant and machinery (other than registers for specific assets such as aircraft and ships). Accordingly, it is not possible for an Islamic financier to register its ownership interest in these assets. The issue that arises for an Islamic financier is how to put third parties on notice that it owns the assets, even though the assets are in the possession of the customer.

In an attempt to tackle this issue, it is becoming increasingly common for Islamic financiers to take a commercial mortgage over the business of the customer. The UAE federal laws define a commercial business as all kinds of tangible and intangible assets allocated for the practice of commercial activities, which excludes real estate. Therefore it covers assets such as plant and machinery. A commercial mortgage can only be granted to a bank or other financial institution licensed in the UAE.

> "As in many other jurisdictions, in the UAE there is no central register of interests for moveable assets such as plant and machinery"

A commercial mortgage must be in writing, notarized before a notary public and registered at the commercial registry of the relevant emirate. It is only possible to take this security in the emirates that have set up commercial registries or otherwise have a method of recording the commercial mortgage on the customer's trade licence. Once registered, the commercial mortgage is effective for five years, and the registration will automatically cancel it if the Islamic financier does not renew it before the end of that period.

From a practical perspective, the Islamic financier could insist that each asset contains a plaque which states that the asset is owned and/or mortgaged in favor of the Islamic financier. Accordingly, if a third party sought to repossess the asset it would be on notice that the asset is owned by the Islamic financier. However, this will not always be practical, especially where the class of assets being leased are small pieces of machinery.

It is also possible to take a possessory pledge. As the name suggests, this form of security is perfected by the Islamic financier having actual or constructive possession of the asset. One can see how this form of security may be difficult to use in a leasing context as a fundamental aspect of a lease is that the customer is in possession of the asset. It is therefore difficult to see how an Islamic financier could also be in possession of the same asset for the purposes of perfecting the pledge.

UAE issues

Re-characterization risk

It is possible that the courts in some emirates may re-characterize an Ijarah as a conventional loan arrangement. Last year, the Dubai Court of First Instance re-characterized an Ijarah as a sale of property on deferred payment terms, rather than a lease. The court viewed the Ijarah documents, including the sale undertaking and purchase

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Islamic Leasing Industry in the UAE (continued)

undertaking, as effecting a sale of property. It viewed the rent payments as payments of the sale price by installment. While this decision is not directly relevant to the courts in the other emirates, it is nonetheless indicative of how courts in the UAE may treat an Ijarah.

Total loss of asset

Islamic financiers in the UAE are developing new ways to deal with the situation where the asset suffers a total loss. According to Shariah principles, the Islamic financier, as the lessor, cannot charge rent after a total loss occurs. This means that its recovery of the financed amounts will depend on whether it can access the insurance proceeds, and this raises various issues. For example, if the insurance proceeds are not sufficient to cover the outstanding financed amount, can the Islamic financier claim against the lessee (acting as service agent) for not fulfilling its insurance obligations? If not, the Islamic financier may be left exposed. The Shariah boards of different Islamic financiers often take different views on these issues, and this remains a highly negotiated area.

> "Islamic financiers in the UAE are developing new ways to deal with the situation where the asset suffers a total loss"

Conclusion

The Ijarah continues to be a robust form of financing in the UAE. Different asset classes present different issues in each emirate, and Islamic financiers have structured Ijarah financings to effectively resolve those issues.

The market continues to search for new approaches to issues such as total loss that are both Shariah compliant and commercially sound. This is taking place against a background which shows signs of gradual change. Islamic financiers will be closely watching how the courts of the different emirates continue to interpret Ijarah financings.

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Dow Jones Islamic Markets in February: Lessons from the Turmoil

By Gérard Al-Fil

It is of no surprise that the Dow Jones Islamic Market Index (DJIM) covering Arab stock markets suffered the largest losses in February. Political crises and civil unrest in Egypt, Jordan, Bahrain, Yemen, Morocco, escalating even to a civil war like in Libya, weighed on the markets.

The turmoil led the DJIM Kuwait Index to drop 8.64% to close at 908.36 (as of the 22nd February's close of trading). The DJIM Gulf Co-operation Council (GCC) Index finished down 5.03% at 1293.33 and the DJ Dubai Financial Market (DFM) Titans 10 Index lost 4.83%, closing at 1,977.82.

These declines stand in stark contrast to the rise in energy prices, which usually lift Middle Eastern markets. The DJIM Oil and Gas Index (up 4.17 at 4096.17) posted the largest gain among the Shariah compliant Dow Jones sector benchmarks.

Meanwhile, analysts and bankers debate whether current trading levels mean buying opportunities. "Valuations at Gulf Arab markets are cheap, but international investors nowadays avoid the region," says Gary Dugan, chief investment officer and acting general manager, private banking, at Dubai based Emirates NBD, the Middle East's largest bank as measured by assets. "Based on this, we advise our clients to be cautious during the next three to five months."

In 1995, derivatives broker Nick Leeson toppled Barings Bank by covering losses when trading at Singapore's SIMEX. One of his mistakes was betting on a quick recovery of the Tokyo Stock Exchange after Japan was hit by an earthquake in Kobe on the 17th January 2005. But Leeson was wrong.

Markets, indeed, fell further. Barings went bankrupt under losses of US$1.4 billion and London's oldest merchant bank was eventually bought for the symbolic price of GBP1 (US$I.62) by The Netherland's ING Group.

Thus, the rule "Never catch a falling knife," — meaning, do not buy stocks when prices have not stabilized applies. Under Shariah law using derivatives is judged as gambling (Qimar) and banned.

Another lesson of the ongoing turmoil in the Middle East and North Africa (MENA) for western investors is that Islamic finance is not solely focused on the Middle East. In fact, 99% of all stocks in the DJIM universe are located in non-Muslim countries. The DJIM Thailand Index, for example, was the top gainer in February, closing 5.25% higher at 1811.50.

It was followed by the DJIM Turkey Index (up 4.64% at 3792.64 and the gateway to Europe for Islamic finance), and the DJIM Indonesia (gaining 2.33% at 1438.88).

As a direct comparison, the conventional US Dow Jones Industrial Average advanced 2.70%, ending at 12212.79. Western trading had a strong start in 2011, raising fears that an overheating market will push up commodity prices, leading to rising interest rates in 2011. For the coming months, Emirates NBD's Dugan recommends a shift from equities to bonds of high quality.

In order to invest in Sukuk, fund managers have been using the Dow Jones Citigroup Sukuk Fund as a benchmark since 2007. This index, which tracks only US dollar-denominated Sukuk with investment grade, dipped 0.62% to close at 126.29 in February.

Among the sector indexes, the DJIM Financials Index (down 2.46% at 811.86) was the main losing composite last month. Takaful operators, in particular suffered losses as the default risk increased in the MENA region due to ongoing turmoil.

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Asia: Performance of DJIM versus conventional DJ Indexes

Dow Jones Islamic Market Indexes			Conventional Dow Jones Indexes		
Index Names	Index Close 22nd February 2011	MTD 2011	MTD 2011	Index Close 22nd February 2011	Index Names
DJIM Asia/Pacific Index	1507.37	-0.37%	0.42%	141.75	DJ Asia/Pacific Index
DJIM China Offshore Index	3338.73	-1.44%	-1.55%	4171.74	DJ China Offshore 50 Index
DJIM Hong Kong Index	1570.93	-2.66%	-4.44%	466.11	DJ Hong Kong Index
DJIM India Index	1833.36	0.09%	-0.27%	1864.36	DJ India Total Stock Market Index
DJIM Indonesia Index	1438.88	2.33%	4.02%	198.81	DJ Indonesia Index
DJIM Japan Index	1163.57	1.41%	3.75%	95.42	DJ Japan Index
DJIM Malaysia Index	1714.30	0.25%	-0.17%	257.00	DJ Malaysia Index
Dow Jones-JS Pakistan Islamic Index	14663.07	-1.70%	-5.53%	644.63	DJ Pakistan Total Stock Market Index
DJIM Philippines Index	1649.59	-3.23%	-0.94%	233.62	DJ Philippines Index
DJIM Singapore Index	1245.79	-5.11%	-5.07%	311.23	DJ Singapore Index
DJIM South Korea Index	970.63	-3.59%	-5.08%	286.20	DJ South Korea Index
DJIM Amana Sri Lanka Index	2449.02	0.23%	4.32%	3130.95	DJ Sri Lanka Index
DJIM Taiwan Index	5209.71	-5.85%	-6.98%	180.90	DJ Taiwan Index
DJIM Thailand Index	1811.50	5.24%	3.44%	142.34	DJ Thailand Index

Dow Jones Islamic Markets in February: Lessons from the Turmoil (continued)

February 2011 "Islamic Market's Measure" — Preliminary Report

Based on the close of trading on the 22nd February, the global **Dow Jones Islamic Market Titans 100 Index**, which measures the performance of 100 of the leading Shariah compliant stocks globally, gained 1.40% month-to-date, closing at 2326.40.

In comparison, the **Dow Jones Global Titans 50 Index**, which measures the 50 biggest companies worldwide, posted a gain of 1.82%, closing at 185.87.

- The **Dow Jones Islamic Market Asia/Pacific Titans 25 Index**, which measures the performance of 25 of the leading Shariah compliant stocks in the Asia/Pacific region, decreased 0.75%, closing at 2165.43. The **Dow Jones Asian Titans 50 Index**, in comparison, posted a gain of 2.52%, closing at 148.35.

- Measuring Europe, the **Dow Jones Islamic Market Europe Titans 25 Index**, which measures the performance of the 25 of the leading Shariah compliant stocks in Europe, closed at 2247.00 a gain of 1.14%, while the conventional **Dow Jones Europe Index** gained 1.76%, closing at 285.28.

- Measuring the performance of 50 of the largest Shariah compliant US stocks, the D**ow Jones Islamic Market US Titans 50 Index** increased, closing at 2373.59. It represents a gain of 1.90%. The **US bluechip Dow Jones Industrial Average** increased 2.70%, closing at 12212.79.

Middle East and GCC Regions

Dow Jones Islamic Market Indexes versus Conventional Dow Jones Indexes
In February, the **Dow Jones DFM Titans 10 Index**, measuring the 10 largest and most liquid stocks listed on the Dubai Financial Market, closed at 1977.82. It is a loss of 4.83% month-to-date.

The **Dow Jones Islamic Market Kuwait Index** posted a loss of 8.64%, closing at 908.36. Its conventional counterpart index, the **Dow Jones Kuwait Composite Index**, was down, closing at 237.68. It represents a loss of 6.76%. The **Dow Jones Islamic Market Turkey Index** closed at 3792.64, a performance gain of 4.64% month-to-date, while the **Dow Jones Turkey Total Stock Market Index** closed at 1352.43, a gain of 2.76%.

Measuring the performance of Shariah compliant stocks of five of the Gulf Cooperation Council (GCC) member states, the **Dow Jones Islamic Market GCC Index** closed at 1293.33, a loss of 5.03%. The conventional **Dow Jones GCC Index** was down 5.57%, closing at 1457.59.

Other markets and asset classes

In February, the **Dow Jones Islamic Market BRIC Equal Weighted Index** increased 1.54%. It had a closing value of 2186.84. By comparison, the **Dow Jones BRIC 50 Index** closed at 634.95, a gain of 0.50% month-to-date.

The **Dow Jones Citigroup Sukuk Index**, which measures the performance of global bonds complying with Islamic investment guidelines, decreased 0.62%, closing at 126.29.

The **Dow Jones Islamic Market Sustainability Index**, which measures sustainable practice business of companies respecting the Shariah laws, increased 1.26%, closing at 2542.89. The conventional **Dow Jones Sustainability Index** gain 1.88% with a closing value of 1098.11.

Global February 2011 Industries Winners and Losers

The three best performing **Dow Jones Islamic Market Industry Indexes** were **Dow Jones Islamic Market Oil & Gas**, **Dow Jones Islamic Market Basic Materials** and **Dow Jones Islamic Market Consumer Goods Indexes**, with performances of 4.17%, 2.60% and 1.97%, respectively.

The three worst performing industry indexes were **Dow Jones Islamic Market Financials** and **Dow Jones Islamic Market Utilities Indexes**, representing a loss of 2.46% and 1.32%, respectively. While the **Dow Jones Islamic Market Telecommunications Index** posted the narrowest gain of 0.13%.

On the 22nd February, the Dow Jones Islamic Market Indexes series launched the Dow Jones Islamic Market Global Finance & Takaful Index, which measures the performance of financial services stocks that pass rules based screens for Shariah compliance.

Eligible companies are banks, insurance and financial services companies. Included in the index are those stocks that pass financial ratio screens that are less than 33% in total debt, divided by trailing 24-month average market capitalization.

Financial firms with excessive high cash ratios are also banned from the index. Although staying liquid for any buying opportunities, Islamic finance denies hoarding money rather than investing it.

Regarding equity investments for the coming months, Emirates NBD's Dugan recommends carefully building up positions in the health care and technology sectors, as both segments advanced in the past during rising inflationary periods. Both sectors are covered by DJIM industry indexes as well.

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Korea: Islamic Finance at a Crossroads

By Robert Ryu

With approximately 350,000 Muslims living in South Korea, we are obviously not a Muslim country and yet we are very ambitious to adopt an environment where Sukuk can flourish and provide an additional instrument for the financial industry. After all, even non-Muslims who have read a book on Islamic finance will learn that everyone including non-Muslims shall be encouraged to benefit from its practice.

Yet again, the 22nd February of this year marked another disappointing day for South Koreans who were waiting for the tax revision bill for Sukuk to be passed. The leading political party who has the majority votes in the reviewing committee officially announced to flatline the bill.

The politicians involved in the committee were not even shy about commenting to the media that they have received complaints through emails and phone calls from other religious protestors that they would vote against them in next year's elections if they had approved the bill sent to parliament.

A saying on our company wall which says, 'Observe and obey the market and yet go opposite way of the general public', obviously does not apply to our politicians.

> "For our people to motivate ourselves in order to grasp the fundamentals of Sukuk, what we really need today is a stimulus and not a Sukuk bill"

Last December, the new tax bill for Sukuk actually passed the committee but never had the chance to be voted at the parliament level as the national budget violently ended the session prematurely. Perhaps that was the reason why the supporters of the bill in the government and financial industry believed it would be easier for the bill to be passed once the parliament re-opened in mid February.

In the aftermath, the probability of the bill being passed has gotten slimmer and we have to accept the reality that it may not be passed for a long time. Reading articles about the lawmakers fearing that Zakat may fund terrorism just shows that we do have a long way to go.

Unless the general public separates the religious issues and understands the fundamentals of the bill, we may never witness the passing of the bill. The bill in question does not allow excess benefits over the conventional bond, rather it merely identifies Sukuk as a bond so it may enjoy the same benefits as a conventional bond.

However, to defend our limited knowledge on Islam, this is actually due to our narrow exposure. The majority general public knowledge is based on news via the media. What we see on news is pretty much what we know and most of the time only negative news makes the headlines. The same goes with our issue with North Korea. When our warship sank, suspected to be attacked by a North Korean torpedo, and the recent bombing in Yeon Pyong Do by the North Korean artillery unit, everyone but Koreans asked if these acts would trigger a war or how negative the impact would have on foreign investors.

I must admit that South Koreans did discuss this, but life goes on. In fact, foreign investors who know South Korea well enough pumped in over US$500 million buying our stocks the next day after the bombing.

They were the main beneficiaries, along with our institutional investors, who witnessed a growth of wealth through the Korea Composite Stock Price Index (KOSPI) from 900s in 2008, our lowest points during the sub-prime mortgage crisis, only to hit 2,100s last year.

For our people to motivate ourselves in order to grasp the fundamentals of Sukuk, what we really need today is a stimulus and not a Sukuk bill. A stimulus that is bilateral between Korea and Islam. In other words, we would need more positive news on Islam to make the headlines so that the people would voluntarily and actively dedicate their time to learn more about Islamic finance.

In our efforts, our company has been in the Islamic finance consulting business in South Korea for the last three years and finally we are at the last phase of launching two Shariah compliant real estate funds with multiple GCC investors, another VC/PE fund involving a Malaysian government linked company.

In addition, we are also actively pursuing to set up an asset management company in Malaysia together with a Korean financial conglomerate this year.

To provide more opportunities, our company recently took over the management of a REITs company in Korea that is publicly traded at KOSPI in an effort to launch more Shariah compliant REITs. We are currently actively pursuing of finding strong partners of Islamic REITs companies to reach our goals.

With more opportunities arising and successful fund launchings, we feel more people will gradually realize that Islamic finance will work in non-Muslim countries like Korea thus changing our misconceptions towards Islamic finance. After all, only a good project is sufficient to stimulate the industry, which will have a significant impact on our culture.

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Robert Jung Soo Ryu has been in Shariah consulting business since 2007 serving as a director at Shariah Finance Co in South Korea. He recently accepted another position as a director at Golden Narae REITs to produce Shariah compliant real estate development products. Robert was also invited to speak at KLIFF and GIFF in 2010 to share his experience on Islamic finance in South Korea.

Overview of Islamic Treasury

By Imran Iqbal

The Islamic treasury function varies from bank to bank depending on the level of development and sophistication of the respective institution. Typically, in a large bank, the Islamic treasury department will be split into five areas — money market, fixed income, foreign exchange, structured products, and derivatives.

Each area has its own activities and products. This article seeks to give an insight into what each area is responsible for, describe some of the instruments used, and also pointing out some of the challenges faced currently.

Money market

The money market (MM) desk is responsible for the day-to-day liquidity management. It attempts to take deposits from those with excess liquidity while placing any excess cash in the most efficient way to achieve maximum returns. The MM desk is also responsible for raising funds for assets while trying to manage the 'gap risk' arising from funding long-term assets with short-term liabilities. The desk is also involved in meeting reserve requirements placed by central banks as well as creating an active money market through participating in tenders, quoting two way prices and such.

Different instruments are used in different regions. For example, the most commonly used product for money market placements in Malaysia is Mudarabah (investment partnership). This involves the customer's money being used to fund the Islamic operations of a bank with a variable return being given upon maturity although the final return achieved is not often very dissimilar to the indicated rate at inception. This product works better in countries like Malaysia where there is standardization and clear guidance from the central bank on the method of calculation of the profits.

In Malaysia, the Wadiah (safekeeping) product is also used mainly in placing with the central bank. This concept is not widely accepted in other locations because of disagreement of whether a return (albeit done as Hibah or a gift) is allowed when money is given for safekeeping.

In the Middle East, the concepts of Murabahah (sale) and Wakalah (agency) are more commonly used. The Murabahah and reverse Murabahah (Tawarruq) involves selling commodities at cost plus profit whereby the profit is deferred and represents the return on the placement. The Murabahah is popular because it gives a fixed return as in conventional deposits. However, there is an additional cost due to brokerage fees.

The Wakalah concept involves banks accepting money to be invested in its own Islamic business. Although this product is easier to implement for banks, it tends to be less popular because there is no obligation arising on the part of the bank and such. If the investment does not perform, the investor has no right to claim providing the bank performed its duties as Wakeel (agent).

Fixed income

The fixed income (FI) desk buys and sells Islamic debt instruments. These could be short-term such as commercial paper and other negotiable instruments or medium/long-term such as Sukuk. The desk will either trade actively or buy for investment purposes. Trading positions are held in a trading book and are generally marked-to-market. Investment positions are put in a banking book and are either 'held to maturity' or 'available for sale'. The revenues for both these types are accrued into the profit and loss. The secondary market for Sukuk is very illiquid as most investors prefer to hold to maturity due to the scarcity of instruments. The only market that is relatively active is in Malaysia.

Foreign exchange

The foreign exchange (FX) desk is responsible for managing the currency risk arising from Islamic business. Spot FX transactions are considered Shariah compliant, hence they are actively traded by Islamic treasuries, though it tends to be on the back of client trades rather than as speculative transactions. Other FX products are less widely used by Islamic banks due to differences of opinion between scholars as to their validity and Shariah compliance.

For example, an FX forward, which is the most basic currency hedging instrument, is not allowed by some scholars due to concerns over riba, despite customers having a genuine need for protection from adverse currency movements. Other scholars have allowed this product providing it is structured as two commodity Murabahah transactions.

Some Islamic financial institutions (IFIs) have the product approved as a single Waad (promise) given by the customer to the bank. This is structurally incorrect as it leaves the customer unfairly disadvantaged since there is no obligation on the part of the bank. This deficiency has resulted in either the Islamic FX forward market not growing or in leaking funds to conventional. Some scholars have approved the use of two unilateral Waad which addresses the structural issue. However, the validity of this structure is fervently debated.

The Islamic FX option is another controversial product. It is usually structured as a Waad from the bank for which the client usually pays a fee (such as the premium). The concept of charging a fee for giving an undertaking is not accepted by a majority of scholars, though some IFIs have the product approved as, once again, there is a genuine need for this product by their customers. Interestingly, if the option premium is embedded as part of another structure, there does not appear to be any objections from scholars, though this discussion is beyond the scope of this article.

Some Islamic banks have developed more advanced products. By combining a spot FX trade and a forward FX trade, it is possible to create an FX swap. Similarly, a Murabahah deposit and an FX option can be combined to produce an investment product called a dual currency investment (DCI). Alternatively, there are variations of an FX forward such as a range forward which protects a customer if the exchange rate remains within a pre-specified range. These advanced products are usually developed to match the specific requirements of the customer or to reduce their costs.

Structured products

The structured products (SP) desk is involved in developing and pricing and managing structured investment products. There are various ways to structure these products but the client's money is usually taken

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Overview of Islamic Treasury (continued)

using either a Mudarabah or Wakalah contract. The investors generally require capital protected structures and this is typically achieved by investing part of the funds in a Murabahah contract which will yield a return equal to the capital. The remainder of the initial investment is used to enter into a Waad (earnest money) transaction which will potentially yield an enhanced return linked to some underlying price.

Another popular structure that eventually led to creating a negative image of Islamic banking products was known as a total return investment. In this structure, the investors' money was used to buy a basket of Shariah compliant assets (typically equities). At maturity of the instrument, the basket was sold to a third party (using undertakings) for a price linked to an underlying index or price and this 'total return' was passed onto the customer. The structure has lots of potentially useful applications such as equity swaps where investors do not have access to a particular market (such as Saudi Arabian stocks).

However, because of the versatility of the product, the return on virtually any price/index could be made Shariah compliant. When institutions started offering Shariah compliant investments linked to obviously non-compliant underlyings such as price of lard, alcohol stocks and such, there was a backlash of opinion against these products.

Derivatives

The derivatives (DV) desk is responsible for structuring and pricing tailor-made solutions for clients to manage their market risks. As these products tend to have a longer life (such as more than three years) and there are tasks to be done throughout the life of the trade, the DV desk is also responsible for the maintenance of the trades. Currently, the Islamic derivatives business is in its infancy, hence the DV desk is not usually able to manage the risks themselves, hence they tend to pass on the risks either to another bank or to the conventional desk through a back-to-back Islamic transaction. The Islamic derivatives are approved by scholars to be used strictly for hedging purposes and not for speculation, though the controlling of this is difficult especially if the institutions offering the product are not able to manage the risks themselves.

The most basic product is the Islamic profit rate swap (IPRS) which is the equivalent to the interest rate swap. This used to be structured using a series of two commodity Murabahah trades every settlement period (typically every three or six months). The product has developed into a more efficient structure involving a Waad to buy commodities at the end of each settlement for a price given by the difference between the fixed and the floating profit rates. Some IFIs have developed the product even further and use the concept of Musawwamah (bargain) to reduce the cost of commodity brokerage fees every period. The IPRS helps clients manage their interest rate risk.

Typically, corporates are given financing by banks using a floating rate (such as the payments every period is linked to a benchmark rate such as LIBOR) whereas they prefer to have fixed payments so that they can plan better. The bank will offer the IPRS whereby the client will receive the floating rate to match their liability while paying a fixed rate to the bank.

If the client wishes to hedge both interest rate and currency risk, they are able to do an Islamic cross currency swap (ICCS) which is similar to the IPRS except that the two legs are in different currencies. Some IFIs have developed risk management products further and offer products with other features such as caps and floors and call options embedded into the structure. These are usually done in order to tailor it to the client's needs or to reduce the cost to the client. There are also risk management products to hedge against adverse price movements in other underlings such as commodity prices.

The Islamic derivatives industry is still at the early stages and requires clients to understand that they should be managing risks outside of their control. They are often reluctant to transact because in the short-term their may be additional costs (known as negative carry). Once clients realize that by not hedging their risks they are essentially speculating and could lose significant money, this market will grow. Although derivatives have a bad reputation due to some high profile cases of misuse, as long as the risks exist with clients there will be a need for these products.

Future developments

The Islamic treasury business is still in its infancy with the market being a tiny fraction of the conventional treasury. Apart from the money market all the other markets are not very active or liquid. In order for IFIs to grow in this area they will be required to develop a full range of products and to start managing their own positions.

Currently, the Islamic treasuries tend to develop and sell products to customers but are rarely able to manage the risk. Hence, the risk positions are often transferred to their conventional counterparts leading to leakage of funds. Also, for the growth of the industry, there needs to be more trading between IFIs rather than with their conventional parents. This will hopefully lead to more cross border transactions with IFIs in other locations.

There still needs to be a lot of efforts put into raising client awareness. The industry should grow from customer business rather than through speculation. The clients with Islamic activities face the same currency, rate and commodity risks as their conventional equivalents.

Currently, these customers are either not managing these risks (such as speculating), or hedging using conventional instruments. With more awareness, these customers will be able to manage risks using Shariah compliant instruments.

Given the early stages of this industry, Islamic treasury products tend to imitate conventional products. As the industry grows, I hope to see more development in the area of risk sharing between institution and customers rather than the transfer of risk to conventional banks.

Opinions expressed in this article is the author's and not of Saudi Hollandi Bank.

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Towards a Universal Islamic Deposit Insurance System — Part I

By Mohammed Khnifer

The concept of deposit insurance in the Islamic finance industry is still relatively new as practitioners are struggling to comprehend whether it conforms to Shariah. Very few countries with Islamic economies have an Islamic deposit insurance system in place as it is a complicated balance between maintaining profit loss sharing Shariah principles and protecting bank customers. Islamic deposit insurance is a Shariah compliant system that provides protection to depositors against the potential loss of an Islamic bank's failure.

In this research, I try to highlight how the concept of Islamic Deposit Insurance (IDI) developed in the Muslim world. Over the past 10 years, the concept of insuring Islamic deposits started in the Gulf Cooperation Council (GCC) until the concept reached its maturity after it was institutionalized and adopted in Malaysia.

Due to the absence of guidelines and papers on this topic, it is imperative to point out the controversial areas in designing Islamic deposit insurance system and how they were resolved. The Malaysian model is being heavily reviewed and the researchers at the International Association of Deposit Insurers (IADI) are trying to understand whether such a system can enhance the stability of the Islamic financial system. Therefore, it makes sense for this research to examine the Malaysian IDI system and to look into the possibility of its adoption in the GCC.

1. First stage: a concept in the making

1.1. Segregation of funds

Between 2000 and 2004 researchers started to debate whether there is a need to insure some types of Islamic banking accounts. Banks with Islamic windows used to commingle the Shariah deposits with conventional funds (and used for conventional purposes) or provided Islamic returns that may have been derived from such commingled sources. Some Shariah scholars observed this and asked commercial banks to establish appropriate controls to avoid commingling of Islamic and conventional funds.

In operational terms, this required banks to establish different capital funds and separate accounts, books and reporting systems evidencing the complete segregation of funds. Indeed, before designing any Islamic deposit insurance scheme, it is a requirement to separate streams of cash flows and block any leakages. This separation of funds caused the first thoughts about deposit insurance for Shariah compliant accounts.

1.2. Determine the guaranteed deposits

Sources of funds in Islamic banks can be grouped into four general categories:—

1) Islamic banking funds
2) customers' deposits
3) corporate banking activities
4) treasury activities or placements.

It is estimated that the financial institutions offering Islamic products now collectively hold US$750 billion of assets. Of this, US$350 billion is held by fully Islamic financial institutions and the remaining US$400 billion by conventional banks that offer Islamic banking services.

In early 2000, there was a healthy debate over which of the customer's deposits should be guaranteed. Before we examine these deposits, we need to point out that Islamic banks do have demand deposits, savings deposits, and general and special investment deposits. Savings and demand accounts are normally based on Wadiah (safe custody or safe keeping with guarantee) or Qard Hassan (benevolent loan) contracts, while general and specific investment accounts are based on Mudarabah.

"Indeed, before designing any Islamic deposit insurance scheme, it is a requirement to separate streams of cash flows and block any leakages"

1.2.1 Wadiah deposit and Qard Hasan

Under Wadiah Yad Dhamanah, where the nominal value is guaranteed, Islamic banks act as custodian or guarantor of the funds deposited by customers, such as demand deposits. Customers may withdraw their balances at any time. By using this product, depositors no longer supply funds to earn a fixed income. Instead, they place deposits for protection. Banks are not supposed to use these funds as a source of investment and financing or risk-bearing projects. However, in reality they do.

It is hard to quantify those banks that use Wadiah accounts, but we do know that some banks provide a token of appreciation known as 'hibah' to depositors for banking with them. It should be noted that since the custodian service is given without a price, the Islamic bank holds no legal obligation to pay depositors a fixed return and may do so only on voluntary basis. However, the banks are obliged to reimburse the funds at par value to their depositors in the event that a loss does occur.

The second type of widely used contract for Islamic deposit is Qard Hasan. Under the Islamic Fiqh Academy ruling, shareholders are obliged to guarantee those deposits because they received returns from utilizing the deposits in investment projects.

1.2.2 PLS deposits and the risk of eroding Shariah principles

The profit and loss sharing (PLS) or Mudarabah forms the bulk of Islamic deposits. PLS was and still is a centre of debate on multiple levels. To begin with, the prohibition of interest in Islamic banking is replaced by PLS arrangement whereby the rate of return on financial assets held with banks is not known and not fixed prior to the undertaking of each deposit transaction, also known as ex-post rate. In this partnership structure, no guarantee is given for capital protection or a fixed income. This product structure is run under the principle of sharing equity. Unfortunately this makes it a risky product for depositors as the underlying contract is based on profit loss sharing system.

continued...

Towards a Universal Islamic Deposit Insurance System — Part I (continued)

Under a Mudarabah contract, the depositors act as providers of funds who place a specified sum of money to the bank, while Islamic banks act as entrepreneurs through investing the funds and sharing the investment profit according to the pre-determined profit sharing ratio. Profits are acquired only when the investments are gaining ground, while capital may depreciate or even diminish if the investment does not turn a profit. Banks bear the entirety of the loss if there is negligence and mismanagement on the part of the bank.

While conventional banks guarantee the capital and rate of return, the Islamic banking system cannot provide such to PLS depositors. Some practitioners in the industry would argue that insuring a deposit goes against the PLS principle. Hence, depositor will not incur any risk, which contradicts the basic concept of Mudarabah. Other researchers are beginning to debate if protecting Muslim depositor funds, by providing guarantee, can erode Shariah principles.

1.2.2.1 First attempt to guarantee PLS

Before Malaysia took the helm, the concept of designing a complete Islamic deposit insurance system started in the GCC as a relatively innocuous idea that was based on understanding the economic and Shariah justification of the necessity of protecting depositors by guaranteeing PLS. For example, depositors are the ones who provide funds for specific investment activities by the bank. Thus, shareholders should consider sharing their distributed profits fairly to the small depositors who are bearing the risk.

The second justification on why Islamic banking scholars favored a guarantee of investment deposits (PLS) was based on the fact that conditions of Mudarabah contracts were not applicable to investment deposits and therefore the bank should guarantee nominal value on the deposits. This opinion was based on the fact that Islamic banks were so diversified that if a loss did occur in one investment, there would still be enough profits to cancel out any defaults to depositors.

After establishing the logical argument, the concept of Tabarru (donation) was introduced in 2003 for guaranteeing the principal amount of PLS deposits. It has been suggested that the Mudarib can voluntarily agree to compensate for any loss of principal amount of capital in a Mudarabah contract. Then, Dr Mohamed A Elgari, a Shariah scholar issued a fatwa of its permissibility. In order to ensure the validity of such offer of guarantee as a pure gift, it should not be stated in the Mudarabah contract, neither explicitly or implicitly, nor should it be given except after the Mudarabah contract has already been concluded.

It is unclear as to how many GCC banks established, at that time, in-house Islamic deposit insurance based on the concept of Tabarru. As far as how the concept works, we know that banks retain a fraction of the yearly shareholders income in a special account of shareholders which would be used to compensate the depositors for any loss of their principal amount that may occur when taking risks with their money. For instance, a Saudi bank sustained large losses around the same time and its board of directors decided to have the bank's owners bear this loss on behalf of the owners of the investment accounts.

Maintaining such an account from contributions from shareholders income will be similar to paying an insurance premium to a third party to guarantee the depositors principal amount.

Prior to its establishment in 2005, Malaysia Deposit Insurance Corporation (MDIC), Malaysian banking officials were monitoring these non-institutionalized efforts in the GCC to design in-house deposit insurance schemes. Indeed, it was reported that MDIC studied several other frameworks including donation (Tabarru), agency (Wakalah), and an approach based on government regulations. The Shariah Advisory Council (SAC) of Bank Negara Malaysia decided to adopt the Kafalah bil Ujr structure (explained below) as the most viable option. Keep in mind that the Tabarru concept was internally implemented by some GCC banks even though there were no third-party guarantees in place.

For a country striving to lead the way in developing standard international best practices relating to Islamic deposit insurance, the concept of Tabarru was not the answer. In its argument, MDIC stressed that Tabarru might not be a sufficient alternative to convince central banks that Islamic institutions could provide a guarantee as voluntary rather than a obligatory act. It added if Islamic banks were allowed to provide guarantee as a Tabarru act, they might abuse it and provide guarantee for Mudarabah investment deposits, and then allege that it was not an explicit guarantee, but only Tabarru.

2. Second Stage: laying the foundation of an Islamic deposit system

In this section, I will attempt to highlight some of the hurdles that may stand in the way of developing a sound Islamic deposit insurance (IDI) system. In order to understand how to overcome such obstacles, MDIC will be at the centre of this case study.

2.1. Dual banking system

The vast majority of Islamic and Western countries have a dual banking system, which makes it difficult to design a deposit insurance model that is compatible with the principles of Islamic finance. The Malaysian deposit insurance system was introduced in September 2005 and was the first deposit insurance system to provide separate protection for conventional and Islamic deposits under one organization. Without such an entity, there would be a complete lack of consumer protection in the Islamic banking system. This would undoubtedly create an unfair disadvantage in the evolution and stability of the Islamic banking system.

2.2. Eliminating commingling of funds

The Shariah Advisory Council of Bank Negara Malaysia issued a fatwa prior to the establishment of the IDI system that emphasized the need to separate funds in the operation of deposit insurance schemes for Islamic banking to ensure that the funds of such a scheme are invested in Shariah compliant instruments. For Malaysia, it was already in compliance with that, but for the other few countries that have incomplete IDI system, they were not.

While other regulators lacked the willingness to make an effort to eliminate commingling of Shariah and conventional deposits, others failed to separate Islamic deposit insurance funds with conventional funds after receiving the scheme's insurance premiums.

According to Moha-Pisal Zainal, joint director of research at INCEIF, Indonesia has one pool where all the premiums and returns out of purchasing securities are mixed. Hence, the paid capital of the IDI fund has been contaminated with conventional funds.

continued...

Towards a Universal Islamic Deposit Insurance System — Part I (continued)

2.3 Third party guarantee for PLS
As in the GCC, the PLS or Mudarabah investment accounts were the centre of debate in Malaysia as observers argued as to whether PLS depositors should be protected. MDIC laid down two rationales why these accounts should be protected.

First, deposit insurance is a prudential measure to promote the stability of the financial system due to significant proportion of PLS vis-à-vis other types of deposit products in the Islamic banking industry. The public's interest should be taken into consideration as PLS accounts for more than 45% of total Islamic deposits and therefore accounts for the bulk of deposits mobilised in the Islamic banking system.

Second, the protection will only take effect in the event of a bank's failure. In the normal course of banking operations the loss arising from investing PLS accounts will continue to be borne by the PLS holders. As such, the nature of the Mudarabah contract remains enforceable and the conditions are not voidable.

Under the Mudarabah contract, the entrepreneur is not allowed to guarantee the principal amount of PLS accounts. However, in 2003, Mohamed A Elgari issued a fatwa for the permissibility of such guarantees as long as it came from an unrelated third party. After that, the Shariah Advisory Council resolved that a third party guarantee is allowed to protect Mudarabah investment accounts. If an Islamic bank fails, MDIC would reimburse the PLS account holder up to the limit of deposit insurance coverage based on the value of their deposit at the date of payment and subject to priority of claims.

3. Public interest justifies setting up Islamic insurer

One of the justifications for setting up an IDI is for the public's interest and the banking industry as a whole. According to MDIC, their Islamic deposit insurance system contains the element of Maslahah in the several areas:

First, the main objective of establishing a deposit insurance system is to protect the public's money and prevent the public from facing financial difficulty in the event of a bank failure. Such hardship would affect people's lives and cause even greater hardship to those who have limited financial resources.

Second, IDI instils public confidence in the safety of depositors' funds in banks. The act of instilling confidence among members of the public in the safety of their deposits contributes and promotes to financial stability.

It also promotes the competitiveness of the Islamic deposits and the banking system. Without the protection, Islamic deposits may lose their competitiveness against the conventional deposits which enjoy such protection. As a result, there is a possibility depositors would withdraw their funds in Islamic banks and place them in conventional banks. This would create liquidity issues to Islamic banks and dampen the development of the Islamic banking industry.

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Note: Part II will be featured in next week's issue.

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?

Indonesia has raised more than US$5.8 billion through Sukuk issuance, but virtually all has been from domestic financial institutions in local currency. Last year the ministry of finance announced that it was planning to raise US$650 million through a sovereign Sukuk aimed at the Middle East investors, but this is unlikely to go ahead this year because of domestic developments and the uncertain situation now prevailing in the Middle East since the uprisings.

Indonesia's economy has performed well during the last year. Growth projections have been raised to the 6% to 6.5% level and there was a substantial balance of payments surplus amounting to US$11.3 billion for the last quarter of 2010. Debt servicing should therefore not be a problem. The negative factor is inflation, which currently exceeds 7%. Consequently bond yields have risen substantially, exceeding 4.5% for those maturing in 2017, the likely maturity date for the Sukuk. The Sukuk has been postponed simply because the funding now looks expensive.

The events in Bahrain, the major centre in the Gulf for Islamic finance, are starting to worry Gulf investors. Putting deals together in Bahrain for Sukuk or anything else in the coming weeks looks increasingly problematic. Once confidence is lost, it is not easily restored, and Islamic finance deal making is likely to mark time. At present, it is clearly not the time to be raising Sukuk funding.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

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The reason for the original delay of the Indonesian government Sukuk issue from October 2010 to the first half of 2011 was cited to be the lower budget deficit and associated reduction in government borrowing needs. Not issuing debt in the event it is not required makes economic sense and shows a cautious approach to borrowing which should be applauded.

The reason cited for the current delay from the first to the second half of 2011, is the fact that parliamentary approval is required to use the underlying assets for the issue. In some way this appears slightly odd. The issuance had, after all, been announced some time ago, and one might be excused for wondering why the approval had not been sought earlier. It is, however, not unimaginable that the reason for the continued delay has something to do with the fact that the most recent issue did not attract sufficient interest from investors.

Whether Indonesia will issue government Sukuk this year will remain to be seen, and is likely to be strongly associated with investor appetite.

DR NATALIE SCHOON: Head of product research, Bank of London and the Middle East

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While there are a number of reasons for a sovereign to issue a global Sukuk, the principal motivation is usually to raise external financing on attractive terms. On that basis, it is not really a surprise that Indonesia did not proceed with a Sukuk issuance last year as it had already issued a jumbo US dollar bond last January followed by an attractively priced Samurai bond later in the year, and its strong fiscal position meant it had only limited need for external financing. Whether an issuance takes place this year will presumably depend on similar motivations. One only needs to look at the Indonesian government's robust and regular domestic Sukuk issuance program to see that it is highly committed to Sukuk when it makes sense as a funding source.

HOOMAN SABETI: Partner, Allen & Overy

Next Forum Question

At a time where the European economies are still in distress, with the Eurozone's GDP projected at less than 1% for 2011, how can Islamic finance be an alternative source for revival?

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, 14th March 2011.

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

Name: Dr Alam Khan Hamdard

Position: Chief of Islamic banking

Company: Kabul Bank

Based: Afghanistan

Age: 39

Nationality: Afghan

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

I started my job with the International Monetary Fund as an advisor in the supervision department and commercial banking section. Then I joined the United States Agency for International Development and was assigned as advisor to the central bank, Da Afghanistan Bank.

Here I worked on the commercial banking promotion and operation side as well as on segregation of commercial functions from the central bank, focusing on its core and basic functions as specified by the banking law of Afghanistan and central bank.

Because of my enthusiasm and firm belief in Islamic solutions for finance and economics, I approached banks to start Islamic banking, beginning with the central bank's first draft of Islamic banking law in Afghanistan. I then became the head of Kabul Bank, where I started on Islamic banking liability products.

We are now on the verge of successfully introducing Islamic banking to the country. There were numerous challenges, but they were overcome by the brilliant support of Da Afghanistan Bank. Kabul Bank has now introduced up to nine investment products.

What does your role involve?

My role is very crucial and involves in every level from drafting policies and procedures up to the level of setting up operations, coordinating, reporting, decision making, training, communicating with religious scholars, traders and depositors, and raising public awareness.

What is your greatest achievement to date?

One of my greatest achievements has been successfully completing the extension process of Islamic banking — opening 125 Islamic banking windows in 34 provinces of Afghanistan and training of more than 400 staff of Kabul Bank on Islamic banking.

Other achievements include the introduction of Islamic banking and finance concept to the public and decision makers and maintaining the Shariah compliances in banking operations.

Which of your products / services deliver the best results?

Qard Hassan current account, Altawfier saving account and Murabahah based car financing. Oil and gas import financing under Musharakah and Murabahah also bring results.

What are the strengths of your business?

We have a wide customer base which is one million customers in the conventional banking side. Our Shariah board members mostly have PhD degrees, knowledge, and experience in jurisprudence (Fiqh).

Also, having a separate and independent department which has the authority to make decisions and implement the policies and procedures.

We also have a huge network of branches, well trained staff, and Islamic banking within the core banking system.

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

The same as mentioned above, plus the support of senior management. Other contributing factors are public awareness campaign, tendency of Muslims to open Islamic banking accounts in order to avoid the practice of riba and support of religious scholars.

What are the obstacles faced in running your business today?

The challenge of investing in the right place and finding the right investment projects; non-availability of an Islamic banking law; and lack of capacity and public awareness are the most challenging points.

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

The future of Islamic banking is bright and it will take the lead of the Afghanistan's banking industry after five years.

Also, Islamic banking will extend to Central Asian countries including Tajikistan, Uzbekistan, Turkmenistan, Azerbaijan as well as Kyrgyzstan. Globally Islamic banking will be the leading force to overcome the current economic and financial crisis.

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

The attitude of not sharing one's knowledge and experience Islamic finance to others. Also, the current communication and coordination level among Islamic banking financial institutes and banks.

In addition, the attitude and concept that Islamic banking is only for Muslims must be changed. Islamic financial institutions must also target non-Muslims in their marketing strategies.

Cost effective and easily accessible trainings must be in place to overcome the challenge of low capacity.

The media coverage of Islamic banking and Takaful activities globally is very low and we must work to raise the level of media coverage for Islamic banking activities worldwide.

SUMMARY OF TERMS & CONDITIONS

Indonesian Haj Sukuk

IDR6 trillion (US$672 million)

11th February 2011

Obligor/Issuer	Government of Indonesia / Perusahaan Penerbit SBSN Indonesia
Tenor	Three years
Return	Fixed coupon 7.85% per annum
Payment	Monthly
Maturity date	11th February 2014
Trustee	Perusahaan Penerbit SBSN Indonesia
Governing law	Indonesia
Purpose of issuance	General budget financing
Principal activities	General budget financing
Rating	Unrated
Shariah advisor	National Shariah Board - Indonesia
Structure	Ijarah Al Khadamat
Tradability	Non-tradable

The Q&A was conducted with the director of Islamic financing:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   Based on recommendations from our instrument development team, this is the most suitable structure for private placement issuance using services as the underlying asset. It has already been approved by the National Shariah Board. This structure was used for the previous issuances with the same private placement method.

2. **What will this capital be used for?**
   Based on Indonesia Sukuk Law No 19/2008, the sovereign Sukuk is issued for the purpose of financing the state budget (general budget financing).

3. **What were the challenges faced and how were they resolved?**
   There were no challenges because the transaction was based on an MoU signed in 2009 between the minister of finance and minister of religious affairs. It was the ninth placement of sovereign Sukuk by the ministry of religious affairs since 2009.

4. **Geographically speaking, where did the investors come from?**
   The investor was the ministry of religious affairs because it was a private placement issuance.

5. **Was this deal rated? If not, explain why.**
   No, because a government bond is classified as unrated.

Deal tracker

Keeping you abreast of the world's upcoming Shariah compliant deals
Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Engro Corporation, Pakistan	PKR3 billion	Sukuk
Aldar Properties	AED3.5 billion	Sukuk
Gatehouse Bank	GBP60 million	Sukuk
Islamic Bank of Thailand	US$250 million	Sukuk
First Invetsment Company	KWD92 million	Sukuk
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

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

Top 10 Islamic Funds by Key Performance Statistics

Monthly returns for Developed Markets funds (as of the 1st March 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	BIMB-Growth	BIMB UNIT Trust Management	19.80	Malaysia
2	ASBI Dana Al-Falah	BIMB UNIT Trust Management	8.29	Malaysia
3	ASBI Dana Al-Munsif	BIMB UNIT Trust Management	6.48	Malaysia
4	JS Islamic	JS Investments	6.00	Pakistan
5	Meezan Islamic	Al Meezan Investment Management	4.91	Pakistan
6	Meezan Tahaffuz Pension Fund - Equity Sub	Al Meezan Investment Management	4.71	Pakistan
7	Al Meezan Mutual	Al Meezan Investment Management	4.52	Pakistan
8	CIMB Islamic Equity Aggressive	CIMB-Principal Asset Management	3.79	Malaysia
9	OSK-UOB Dana Islam	OSK-UOB Unit Trust Management	3.71	Malaysia
10	Atlas Pension Islamic Fund - Equity Sub	Atlas Asset Management	3.54	Pakistan
	**** Eurekahedge Asia Pacific Islamic Fund Index***		**-0.12**	

Monthly returns for Middle East/Africa funds (as of the 1st March 2011)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Al Safwa Investment	National Investments Company	8.44	Kuwait
2	Al-Durra Islamic	Global Investment House	3.89	Kuwait
3	Al Darij Investment	National Investments Company	3.85	Kuwait
4	Pak Oman Islamic Asset Allocation	Pak Oman Asset Management	3.63	Pakistan
5	Tharwa Islamic	Tharwa Investment Company	3.26	Kuwait
6	Al Dar Securities	ADAM	3.15	Kuwait
7	Kuwait Investment	Kuwait Investment Company	3.01	Kuwait
8	Al Nokhba	ADAM	1.54	Kuwait
9	Islamic Absolute Return Certificate on HFR Emirates	ABN AMRO Bank	1.38	-
10	Pak Oman Advantage Islamic Income	Pak Oman Asset Management	0.61	Pakistan
	**** Eurekahedge Middle East/Africa Islamic Fund Index***		**-1.77**	

EUREKAHEDGE

Contact Eurekahedge

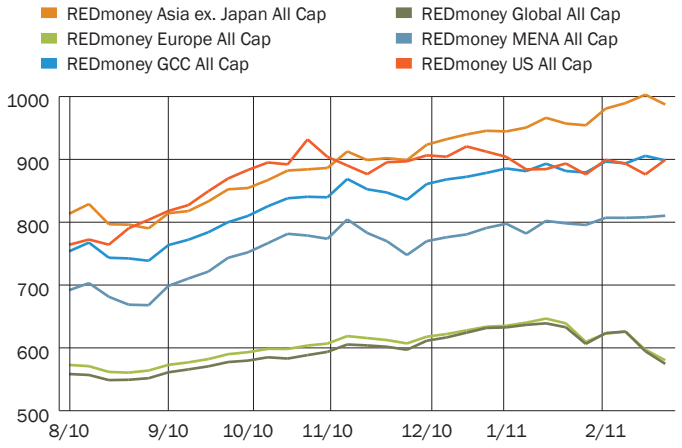
To list your fund or update your fund information: islamicfunds@eurekahedge.com

For further details on Eurekahedge: information@eurekahedge.com

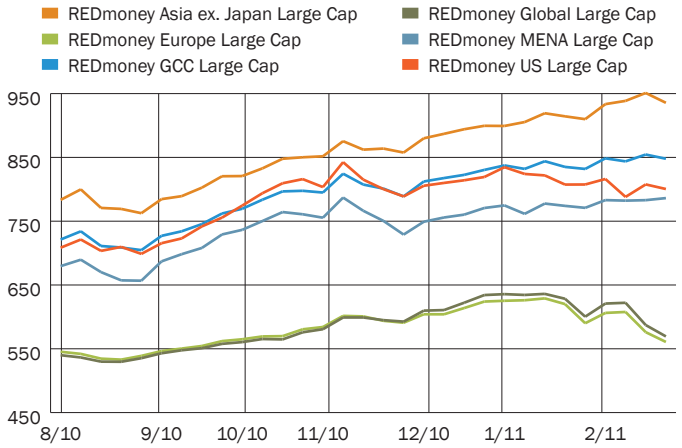
Tel: +65 6212 0900

EUREKAHEDGE

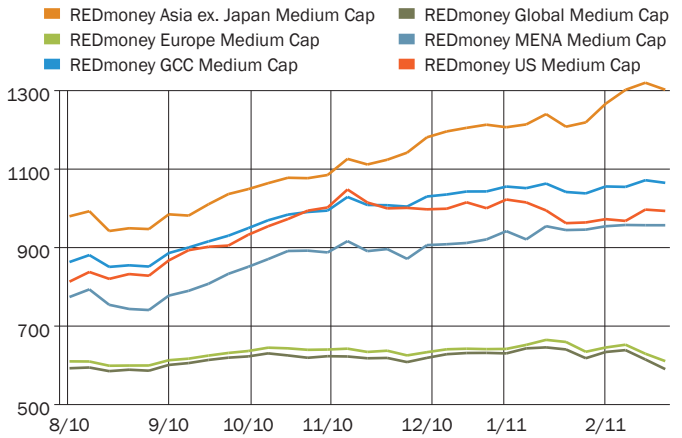
REDmoney GLOBAL SHARIAH INDEX SERIES (All Cap) *6 Months*



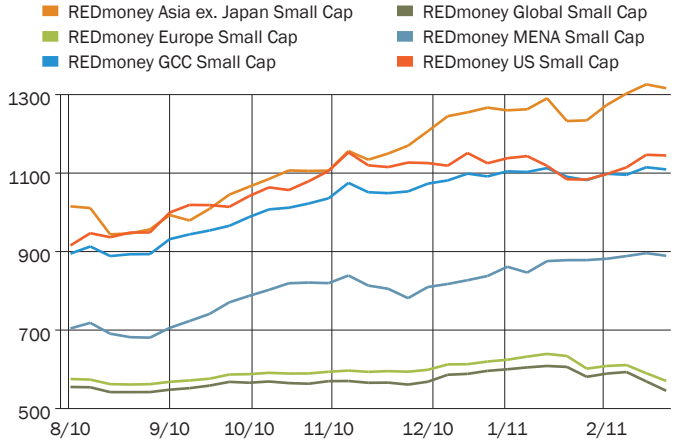
REDmoney GLOBAL SHARIAH INDEX SERIES (Large Cap) *6 Months*



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



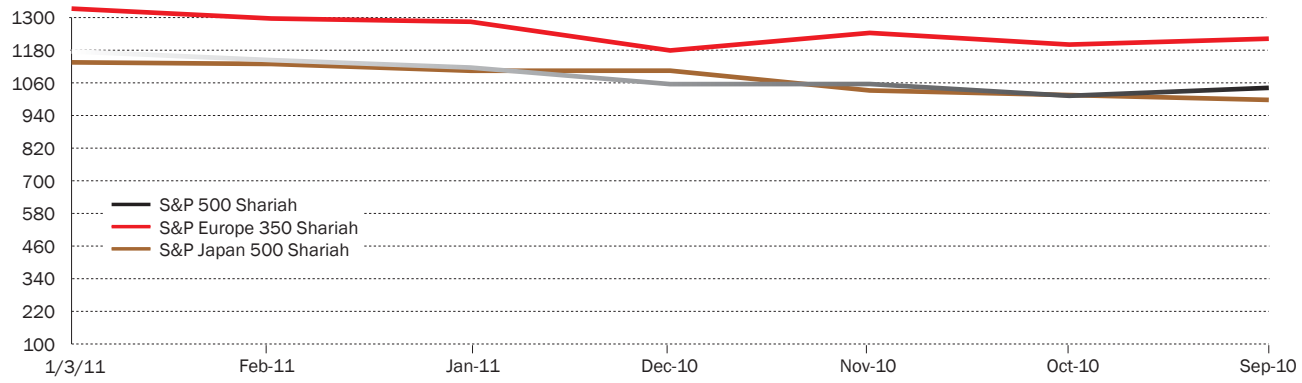
REDmoney GLOBAL SHARIAH INDEX SERIES (Small Cap) *6 Months*



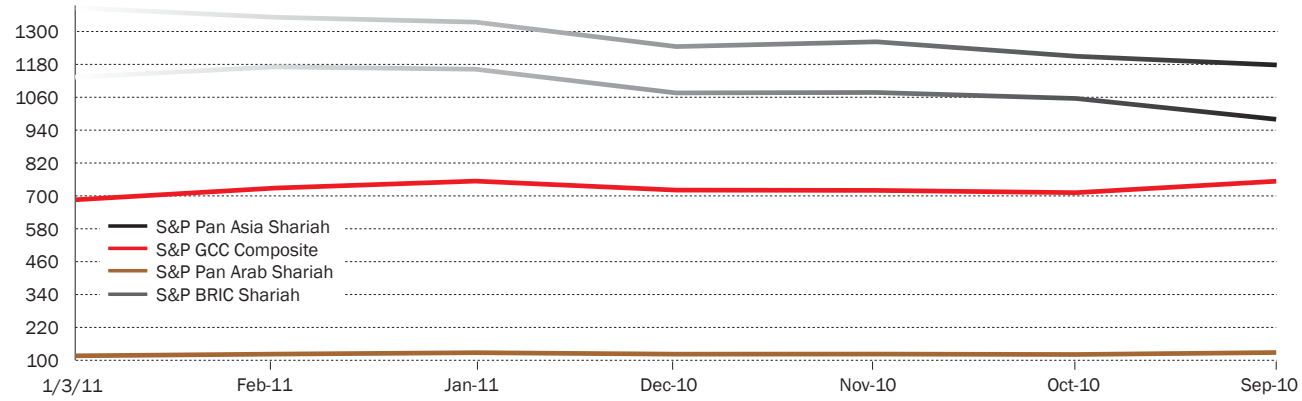
INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US Large Cap	935.37	1.90	7.78	17.17	4.03	11.49	55.34
REDmoney Europe Large Cap	786.20	1.37	2.65	15.27	1.48	10.09	57.77
REDmoney Global Large Cap	847.89	1.34	5.24	16.40	1.25	14.53	66.73
REDmoney MENA Large Cap	560.69	-5.19	1.25	8.63	-9.86	12.29	54.82
REDmoney GCC Large Cap	569.37	-5.50	3.76	11.69	-9.90	16.15	65.85
REDmoney Asia ex. Japan Large Cap	800.43	-0.87	0.50	14.45	-4.09	19.66	95.31

INDEX	Last (US$)	MTD (%)	3 Months (%)	6 Months (%)	YTD (%)	1 Year (%)	2 Years (%)
REDmoney US All Cap	987.40	2.61	8.56	18.30	4.54	14.46	63.73
REDmoney MENA All Cap	580.34	-4.76	0.41	6.64	-8.29	5.87	43.97
REDmoney GCC All Cap	574.57	-5.31	2.22	8.85	-8.77	8.49	51.75
REDmoney Europe All Cap	810.34	1.25	3.43	16.83	1.59	13.18	65.41
REDmoney Global All Cap	899.44	1.67	5.24	17.65	1.34	17.52	78.25
REDmoney Asia ex. Japan All Cap	893.25	0.92	-0.78	16.40	-2.94	22.66	115.30

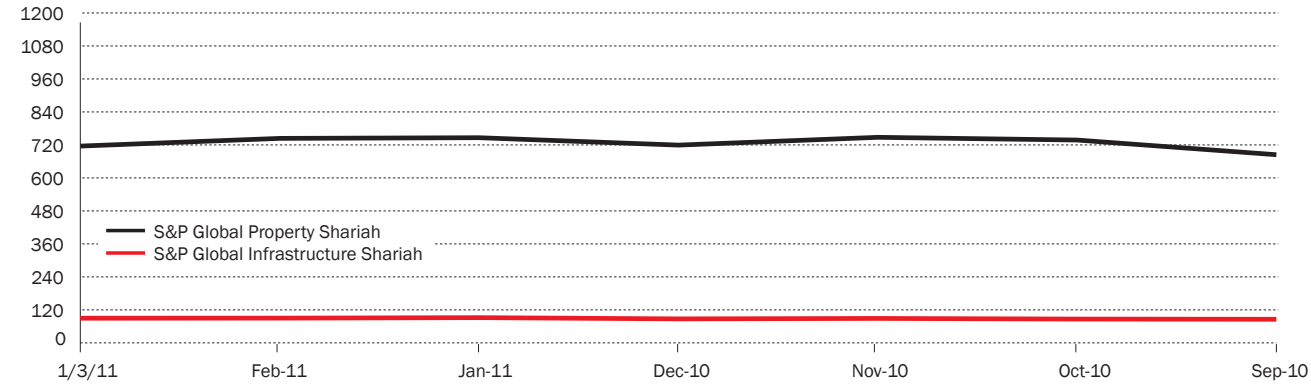
S&P Shariah Indices Price Index Levels



Index Code	Index Name	1-Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10	Sep-10
SPSHX	S&P 500 Shariah	1175.593	1143.662	1116.185	1055.305	1055.737	1012.387	1041.681
SPSHEU	S&P Europe 350 Shariah	1332.904	1296.598	1284.601	1179.078	1243.62	1200.681	1222.354
SPSHJU	S&P Japan 500 Shariah	1135.347	1129.41	1104.465	1104.726	1032.02	1015.125	997.313



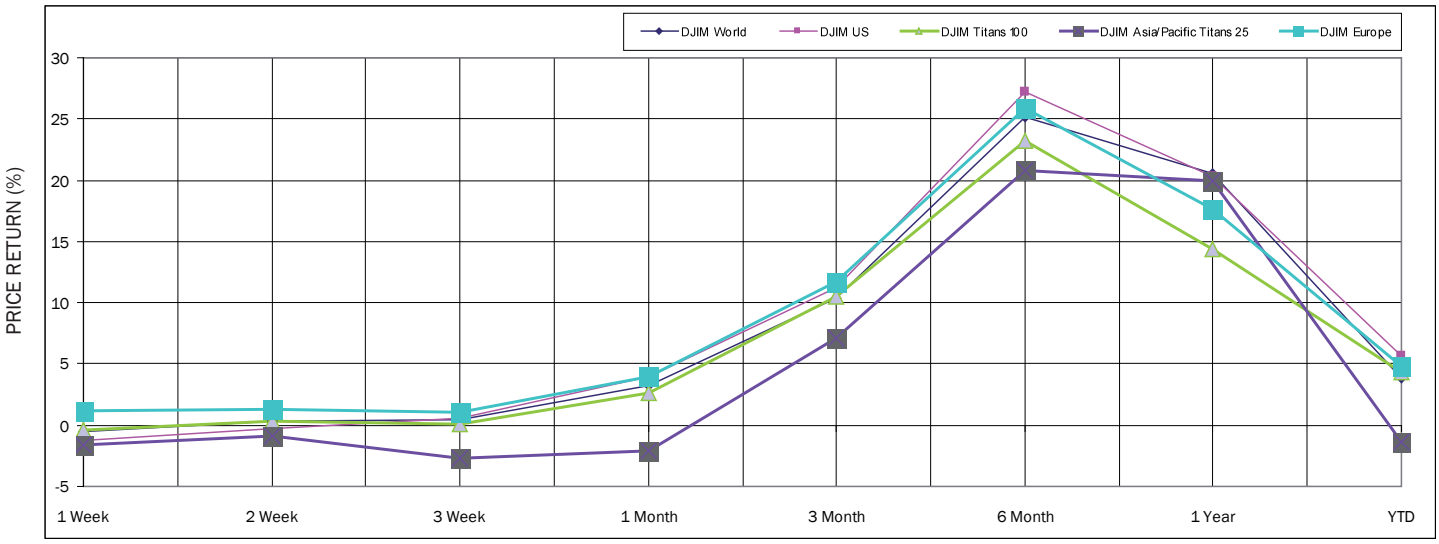
Index Code	Index Name	1-Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10	Sep-10
SPSHAS	S&P Pan Asia Shariah	1133.3	1170.956	1162.323	1075.868	1077.471	1055.516	979.563
SPSHG	S&P GCC Composite Shariah	685.834	728.593	753.965	721.171	720.021	711.722	753.479
SPSHPA	S&P Pan Arab Shariah	116.293	122.54	127.698	122.361	122.657	121.1	128.302
SPSHBR	S&P BRIC Shariah	1390.791	1356.222	1338.497	1249.391	1266.724	1213.917	1182.207



Index Code	Index Name	1-Mar-11	Feb-11	Jan-11	Dec-10	Nov-10	Oct-10	Sep-10
SPSHGU	S&P Global Property Shariah	715.72	743.73	746.209	719.266	747.598	737.706	684.29
SPSHIF	S&P Global Infrastructure Shariah	89.602	89.978	91.68	87.253	88.875	86.53	85.743

Data as of the 1st March 2011

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-0.5	0.36	0.45	3.29	10.43	25.21	20.59	3.82
DJIM US	-1.26	-0.32	0.54	3.93	11.24	27.22	20.34	5.66
DJIM Titans 100	-0.42	0.37	0.1	2.62	10.52	23.18	14.36	4.36
DJIM Asia/Pacific Titans 25	-1.64	-0.84	-2.69	-2.15	7.14	20.81	19.92	-1.39
DJIM Europe	1.23	1.31	1.1	3.95	11.7	25.87	17.6	4.79

*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	2468	18020.01	14224.91	5.76	1.16	431.29	0.007943	3.0319	0.000056
DJIM US	581	7640.97	7200.23	12.39	3.49	431.29	0.163711	5.9899	0.002274
DJIM Titans 100	100	7518.98	6721.78	67.22	45.02	431.29	14.149968	6.4163	0.210509
DJIM Asia/Pacific Titans 25	25	1152.54	766.57	30.66	27.33	79.42	14.149968	10.3606	1.845882
DJIM Europe	261	3433.62	2756.07	10.56	2.58	151.01	0.299188	5.4793	0.010856
DJIM GCC	114	190.69	80.9	0.71	0.26	8.94	0.026499	11.0475	0.032757
DJIM MENA	163	358.2	105.92	0.65	0.16	13.63	0.007943	12.8685	0.007499
DJIM ASEAN	232	457.09	181.15	0.78	0.15	16.36	0.002604	9.0334	0.001438

For more information, please visit **www.djislamicmarkets.com** or contact

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A CME Group Company

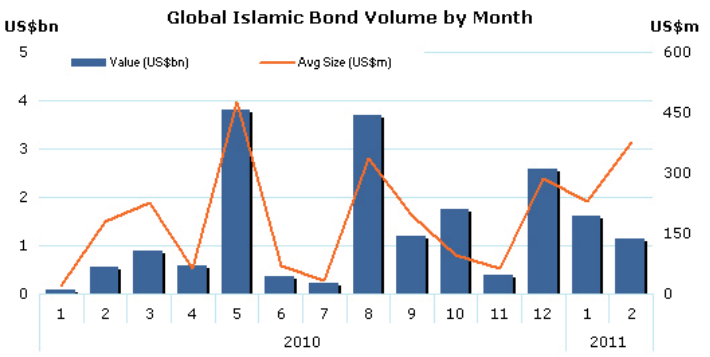
TOP 30 ISSUERS OF ISLAMIC BONDS — *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	1	10.3	HSBC, Samba Capital
2	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue; Foreign market private placement	1,700,000,000	2	9.3	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB Group, DBS
3	Cagamas	Malaysia	Sukuk	Domestic market private placement; Domestic market public issue	1,430,000,000	10	7.9	AmInvestment Bank, RBS, RHB Capital,Al-Rajhi Banking & Investment, HSBC, CIMB Group, Maybank Investment Bank Standard Chartered
4	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	1,329,000,000	1	7.3	CIMB Group, Maybank Investment Bank
5	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275,000,000	2	7.0	Maybank Investment Bank
6	1Malaysia Sukuk Global	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	6.9	HSBC, Barclays Capital, CIMB Group
7	GOVCO Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985,000,000	1	5.4	HSBC, CIMB, RHB Capital
8	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	884,000,000	1	4.9	HSBC , CIMB Group
9	Malaysia Airports Capital	Malaysia	Sukuk Ijarah	Domestic market public issue	792,000,000	2	4.4	CIMB Group, Citigroup
10	Qatar Islamic Bank	Qatar	Sukuk Ijarah, Sukuk Murabahah	Euro market public issue	750v,000,000	1	4.1	HSBC, Credit Suisse, QInvest
10	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750,000,000	1	4.1	Standard Chartered, HSBC, Barclays Capital
12	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	500,000,000	1	2.8	Standard Chartered, HSBC, CIMB Group, Citigroup
12	Emaar Properties	UAE	Sukuk	Euro market public issue	500,000,000	1	2.8	Standard Chartered, HSBC, RBS
14	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393,000,000	1	2.2	RBS, Citigroup
15	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	312,000,000	2	1.7	HSBC, Maybank Investment Bank, RBS
16	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.7	CIMB Group
17	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	280,000,000	13	1.5	CIMB Group
18	Padiberas Nasional	Malaysia	Sukuk Musharakah	Domestic market public issue	240,000,000	2	1.3	Standard Chartered, Bank Muamalat Malaysia
19	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	228,000,000	1	1.3	Standard Chartered, CIMB Group
20	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195,000,000	1	1.1	HSBC, CIMB Group
21	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	177,000,000	1	1.0	AmInvestment Bank
22	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	0.9	CIMB Group
23	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	167,000,000	1	0.9	RHB Capital, Maybank Investment Bank
24	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	1	0.9	CIMB, AmInvestment Bank, Maybank Investment Bank
25	Malaysia Debt Ventures	Malaysia	Sukuk Murabahah	Domestic market public issue	158,000,000	1	0.9	Lembaga Tabung Haji, RHB Capital, CIMB Group
26	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	0.8	HSBC, CIMB Group
27	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	133,000,000	1	0.7	OCBC, Public Bank, Affin Investment
28	Nomura Sukuk	Japan	Sukuk Ijarah	Euro market public issue	100,000,000	1	0.6	KFH
29	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk Murabahah	Euro market public issue	100,000,000	1	0.6	KFH, Citigroup
29	Gamuda	Malaysia	Sukuk Musyarakah, Sukuk Murabahah	Domestic market private placement	97,000,000	1	0.5	CIMB Group, AmInvestment
	Total				**18,203,000,000**	**92**	**100**	

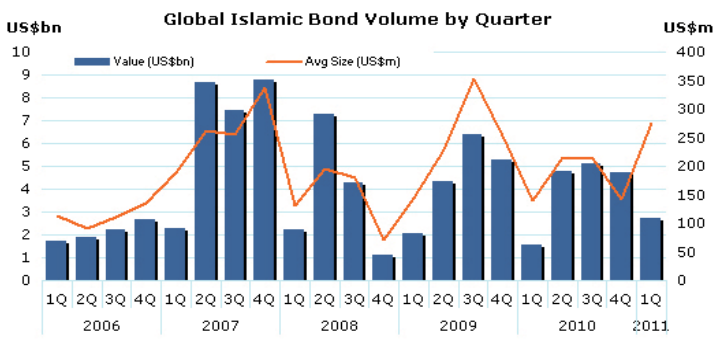
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
23rd Feb 2011	Cagamas	Malaysia	Sukuk	Domestic market public issue	132,000,000	CIMB Group, AmInvestment Bank
8th Feb 2011	GOVCO Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985,000,000	HSBC, RHB Capital, CIMB Group
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 Murabahah	Domestic market private placement	884,000,000	HSBC, CIMB Group
10th Jan 2011	Padiberas Nasional	Malaysia	Sukuk Musharakah	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 Murabahah	Foreign market public issue	159,000,000	HSBC, RBS, Maybank Investment Bank
10th Dec 2010	Cagamas	Malaysia	Sukuk	Domestic market public issue	287,000,000	HSBC, CIMB Group
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 Ijarah	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 Musharakah	Domestic market private placement	195,000,000	HSBC, CIMB Group
28th Oct 2010	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	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 Group, Citigroup
20th Oct 2010	Cagamas	Malaysia	Sukuk	Domestic market public issue	161,000,000	AmInvestment Bank
30th Sep 2010	Qatar Islamic Bank	Qatar	Sukuk Ijarah, Sukuk Murabahah	Euro market public issue	750,000,000	HSBC, Credit Suisse, QInvest
21st Sep 2010	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	161,000,000	CIMB, AmInvestment Bank, Maybank Investment Bank
15th Sep 2010	AmIslamic Bank	Malaysia	Sukuk Musyarakah	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 Ijarah	Domestic market public issue	316,000,000	CIMB Group, Citigroup

GLOBAL ISLAMIC BOND VOLUME BY MONTH



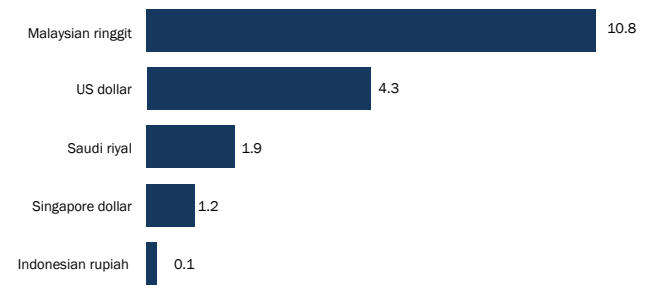
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



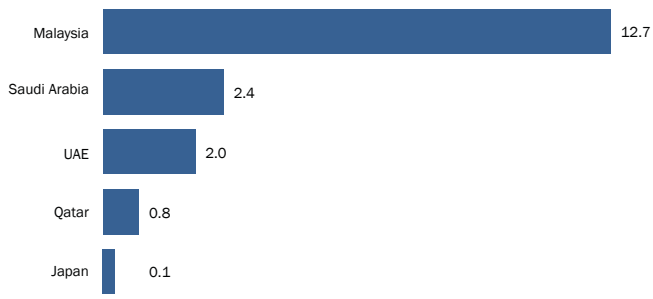
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB Group	4,571,000,000	48	25.1
2	HSBC	3,501,000,000	16	19.2
3	Maybank Investment Bank	2,432,000,000	21	13.4
4	AmInvestment Bank	1,030,000,000	11	5.7
5	Samba Capital	933,000,000	1	5.1
6	Standard Chartered Bank	929,000,000	10	5.1
7	Citigroup	767,000,000	5	4.2
8	RHB Capital	709,000,000	6	3.9
9	Barclays Capital	667,000,000	2	3.7
10	OCBC	530,000,000	3	2.9
11	RBS	522,000,000	4	2.9
12	DBS	363,000,000	1	2.0
13	QInvest	250,000,000	1	1.4
13	Credit Suisse	250,000,000	1	1.4
15	Bank Muamalat Malaysia	168,000,000	3	0.9
16	KFH	150,000,000	2	0.8
17	Al-Rajhi Banking & Investment Corp	122,000,000	2	0.7
18	Lembaga Tabung Haji	59,000,000	2	0.3
19	Public Bank	44,000,000	1	0.2
19	Affin Investment Bank	44,000,000	1	0.2
21	Kenanga Investment Bank	33,000,000	1	0.2
22	Mitsubishi UFJ Financial Group	25,000,000	3	0.1
23	Malaysian Industrial Development Finance	19,000,000	4	0.1
24	Trimegah Securities	18,000,000	1	0.1
24	Bank Mandiri (Persero)	18,000,000	1	0.1
24	(Persero) Danareksa	18,000,000	1	0.1
27	EON Bank	12,000,000	1	0.1
28	Indo Premier Securities	11,000,000	1	0.1
29	OSK	9,000,000	2	0.1
	Total	**18,203,000,000**	**92**	**100**

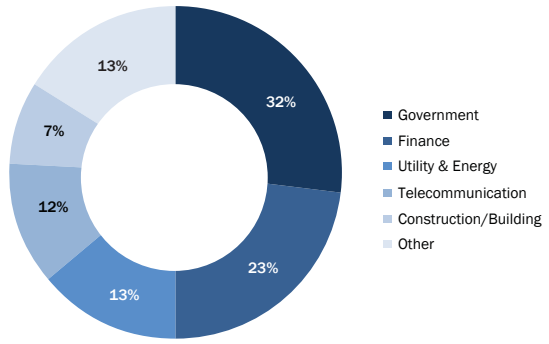
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



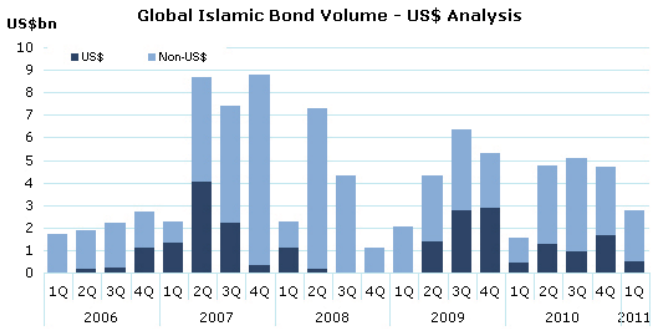
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



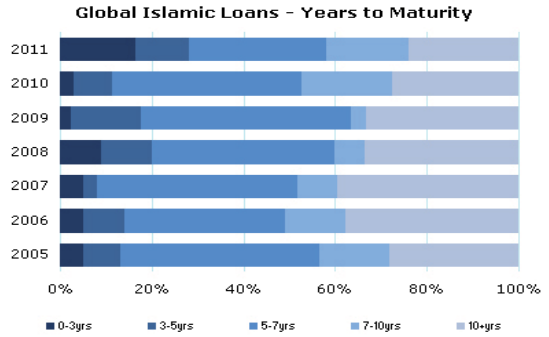
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



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



ALL DATA AS OF THE 1st MARCH 2011

SUKUK MANAGERS (12 months) MAR 2010 – FEB 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	27,219,971,050	117	59.2
2	CIMB	6,584,957,368	98	14.3
3	Malayan Banking	2,920,780,690	117	6.3
4	HSBC Banking Group	1,973,156,368	27	4.3
5	RHB Banking Group	1,231,944,385	27	2.7
6	AMMB Holdings	966,781,646	59	2.1
7	Malaysian Industrial Development Finance	847,114,605	193	1.8
8	Barclays Bank	566,666,667	2	1.2
9	Standard Chartered Bank	529,010,113	9	1.1
10	Bukhary Capital	405,562,190	6	0.9
11	Cagamas	377,521,973	15	0.8
12	Citigroup	349,974,912	4	0.8
13	Kuwait Finance House	200,000,000	2	0.4
14	EON Capital	182,209,445	58	0.4
15	Affin Holdings	182,114,675	16	0.4
16	Indonesia (Government)	172,097,265	6	0.4
17	RBS	159,113,250	2	0.3
18	Nomura	150,000,000	1	0.3
19	OSK Holdings	147,346,163	18	0.3
20	Samba Financial Group	133,333,333	1	0.3

SUKUK MANAGERS (3 months) NOV 2010 - FEB 2011

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	7,081,362,550	28	52.1
2	Malayan Banking	1,984,417,360	53	14.6
3	CIMB	1,282,263,820	17	9.4
4	HSBC Banking Group	978,399,795	7	7.2
5	RHB Banking Group	403,868,635	7	3.0
6	Bukhary Capital	228,571,700	2	1.7
7	Standard Chartered Bank	208,308,245	2	1.5
8	Citigroup	174,974,912	2	1.3
9	Malaysian Industrial Development Finance	168,180,565	44	1.2
10	Indonesia (Government)	166,566,315	4	1.2
11	Samba Financial Group	133,333,333	1	1.0
12	AMMB Holdings	113,025,296	16	0.8
13	RBS	81,606,000	1	0.6
14	OCBC Bank	61,084,239	4	0.4
15=	Andalan Artha Advisindo Sekuritas	47,145,179	2	0.3
15=	Trimegah Securities	47,145,179	2	0.3
15=	Sucorinvest Central Gani	41,641,579	1	0.3
15=	Kresna Graha Sekurindo	41,641,579	1	0.3
15=	Danareksa Sekuritas	41,641,579	1	0.3
15=	Mega Capital Indonesia	41,641,579	1	0.3
15=	Ciptadana Sekuritas	41,641,579	1	0.3

SUKUK ISSUERS (12 months) MAR 2010 – FEB 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	23,003,419,050	94	45.6
2	Malaysia (Government)	4,468,224,700	22	8.9
3	Perusahaan Penerbit SBSN Indonesia	2,252,976,154	7	4.5
4	Pengurusan Air SPV	2,002,481,940	6	4.0
5	Senai-Desaru Expressway	1,821,445,920	42	3.6
6	Celcom Transmission (M)	1,342,937,400	4	2.7
7	Cagamas	1,282,571,730	16	2.5
8	Bank Indonesia	1,202,421,544	20	2.4
9	Pakistan, Islamic Republic of (Government)	1,038,784,845	2	2.1
10	Govco Holdings	983,928,000	2	2.0
11=	ADIB Sukuk	750,000,000	1	1.5
11=	Qatar Islamic Bank	750,000,000	1	1.5
13	Danga Capital	621,408,000	1	1.2
14	ESSO Malaysia	589,955,760	14	1.2
15=	IDB Trust Services	500,000,000	1	1.0
15=	Emaar Sukuk	500,000,000	1	1.0
17	RAK Capital	400,000,000	1	0.8
18	Khazanah Nasional	367,252,800	1	0.7
19	Padiberas Nasional	364,357,251	4	0.7
20	Aman Sukuk	360,773,600	6	0.7

SUKUK ISSUERS (3 months) NOV 2010 - FEB 2011

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	7,505,037,950	26	49.1
2	Senai-Desaru Expressway	1,821,445,920	42	11.9
3	Govco Holdings	983,928,000	2	6.4
4	Pengurusan Air SPV	884,231,100	3	5.8
5	Perusahaan Penerbit SBSN Indonesia	832,831,575	1	5.4
6	Emaar Sukuk	500,000,000	1	3.3
7	Pakistan, Islamic Republic of (Government)	433,214,644	1	2.8
8	RAK Capital	400,000,000	1	2.6
9	Aman Sukuk	360,773,600	6	2.4
10	Bank Indonesia	280,292,124	3	1.8
11	Padiberas Nasional	235,428,851	3	1.5
12	National Bank of Abu Dhabi	163,212,000	1	1.1
13	BMA International Sukuk	143,218,400	5	0.9
14	ESSO Malaysia	64,449,600	2	0.4
15	Malaysia (Government)	64,328,700	2	0.4
16	Perbadanan Kemajuan Negeri Selangor	59,235,680	3	0.4
17	Goodway Integrated Industries	47,051,880	11	0.3
18	Citydev Nahdah	38,272,350	1	0.3
19	KNM Capital	37,345,495	4	0.2
20	MM Vitaoils	34,978,015	12	0.2

ALL DATA AS OF THE 1st MARCH 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	18.6
2=	Credit Agricole	675,997,446	4,064,828,226	3	9.3
2=	Samba	675,997,446	4,064,828,226	3	9.3
4	HSBC Banking	644,583,333	4,237,000,000	4	8.9
5	National Commercial Bank (Saudi Arabia)	631,193,862	3,975,221,058	3	8.7
6	Arab Bank	544,583,333	3,937,000,000	3	7.5
7	Saudi Hollandi Bank	499,583,333	3,712,000,000	2	6.9
8	Abu Dhabi Islamic Bank	493,610,177	677,111,177	2	6.8
9	WestLB	245,000,000	425,000,000	3	3.4
10	Al Hilal Bank	183,500,999	367,001,999	1	2.5
11	Standard Chartered	120,333,333	435,000,000	2	1.7
12=	Saudi Investment Bank	119,083,333	1,429,000,000	1	1.6
12=	Islamic Development Bank	119,083,333	1,429,000,000	1	1.6
12=	Al Rajhi Banking	119,083,333	1,429,000,000	1	1.6
12=	Bank Al-Jazira	119,083,333	1,429,000,000	1	1.6
12=	Riyad Bank	119,083,333	1,429,000,000	1	1.6
17=	Masraf Al Rayan	100,000,000	300,000,000	1	1.4
17=	Royal Bank of Scotland	100,000,000	300,000,000	1	1.4
19=	Arab Banking Corp	83,333,333	250,000,000	1	1.1
19=	Noor Islamic Bank	83,333,333	250,000,000	1	1.1
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	Marafiq	Saudi Arabia	2,283,000,000
2	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	UAE	310,109,178
7	Qatari Diar Real Estate Invest-ment	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

ALL DATA AS OF THE 1st MARCH 2011

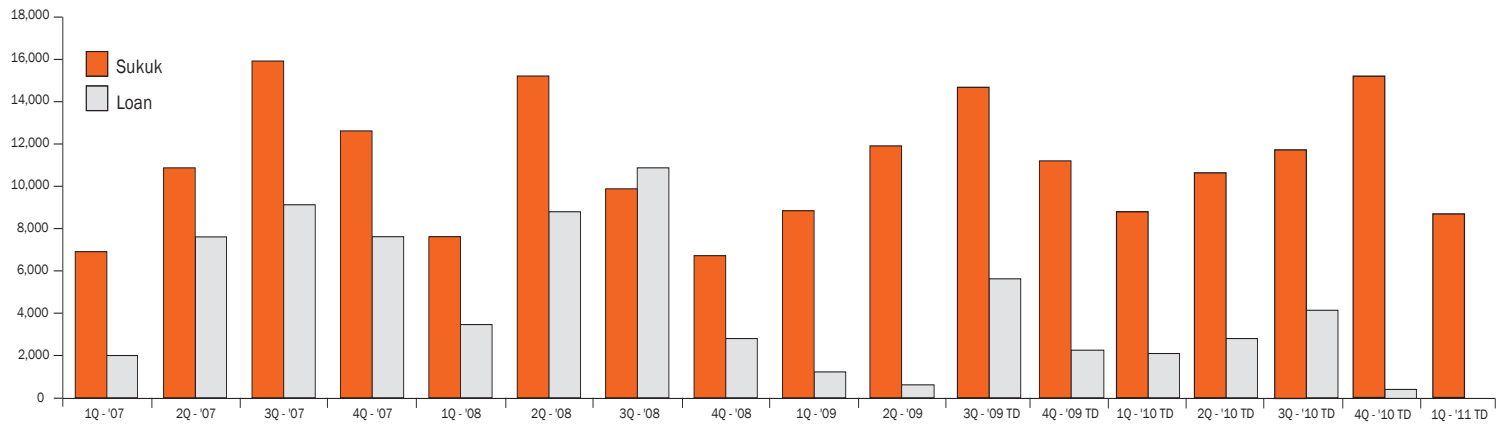
SUKUK BY COUNTRY	(12 Months)	FEB 2010 – FEB 2011
Country	Volume Issued	Volume Outstanding
Malaysia	42,321,560,366	23,948,133,777
Indonesia	3,551,674,273	2,717,059,008
Eurobond	3,000,000,000	3,000,000,000
Pakistan	1,038,784,845	1,038,784,845
Bahrain	281,163,280	222,777,500
US	125,000,000	125,000,000
Singapore	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	34,157,243,620	17,542,950,965
Sovereign	6,709,431,089	5,843,638,924
Agency	2,755,799,364	2,692,399,154
Manufacturing	1,837,215,883	1,107,276,999
Telephone	1,342,937,400	1,342,937,400
Banks	1,256,424,450	1,256,424,450
Energy company	652,977,170	32,345,330
Transportation	600,855,025	444,913,405
Consumer goods	394,337,751	394,337,751
Electric power	372,633,000	216,991,000
Service company	312,571,962	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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FTSE Shariah Global Equity Index Series

The FTSE Shariah All-World Index in November finished the month in negative territory, down 1.1%, with Developed markets outperforming Emerging Markets by 1.2% over the period.
'The best performing region in November was Asia Pacific, with Asia Pacific ex Japan outperforming Japan by 3.6%.
Pakistan was the best performing country with a performance of 7.3%, with Chile being the second best performing country finishing the month on 3.2%.
Both Hungary and Colombia were the worst performers in November with a performance of -18% and -15.1%, respectively.

Index	No. of constituents	Performance based on percentage (%)						
		1 Month	3 Months	6 Months	**Year-to-Date**	1 Year	3 Years	5 Years
FTSE SHARIAH GLOBAL EQUITY INDEX SERIES								
FTSE Shariah All World Index	1272	2.87	12.76	27.53	4.37	22.49	6.30	35.73
FTSE Shariah ASEAN Index	62	-0.21	2.38	11.10	-2.54	25.50	-1.59	90.66
FTSE Shariah Asia Pacific ex Japan Index	386	-2.62	4.25	19.57	-3.59	22.51	4.32	76.97
FTSE Shariah Asia Pacific Index	621	-0.13	7.22	21.95	-0.45	21.08	2.42	34.23
FTSE Shariah Dev Asia Pacific ex Japan Index	152	-1.59	6.50	23.28	-2.26	25.11	7.22	102.81
FTSE Shariah Developed Asia Pacific Index	387	1.27	9.38	24.56	1.35	21.73	2.87	25.06
FTSE Shariah Developed Europe Index	215	3.47	16.79	30.09	6.43	23.40	0.05	39.31
FTSE Shariah Developed ex Japan Index	668	3.13	13.65	28.99	5.24	22.93	8.44	38.04
FTSE Shariah Developed ex US Index	639	2.93	14.06	28.12	4.66	23.66	2.20	38.18
FTSE Shariah Developed Index	903	3.19	13.47	28.65	5.17	22.55	7.53	33.42
FTSE Shariah Emerging Index	369	0.65	7.87	20.01	-1.05	22.30	-1.36	54.90
FTSE Shariah Europe Index	256	3.73	17.48	30.35	6.86	24.30	-1.29	37.69
FTSE Shariah Eurozone Index	114	2.72	17.31	31.28	7.14	20.53	-8.43	30.26
FTSE Shariah Japan 100 Index	100	4.25	12.39	26.38	5.27	19.91	-2.29	2.51
FTSE Shariah Latin America Index	52	2.18	8.68	19.85	0.49	16.48	-0.01	88.16
FTSE Shariah Middle East & Africa Index	48	4.51	6.60	17.50	-5.60	19.55	6.37	47.03
FTSE Shariah Multinational 150 Index	154	3.43	14.24	30.01	5.62	21.09	8.06	41.40
FTSE Shariah North America Index	295	3.74	13.29	29.51	5.88	22.73	13.41	32.23
FTSE Shariah USA Index	264	3.46	12.88	29.19	5.70	21.50	13.58	29.05
FTSE BURSA MALAYSIA INDEX SERIES								
FTSE Bursa Malaysia EMAS Shariah Index	281	-1.55	6.21	12.84	0.79	33.06	33.00	131.35
FTSE Bursa Malaysia Hijrah Shariah Index	30	-0.46	6.36	11.06	1.51	30.78	23.31	146.34
FTSE DIFX SHARIAH INDEX SERIES								
FTSE DIFX Qatar 10 Shariah Index	10	-4.59	2.36	16.74	-4.05	24.99	0.37	-
FTSE DIFX Kuwait 15 Shariah Index	15	-5.34	-2.65	9.48	-6.79	9.37	-50.93	-
FTSE SGX SHARIAH INDEX SERIES								
FTSE SGX Asia Shariah 100 Index	100	-0.33	8.58	22.98	0.68	21.39	0.96	19.57
FTSE SET INDEX SERIES								
FTSE SET Shariah Index	70	3.72	-0.85	17.83	-4.25	49.17	18.53	113.38
FTSE TWSE TAIWAN INDEX SERIES								
FTSE TWSE Taiwan Shariah Index	61	-8.28	6.95	23.91	-4.29	26.20	15.94	57.81

Source: Source: FTSE Group, total return data in USD as at 28th January 2011

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
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			
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*
May			
12th	IFN Roadshow Australia	Melbourne	REDmoney *events*
July			
7th – 8th	IFN Europe Forum	London	REDmoney *events*
19th	IFN Roadshow Pakistan	Karachi	REDmoney *events*
27th	IFN Roadshow India	Mumbai	REDmoney *events*
September			
20th	IFN Roadshow Korea	Seoul	REDmoney *events*
22nd	IFN Roadshow Japan	Tokyo	REDmoney *events*
October			
17th – 19th	IFN Asia Forum	Kuala Lumpur	REDmoney *events*
November			
1st	IFN Roadshow Turkey	Istanbul	REDmoney *events*
3rd	IFN Roadshow Egypt	Cairo	REDmoney *events*
10th	IFN Roadshow New York	New York	REDmoney *events*
15th	IFN Roadshow Hong Kong	Hong Kong	REDmoney *events*
30th	IFN Roadshow Brunei	Brunei	REDmoney *events*

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