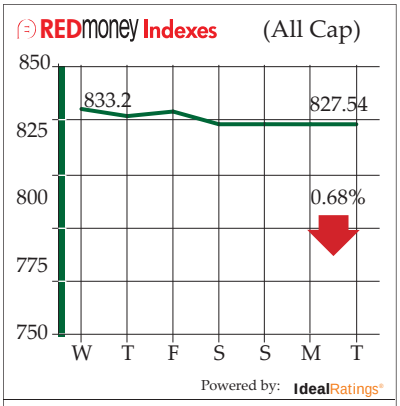
Islamic Finance news

The World's Global Islamic Finance News Provider

REDmoney publication

18th January 2012



www.islamicfinancenews.com

Takaful 2012 — Could this be the year of the Gulf?

Cover Story

Takaful is one of the fastest growing sectors in the Islamic finance industry. But with this rapid growth comes problems — of stability, of solvency, of supervision. In Malaysia the industry, supported by the government, has developed into one of the biggest and best-performing in the Islamic world. But in the Middle East firms have struggled with a fragmented regional approach, high levels of competition, and limited available premiums. Based on past performance and current economic growth, 2012 looks positive for the industry in the Gulf region. But is this really the case, or will the old issues come creeping back to prohibit performance?

Currently around 180 insurance and 11 reinsurance companies exist that operate in compliance with Shariah. Takaful companies have been writing an average of US$8-10 billion per year in gross premiums over 45 markets, and some forecasts suggest that up to US$12 billion may have been achieved in 2011. According to Standard & Poor's (S&P), the Shariah compliant Takaful sector sustained its track record in 2011 and managers at most Middle East companies "remain optimistic for top-line premium and bottom-line earnings growth," aided by economic recovery and a stronger investment market.

However while the rapid growth of the industry has been impressive, it has brought into question the stability of the business model, with concerns being raised over excessive premium expansion on the back of religiously acceptable, but nonetheless volatile, investment assets, such as property and equities. In addition, much of the Takaful growth is originating in the two largest markets of Malaysia and Saudi Arabia, with other Middle East markets still struggling to catch up. While the number of insurers in these markets has grown rapidly, their sustainability is still in doubt when compared to the established conventional insurers, especially in the face of continued economic challenges. So what can we expect from Takaful in the Middle East this year?

Saudi Arabia — leader of the pack

Saudi Arabia is of course the Takaful success story of the Middle East, and is seeing steady growth in the sector, predominantly due to a high level of government spending and a strong local economy. David Anthony, a director in S&P's Financial Services group specializing Middle East insurance, notes that: "Just the demographics of a growing population — younger people getting cars, increasing diversification of the economy," is driving growth. "We are seeing the total level of premiums in Saudi Arabia growing by around 15-17% per annum, which is great, it's a big number."

However, it must be noted that Shariah compliant in Saudi Arabia is not necessarily a pure Takaful model. Shariah compliance in the kingdom is achieved through a cooperative mode of operation,

continued on page 3

2012: Fireworks or dynamite?

Editor's Note

The Islamic finance industry has gotten off to an explosive start this year; with two landmark Sukuk issuances in the second week of January alone.

continued on page 5

NEWS

Indonesia's central bank invites foreign banks to trade in Shariah inter-bank money market

Burj Bank and **PTL Trakker** ink MoU for the provision of automobile tracking services

HSBC Amanah to launch Sukuk for retail investors this year

Ansar Leasing Company seeks up to US$7 million from **ICD**

OSK Holdings and **RHB Capital** seek nod from central bank for proposed merger

1Malaysia Development could issue Sukuk to part-finance construction of US$8 billion financial district in Kuala Lumpur

Maybank offers six-month moratorium for flood victims

PLUS sells landmark US$9.67 billion Sukuk as low as 3.9%

International Bank of Azerbaijan and Russia's **VTB Bank** plan to form single Islamic bank in the CIS region

Islamic banks to expand financing portfolio to microfinance industry in Indonesia

Burj Bank plans to expand branch network to 75 by the end of 2012

Bangladesh approves US$2 billion **ITFC** financing for **Bangladesh Petroleum Corporation**

Yields for Malaysia's five-year Islamic bond drop to lowest level in almost three years

Farz Foundation and local human resource based company, **Highly Keen-The HR Institute** signs on MoU

Islamic banking profits in Indonesia reach US$164.13 million in January-November 2011

Goldman Sachs US$2 billion Sukuk facing heat again

Indonesia's financial sector sees ownership shakeup

The UAE is most competitive banking market in GCC, says **ADIB**

A greater familiarity with Asian Sukuk by Middle Eastern investors could provide a driving force for issuances of Sukuk in Asia, says **HSBC Amanah Malaysia**

Sukuk market off to a busy start in the UAE

Sales of Sukuk could grow to US$44 billion in 2012, says **HSBC Holdings**

Islamic finance has emerged as a bright spot for hiring as a growing shortage of talent threatens the expansion of retail banking in the Gulf

Global market worries push Gulf issuers to Sukuk

2012 Sukuk sales from MENA to exceed 2011, says **Morgan Stanley**

Shuaa Capital to expand credit finance business into Saudi Arabia

GACA launches landmark sovereign and Saudi Arabia's largest Sukuk

IDB gives green light to US$321.8 million-worth of financing for projects in member countries

Warba Bank plans to commence retail operations in the first quarter of 2012

Nakheel could struggle to raise debt without state pledge

Gulf Holding Company and **Al Hamad Construction and Development Company** to resume Villamar project

Sukuk repayment uncertainty hits **Dana Gas** shares

Economic Zones World could sell UK warehouse property developer to help repay **Jafza** Sukuk

Central Bank of the UAE may cap Islamic credit card fees

Qatar First Investment Bank buys 15% stake in **Al Rifai International Holding**

ISLAMIC INVESTOR

BLME in US$17.8 million Murabahah financing deal for **Public Service Properties Investments** unit

Tadhamon Capital acquires 50% ownership of student accomodation

CIMB Principal Islamic Asset Management gets green light from Ireland's central bank to set up Islamic funds platform in Dublin

Gatehouse Bank sells **VA Oceanside Clinic** for US$54.5 million

Itqan Capital kicks off operations in Jeddah

Abu Dhabi Islamic Bank unveils ADIB Capital Protected Gold Notes

HSBC Amanah to launch more Shariah compliant investment-linked products and structured funds

Islamic funds must manage cross-border issues for greater internationalization, says **Security Comission Malaysia**

OSK-UOB Islamic Fund Management signs up **IdealRatings** as Shariah screening provider

TAKAFUL

Zurich Insurance Co could enter Takaful business

Kenya reportedly freezes new Takaful licenses

BMI Bank and **Medgulf Allianz Takaful** launch two bancassurance products

Securities and Exchange Commission of Pakistan finalizes regulations for establishment of Takaful windows

AM Best Company publishes updated criteria report on Takaful

RATINGS

Fitch affirms **Ahli United Bank**'s long-term issuer default rating at 'BBB+'

RAM reaffirms 'A2' and 'P1' long- and short-term ratings for **Hubline**'s US$48 million Islamic papers

CI affirms **Abu Dhabi Commercial Bank**'s financial strength rating at 'A-'

Fitch assigns final long-term rating of 'A+' to **First Gulf Bank**'s US$500 million trust certificates

MOVES

Karachi Stock Exchange re-appoints four directors

UTI Asset Management Co names **Imtaiyazur Rahman** as interim CEO

Ajman Bank appoints **Mohamed Amiri** as acting CEO

Ali Sultan could be headed for **Bank Alfalah**

Bank Internasional Indonesia appoints **Karussaleh Ramli** as president director/CEO

Azrulnizam Abdul Aziz leaves **StanChart Saadiq Malaysia**

Takaful 2012 — Could this be the year of the Gulf?

Continued from page 1

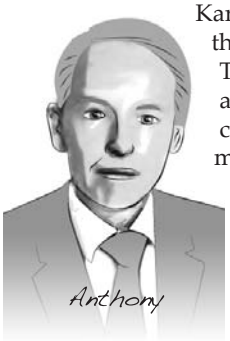
which requires profit sharing with policyholders, but it does not necessarily mean the full Takaful model with separate accounts and a Shariah board. Anthony comments that: "Takaful is something that we are seeing more of in the likes of Kuwait, the UAE and Malaysia. There are various models which achieve Shariah compliance according to the local authorities in various countries. Takaful is a bit of a generic term — Shariah compliance is the objective."

Kuwait — sibling rivalry

Compared to Saudi Arabia, Kuwait is a much smaller market, although one of the fastest growing in the Gulf region. In 2010 the total market grew by around 8% with around 20% of premiums controlled by the 12 Takaful companies in the country, with the majority of business written for motor insurance. Although data for 2011 has yet to be released, growth is expected to be strong because of the numerous infrastructure projects taking place. However, Ali Karakuyu of S&P notes that: "We have not seen the level of growth anticipated by the Takaful companies in Kuwait. There are just too many companies for too few premiums." There is only a premium income of US$670 million in total in Kuwait, which is fought over between 29 insurance companies, of which the top five control around 60%. As Karakuyu notes: "This means the rest of the companies are just too small to continue operating on a stand-alone basis, and although we are expecting the market to grow going forward, it may be challenging for Takaful companies to benefit from that growth. We are not seeing the critical mass needed for them to cover their costs."

Bahrain — grassroots growth

Like Kuwait, Bahrain is again a very small market, with premium income of around US$550 million. Karukuyu comments that: "We feel the Takaful companies aren't generally constructing the market. They have taken on premium from the big conventional companies. As a result, for example in Bahrain we have seen a significant growth, well above the average, for the Takaful companies, particularly since 2005." In Bahrain, the Takaful industry benefits from its mutual model, because "it means the companies are generally more prepared to break even for the Takaful firms, so they are automatically writing premiums at a lower rate compared to the traditional companies, who are not prepared to reduce profitability."



> *"The biggest challenge facing the Takaful industry in 2012 is solvency"*

Key challenges

According to Anthony: "The biggest challenge facing the Takaful industry in 2012 is solvency." Particularly in the UAE and Dubai, there has been aggressive competition between Takaful companies, who are fighting each other rather than competing against conventional providers for the segment of the market looking for a Shariah compliant solution. This is not contributing to competitiveness, but on the contrary is significantly affecting their bottom line.

Anthony notes that: "We have seen a considerable erosion of the capital basis of a number of the Takaful companies in the UAE due to operating losses — underwriting losses compounded by investment losses. You have to remember that in seeking Shariah compliance on the investment side, too many Takaful companies have invested in some fairly high risk assets — equities, property — and these markets have suffered in 2010-2011. So on a mark-to-market basis a number of Takaful companies have seen their net assets reduced. Plus they have operating losses from their highly competitive underwriting accounts, particularly in the motor segment. So their balance sheets are looking much less robust than they would have done 18 months ago." He predicts that in 2012 several Takaful companies

continued...

CLOSING BELL

GULF FINANCE

UAE: Shuaa Capital has appointed **Dr Sabah Hamad Al-Sabah Al-Binali** as the vice-chairman of its credit finance unit, Gulf Finance.

Mixed performance

QATAR: Islamic banks' credit to Qatar's real estate sector reportedly jumped 71.24% year-on-year at the end of November 2011.

Islamic consumer financing climbed 48.2%, an increase of QAR17.7 billion (US$4.86 billion), while credit to the contracting sector declined 69.99% and financing to industry dipped 49.95%, amounting to QAR776.4 billion (US$213 billion).

AirAsia X stalls US$200 million Sukuk sale

MALAYSIA: Airasia X, a local budget long-haul airline, will postpone its US$200 million-worth of Sukuk planned for March 2012 until 2013, after the airline abandoned routes from Kuala Lumpur to London, Paris, Mumbai and New Delhi, said Azran Osman Rani, its CEO.

Azran explained that the company has decided to move the issuance of the Sukuk to 2013 as it has planes that will be delivered during that year.

Proceeds from the Sukuk were originally intended to purchase two planes flying the London and Paris routes.

Dana Gas speaks up

UAE: Dana Gas has announced that it will honor its debt obligations following uncertainty over the repayment of its US$1 billion Sukuk, due in October this year.

"Dana Gas over the last four years has timely and consistently paid, on or before the due date, the Sukuk profit amount, and will continue to do so pursuant with its obligations," it said.

Takaful 2012 — Could this be the year of the Gulf?

Continued from page 3

will be reviewing their options, and potentially going to their shareholders to ask for more money. However, warns Karakuyu: "Given the level of significant competition for growth, shareholders may not be in a position to give any more money."

It is clear that there is a pressing need for consolidation within the industry, and this must be led by the regulators. Anthony explains that: "You need a catalyst to make it happen — the companies themselves are just waiting for their competitors to drop out of the game. Everyone is waiting for everyone else and there has been an inertia for two or three years now." It is no coincidence that the two largest markets for Takaful, Malaysia and Saudi Arabia, are those in which the authorities have proactively taken the lead in promoting the development of the industry. Malaysia has encouraged insurance companies seeking licenses to enter its domestic market to set up exclusively Takaful operations and compete with established conventional providers; while in Saudi Arabia all domestic insurance must now be provided by Shariah compliant companies. And there are signs that other countries are following suit. The UAE and Kuwait have issued only Takaful licenses in recent years, and S&P predicts in its recent October 2011 Insurance Middle East report that: "It is easy to imagine the premium collectively written by Shariah compliant insurers continuing to grow by 20-30% annually, while the total market share of traditional, mature providers gradually erodes in the face of competition from new, aggressive Takaful entrants."

> *"There is a pressing need for consolidation within the industry, and this must be led by the regulators"*

Is it going to happen in 2012?

Unfortunately, there remain considerable barriers to the process. Dominant shareholders and management at many Takaful companies remain reluctant to consider mergers, making consolidation unlikely without active enouragement from national insurance regulators. Anthony sees no current regulatory push, and notes that: "The problem is that companies are very optimistic that in 2012 they will see an upturn in both premium rates and in investment income, so they think if they can just last another 12 months it will be alright. For some of them, however, that is just wishful thinking."

Big vs small

There is, in addition, a significant differentiation between the more established, larger Takaful companies which already have a high volume of diversified business and are able to generate a surplus over claims and operating costs, and the smaller start-up operations which have proliferated in recent years, many of which are struggling with business volumes too low to generate the cash-flow they need for sustainable development. This has resulted in a number of credit rating downgrades among Takaful firms in 2011, especially in the over-crowded markets of Kuwait and Dubai, which have experienced considerable losses, largely due to under-priced retail business.

Looking to Life

S&P in its recent report claims that:

Takaful 2012 — Could this be the year of the Gulf?

Continued from page 4

"If there is a bright spot on the Takaful horizon, then it is the sector's dawning success in developing its life insurance activities, both protection and savings." Throughout 2011 life insurance, or Family Takaful, began to attain significant premium volumes. Family Takaful offers a clear economic advantage, as it brings positive cash flows into Takaful companies as well as providing much-needed diversification from their over-reliance on local retail markets such as the competitive motor sector.

Anthony believes that the growth in Family Takaful is the key issue for the industry in 2012. "We rate a number of insurance companies in various parts of the Gulf region, and its interesting to see that although they are still having trouble with the traditional motor accounts and property accounts, where they expected to make their money, even the companies themselves are surprised by the growth in the Family Takaful side of the business. They really seem to be pushing at an open door."

> ***"Ten years down the road, Family Takaful could be the dominant side of Takaful insurance"***

This is of course partly due to a gradual change in attitude, which is driving Takaful growth across the board. Insurance is a new concept in many parts of the Gulf, and as consumers become more sophisticated in their purchase of financial products, whether from banks or insurance companies, this provides an opportunity for Takaful companies to sell the concept of life insurance, whether directly or through distribution agreements with local banks. And Anthony notes that: "It seems to be working. The actual premium volumes on life are still very modest, compared with the motor or property segments, but they are growing very rapidly. And the companies themselves are starting to sit up and pay attention to the potential of Family Takaful. Ten years down the road, it could almost be the dominant side of Takaful insurance."

Takaful companies also have a genuine advantage in this sector, with many banks preferring to 'play it safe' by offering the most conservative insurance option to their customers, whatever their religious views, rather than risk offering conventional products. Anthony notes that: "In Family Takaful, Shariah compliant insurers may at last have found a means of bringing all of their ethical and religious strengths to bear in a prudent, profitable manner."

It is a strong message that in order to grow the industry must work together to leverage its considerable advantages, instead of wasting time and money fighting with itself. — *LM*

2012: Fireworks or dynamite?

Editor's Note

The Islamic finance industry has gotten off to an explosive start this year; with two landmark Sukuk issuances in the second week of January alone. These comprise Projek Lebuhraya Usahasama's US$9.67 billion Sukuk, the world's largest offering by a single issuer to date and the launch of a Sukuk from Saudi Arabia's General Authority for Civil Aviation, marking the first ever sovereign Islamic bond from the kingdom.

The watershed sales were preceded by two benchmark-sized sales from First Gulf Bank and Emirates Islamic Bank, in addition to a US$300 million offering from Tamweel – making up a flurry of issuances that have led market players to predict 2012 as heralding an unprecedented year for Sukuk, even before the first month of the year has drawn to a close.

While this optimism is more than welcome amid the still-uncertain landscape of the wider financial markets, we at Islamic Finance *news* warn against throwing caution to the wind, and we continue to look at other aspects of the industry that may or may not withstand the dynamic environment we now operate in.

With this, our issue this week includes a feature by Islamic finance consultant Mohammed Amin, who discusses the flaws of The Royal Bank of Scotland and the lessons that can be learnt by our industry from its downfall.

In Egypt, by far one of the most interesting markets to keep an eye on this year, Mahmoud Fawzy Zaky of the Faisal Islamic Bank of Egypt writes on the benefits presented by the country's growing engagement with Islamic finance; both for Egypt itself and for the industry as a whole.

Meanwhile, Biswajit Dasgupta of Invest AD highlights the challenges and opportunities of treasury in Islamic banking; and Sani-e-Mehmood Khan of the Karachi Stock Exchange looks at the development of Islamic finance in Pakistan.

Abdulazeez Davids of Kagiso Asset Management contributes this week's Islamic Investor feature; presenting a case study on an Islamic equity fund in South Africa; and Syed Moheeb Syed Kamarulzaman of Takaful Ikhlas writes on Takaful for investing for our Takaful feature.

This week, Insider makes a stand on Goldman Sachs' US$2 billion Sukuk, while our IFN reports cover Green Sukuk and the proposed RHB Capital and OSK Holdings merger and our cover story looks at the potential for the growing Takaful industry in 2012.

Our IFN Correspondents contribute reports on the use of Sukuk Musharakah in Iran as well as developments related to our industry in Canada, Bahrain and Qatar.

ASIA

Opening up the market

INDONESIA: The central bank, Bank Indonesia (BI), has revised its regulations on the Islamic interbank money market, allowing foreign banks to trade in the market.

The nod for foreign banks to transact in the Islamic interbank money market expands the number of categories of traders in the market to four from three.

Under the new rules, BI has also issued a new instrument that can be used as a guarantee in the Islamic interbank money market, the Shariah-based commodity futures certificate, representing the proof of commodity trading in the market.

It also allows the transfer of ownership of Islamic money market instruments before its due date and the use of brokerages to trade the instruments in Indonesian rupiah and in foreign currencies.

Mandatory tracking for Burj Bank-financed autos

PAKISTAN: Burj Bank and PTL Trakker have signed an MoU for the provision of vehicle tracking services on the bank's Burj Carsaaz Islamic Auto Finance product.

Ahmed Khizer Khan, the president and CEO of Burj Bank, said that the vehicle tracking devices have been made mandatory on all of the banks' financed vehicles.

Retail Sukuk in the works

MALAYSIA: HSBC Amanah Malaysia is planning to introduce a Sukuk this year for retail investors.

Rafe Haneef, its CEO, said that while Malaysia has one of the deepest markets for Islamic bonds, the country still does not have an active retail market; with most of the Sukuk issued in Malaysia subscribed by institutional investors.

"We need to launch a retail bond product so that the retail investors can share the Sukuk pie," he said.

Ansar requests ICD funds

AZERBAIJAN: Local Shariah compliant leasing company, Ansar Leasing Company, is planning to seek US$6-7 million-worth of funds this year from its founder, the Islamic Corporation for the Development of the Private Sector (ICD), said Ceyhun Naghiev, its CEO.

The funds will be allocated as financing and will not be used to increase the capital of the company.

Ceyhun also said that Ansar plans to start issuing Sukuk in the country this year, adding that the size of the issuance will depend on the amount of funds received from the ICD.

Application for merger

MALAYSIA: RHB Capital (RHBCap) and OSK Holdings have submitted applications to the finance ministry through the central bank, Bank Negara Malaysia, for relevant approvals in relation to a proposed merger between RHB Banking Group and OSK Investment Bank.

Neither party has disclosed details of the merger, although it is speculated that RHBCap will take over the operations of OSK Investment Bank via a share swap and cash.

Sukuk for KLIFD?

MALAYSIA: 1Malaysia Development, a state-owned development company, may sell a medium-term Sukuk to partly fund the construction of the US$8 billion Kuala Lumpur International Financial District (KLIFD).

According to Shahrol Halmi, its CEO, the firm has a RM2 billion (US$635.53 million) bridging loan due in 2013 and it is considering all options to raise more debt, including the Sukuk, depending on market conditions.

1MDB is jointly developing the KLIFD with Abu Dhabi's Mubadala Development Company.

Benevolent gesture

MALAYSIA: Maybank is offering a six-month moratorium on monthly installment payments and a waiver of certain charges for victims in the flood-stricken states of Johor, Kelantan, Terengganu, Pahang, Sabah and Sarawak, until the 30th June 2012.

The bank's disaster relief assistance program, which applies to both conventional and Islamic facilities,

continued...

PLUS sells landmark US$9.67 billion Sukuk as low as 3.9%

MALAYSIA: Projeck Lebuhraya Usahasama (PLUS) issued a landmark RM30.6 billion (US$9.67 billion) Sukuk on the 12th January, in what is widely seen as the world's largest Islamic bond offering to date.

The deal, managed by CIMB Investment Bank, AmInvestment Bank, Maybank and RHB Investment Bank, was made up of a RM19.6 billion (US$6.3 billion) 'AAA'-rated program and an RM11 billion (US$3.5 billion) government guaranteed program.

Speaking to Islamic Finance *news*, Badlisyah Abdul Ghani, the executive director and CEO of CIMB Islamic, said that the 'AAA'-rated program was priced at between 3.9-5.75% for 21 tranches with maturities ranging from five to 25 years. The government guaranteed program was priced at 5.5% for two tranches maturing in 26 and 27 years.

He also said that the program was privately placed; taken up by the transaction's lead managers and pension funds.

The success of the issuance has also led to optimism on Malaysian Sukuk sales this year, with Badlisyah noting that: "This will be the best year ever."

He said that although the PLUS deal makes up the largest Sukuk sale from a single issuer to date, another transaction is expected to follow this year due to the number of projects coming on-stream in Malaysia from the government's economic transformation program.

The CIMB Group is also expected to continue dominating the market this year for arranging Sukuk, Badlisyah added.

continued...

will be provided on a case-by-case basis and is extended to businesses, small and medium-sized enterprises and consumer banking clients.

New Islamic bank on the cards

AZERBAIJAN: The International Bank of Azerbaijan (IBA) and Russia-based VTB Bank are planning to attract one of the leading banks in Kazakhstan to establish a single Islamic bank in the CIS region, according to Behnam Gurbanzade, the head of Islamic banking at IBA.

According to an agreement between the IBA and VTB Bank, the Russian bank will leverage IBA's experience in Islamic banking, while the Azerbaijani bank will in turn utilize VTB Bank's experience.

Promising potential

INDONESIA: A number of Islamic banks will expand their financing portfolio to the microfinance industry as the market shows high potential for growth.

The banks include BNI Syariah, which is planning to establish 55 dedicated microfinance units across Indonesia this year; and BCA Syariah, which will review its three pilot microfinance projects in the cities of Jakarta, Tangerang and Bogor before deciding whether to replicate the programs.

Meanwhile Yuslam Fauzi, the CEO of Bank Syariah Mandiri, said that the bank will increase its financing to small and medium-sized enterprises by more than 73% this year.

Branch expansion for Burj Bank

PAKISTAN: Burj Bank is seeking to aggressively expand its branch network by as much as 50%, to 75 branches by the end of 2012, after the bank reported two quarters of profits in 2011, said Ahmed Khizer Khan, its president and CEO.

"The bank currently has 50 branches and it will renovate some of them while relocating a few others," added Ahmed.

Green light for ITFC financing

BANGLADESH: The government has approved a US$2 billion financing from the International Islamic Trade Finance Corporation (ITFC), a unit of the IDB, for the Bangladesh Petroleum Corporation for the Bangladesh Petroleum Corporation (BPC), a state-owned oil importer and distributor.

The BPC will utilize the facility to enable the company to import oil from the international market, said Md Abubakar Siddique, its chairman. He added that the funds will allow the firm to overcome the present liquidity problem.

Additionally, the IDB has also reduced its 'mark-up' rate on the financing to 5% from 5.3%; to ease the BPC's financial burden.

Good news for ringgit Sukuk

MALAYSIA: The yields on Malaysia's five-year ringgit-denominated Sukuk have fallen to the lowest level in almost three years amid speculation policymakers will cut interest rates in the first quarter of 2012.

Central bank data shows that the yield on government Sukuk due in 2017 has declined five basis points to 3.31% this year. Calbert Loh, the Kuala Lumpur-based head of treasury at Bangkok Bank, said that government Sukuk yields will continue to move lower as there is plenty of liquidity in the Islamic financial system to absorb new supply.

HR management goes Islamic

PAKISTAN: Islamic microfinance institution Farz Foundation and local human resource based company, Highly Keen-The HR Institute have signed an MoU to cooperate on the development of a Shariah compliant human resource manual for Islamic microfinance organizations.

The MoU is aimed at creating awareness in the area of Shariah compliant human resource management. Under this alliance, Farz Foundation and Highly Keen will carry out joint sessions, seminars and workshops for their employees.

Positive growth

INDONESIA: Islamic banking profits rose 36.04% year-on-year to IDR1.51 trillion (US$164.13 million) in the January-November 2011 period.

The increase in net income was driven by a 50.79% growth in funding, which reached IDR99.43 trillion (US$10.9

continued...

Goldman Sachs US$2 billion Sukuk facing heat again

GLOBAL: Goldman Sachs' US$2 billion debut Sukuk program continues to attract controversy as news emerged that three Shariah scholars named in its prospectus as potential endorsers of the papers have not responded to requests to participate in the compliance approval process.

In the latest development, Asim Khan, the managing director of Dar Al Istithmar, which is the Shariah advisor on the deal, said that the scholars comprise Dr Daud Bakar, the president and CEO of Amanie Business Solutions; Shaikh Abdulla Sulaiman Al Manea, the deputy chairman of the Shariah board at AAOIFI; and Dr Mohamed Ali Elgari, a professor of Islamic economics.

However, Asim said that their lack of cooperation has no bearing on the Sukuk's Shariah compliance.

"Given that the issuance was not to take place at that stage and this was only a preliminary prospectus, it was appropriate not to pre-judge the eventual outcome or speculate which Shariah scholars would eventually be able to consider, evaluate and sign off on the Shariah compliance of this complex transaction," he was quoted as saying.

According to the Sukuk's prospectus: "A group of Shariah scholars composed of, among others, members of the Shariah supervisory board of the Shariah advisor may, at the request of the Shariah advisor, issue a fatwa as to their view on the Shariah compliance of the program on or about the closing date.

"The advising scholars are expected to be: Dr Hussain Hamed Hassan; Dr Ali Al Qaradaghi; Dr Abdul Sattar Abu Ghuddah, Dr Abdulaziz Fawzan Saleh Al Fawzan; Dr Daud Bakar; Dr Aznan Hasan; Sheikh Abdullah Sulaiman Al Manea; and Dr Mohamed Ali Elgari."

Meanwhile two scholars, who have declined to be identified, have reportedly expressed surprise and concern over the listing of their names in the prospectus. (See this week's Insider)

continued...

billion) from IDR65.94 trillion (US$7.23 billion) in November 2010.

Indonesia's financial sector sees ownership shakeup

INDONESIA: Mergers and acquisitions (M&As) in Indonesia's financial market look set to heat up this year, even as the central bank, Bank Indonesia, works on finalizing its decision to limit the ownership of individual investors in local banks.

Malaysia's Maybank announced on the 16th January that it has hired UBS to manage the sale of part of the 20% stake it needs to pare down its 97% ownership of Bank Internasional Indonesia (BII).

The Malaysian bank is already required by capital market laws to reduce its ownership to at least 80%, and has only managed to dispose of 0.5% in the open market. The sale of a larger chunk now couldn't come at a better time; as the central bank mulls a proposal to cap bank ownership by a single investor, potentially to below 50%, from the current 99%.

According to Megat Zaharuddin Megat Mohd Nor, the chairman of Maybank and president commissioner of BII, the bank will seek "appropriate shareholders" to acquire part of the 20% stake it must divest; and will not sell the shares lower than IDR510 (5.58 US cents) a share.

Meanwhile, Indonesian consulting firm Panin Financial is reportedly planning to sell up to a 40% stake in its life insurance business, Panin Life, in a transaction that could be valued at US$200 million. The disposal is said to be among several on the cards by insurers in Indonesia this year, with insurance firm Sinar Mas Multiartha emerging as the latest to reveal a planned sale of 10% of its shares. It has appointed Deutsche Bank and UBS to arrange the sale.

With Indonesia cementing its position as the hottest market in Asia, and M&As in the limelight, is it just a matter of time before the country's Shariah banks see a similar ownership shakeup?

GLOBAL

Mixed performance

GLOBAL: The UAE continues to be the most competitive banking market in the GCC, although it remains less profitable than markets such as Saudi Arabia, according to Abu Dhabi Islamic Bank (ADIB) in its GCC banking competitiveness report.

It noted that the UAE banks' net interest margins comprise the lowest in the GCC, at an average of 2.9%.

However Andrew Moir, the global head of strategy and finance at ADIB, said that the UAE remains less profitable than Saudi Arabia, although the emirates possess a larger banking market in terms of assets.

He added that the mix of deposits, low customer charges, the presence of high levels of non-performing assets and competitive dynamics have negatively impacted banking profitability and capital ratios in the UAE.

Familiarization to drive Asian Sukuk

GLOBAL: A greater familiarity with Asian Sukuk by Middle Eastern investors could provide a driving force for more issuances of Islamic bonds in Asia, said Rafe Haneef, the CEO of HSBC Amanah Malaysia.

continued...

Sukuk mart off to a busy start

UAE: The first few weeks of January has seen a flurry of activity in the UAE's Sukuk market as issuers take advantage of encouraging conditions for pricing.

Citigroup and Standard Chartered have also emerged as clear favorites to manage the sales, participating in three transactions in January.

Emirates Islamic Bank (EIB) closed the first Islamic bond deal from the Gulf this year, pricing its US$500 million five-year Sukuk at 4.72% on the 10th January. The Sukuk's pricing is equivalent to a spread of 350 basis points over midswaps.

Citi, ENBD Capital, HSBC, The Royal Bank of Scotland, the National Bank of Abu Dhabi (NBAD) and StanChart lead managed the transaction.

EIB's successful sale was followed by an issuance by First Gulf Bank. The bank raised US$500 million via a five-year Islamic bond priced at 4.05%. Citi, HSBC, NBAD and StanChart joint lead managed the sale, which was 2.8 times oversubscribed, fetching US$1.4 billion on closing.

Islamic mortgage provider Tamweel has also sold its five-year Sukuk, amounting to US$300 million.

Priced at par with a spread of 400 basis points over midswaps, the papers, which are fully guaranteed by Dubai Islamic Bank, Tamweel's majority shareholder, carry a profit rate of 5.2%.

Citi and StanChart were also lead managers of the transaction, along with DIB.

continued...

He also said that Islamic finance is an ideal bridge for capital flows between Asia and the Middle East, adding that more efforts should be made to strengthen the capital connectivity between the two regions.

"We need to help increase Asian investors' appetite for international Sukuk beyond just local currency issuances," he added.

Sukuk in demand

GLOBAL: Sales of Sukuk may increase to US$44 billion this year as demand outstrips supply and as Asian and Middle East investors tap the Islamic bond market, said HSBC Holdings.

Mohammed Dawood, the managing director of Islamic global markets for Europe, Middle East and Africa for HSBC Amanah, said that the dramatic increase in Sukuk issuance has been spurred by the performance of the Islamic bonds amid the global meltdown in 2011.

"The Sukuk market is already off to a strong start in 2012. This January is the busiest we've seen in this market," he added.

Mohammed also explained that investors favor Islamic bond because it has been less volatile than conventional issuances, especially in the last four months of 2011. Issuers on the other hand, prefer Sukuk as it gives them access to a new investor base.

Meanwhile, Rafe Haneef, the managing director of Islamic global markets for the Asia Pacific region at HSBC Amanah, said that infrastructure projects in Asia and the Middle East are likely to be the other major drivers of Sukuk issuances in 2012.

Beating the odds

GLOBAL: Islamic banking has emerged as a bright spot for hiring as a growing shortage of talent threatens the expansion of retail banking in the Gulf.

Adnan Ahmed Yousif, the president and CEO of Bahrain's Al Baraka Banking Group noted that a few years ago, Islamic banks faced difficulties in recruiting as graduates were not aware of Islamic finance. However, this has changed as more universities offer Islamic banking qualifications.

In contrast, conventional retail banks have found an increasing shortage of talent, creating stiff competition for employees. According to consultancy firm Accenture, around 85% of bank executives in the Gulf expect to invest in their retail operations over the next three years.

Opening the Sukuk floodgates

GLOBAL: The flood of Sukuk issuances from the Gulf in the beginning of January shows that borrowers are worried about limited global liquidity and future access to debt markets.

This has led borrowers to turn to Islamic finance, which remains relatively unscathed from global market volatility, as a source of funding, said industry players.

According to Chavan Bhogaita, the head of the markets strategy unit at the National Bank of Abu Dhabi, borrowers are aware of the general liquidity crunch in the market and through Sukuk, seek access to a new investor base to take advantage of any existing liquidity.

Chavan also said that concerns over continued uncertainty in the Eurozone have led issuers to think that it is best to issue debt early in the year.

Meanwhile, Mohammed Ali Yasin, the chief investment officer at UAE's CAPM Investment, pointed out that most firms have been issuing Islamic bonds as they believe that there is still interest from Asia to buy into the papers.

Rise in popularity

GLOBAL: Offers of Islamic bonds from the MENA region will increase this year as there is "enormous appetite" for the debt, said Klaus Froehlich, the managing director for capital markets for MENA at Morgan Stanley.

Morgan Stanley also sees foreign bond sales from MENA surpassing last year's US$26.7 billion, with government and government-related debt issuance forming the and financial institutions continuing to be active.

MIDDLE EAST

Shuaa looks to grow

UAE: Shuaa Capital is setting up a Shariah compliant credit or financing

continued...

GACA launches landmark sovereign and kingdom's largest Sukuk

SAUDI ARABIA: The government has launched its debut sovereign Sukuk via the sale of the General Authority of Civil Aviation's (GACA) 10-year Sukuk. The offering comes amid fierce optimism in the Islamic bond market and follows the sale of the world's largest Sukuk offering by Malaysia's Projek Lebuhraya Usahasama (PLUS) on the 12th January.

GACA's Sukuk, guaranteed by Saudi Arabia's ministry of finance, was launched on the 15th January and raised SAR15 billion (US$4 billion).

In addition to representing the kingdom's first ever sovereign Sukuk, the issuance is also set to make up the largest issuance from Saudi to-date.

The papers' first settlement date is expected on the 18th January, with the transaction priced at 2.5%.

The landmark sale comes smack in the middle of a big month for Sukuk sales, getting 2012 off to a busy start and leaving market players optimistic on the year going forward.

Apart from PLUS' RM30.6 billion (US$9.67 billion) issuance in the second week of January; Emirates Islamic Bank and First Gulf Bank each sold benchmark-sized papers, while Tamweel sold a US$300 million offering.

According to a report from Kuwait Finance House Research, global Sukuk sales crossed US$85 billion last year, up by more than 90% in 2010; in a market driven by US$59 billion-worth of sovereign issuances.

Meanwhile, the GACA Sukuk is seen as significant to the growth of Saudi's Sukuk market; setting a benchmark for more sovereign and corporate Islamic bond issuances from the kingdom this year.

Data from Dealogic shows that in the past 12 months, Saudi Sukuk issuances amounted to just US$1.5 billion, with Saudi riyal-denominated Sukuk totaling US$700 million in the same period.

continued...

business in Saudi Arabia as it expands its credit finance business, Gulf Finance, to the kingdom.

According to Michael Philipp, its CEO, Gulf Finance is the only one of Shuaa's businesses which is profitable, adding that Shuaa may offer a stake in the unit to new investors.

He is also confident that Shuaa can attract investments from Abu Dhabi and Saudi of "hundreds of millions of (US) dollars."

IDB gives out US$321.8 million

SAUDI ARABIA: The IDB's board of executive directors have approved US$321.8 million-worth of financing for projects in its member countries.

The approvals comprise: US$140 million to produce wind-powered electricity in the Sindh province of Pakistan; US$50 million investment, which will be raised to US$150 million at a later stage, in the Arab Financing Facility for Infrastructure; US$30.7 million for the Mulago Referral Hospital Project in Uganda; US$32.3 million for a national agriculture subsurface draining project in Egypt; and US$17.5 million financing for a secondary schools development project in Tajikistan.

The IDB also agreed to grants of up to US$1.3 million for educational and health projects for Muslim communities in China, northern Cyprus, Ethiopia, India, the Philippines and Venezuela.

Meanwhile the bank also approved a proposal for a US$3 billion increase in the volume of its mid-term Sukuk Program to US$6.5 billion, following the success of its previous Sukuk issuances.

Warba Bank to kick off

KUWAIT: Warba Bank which was established in 2009 with a capital of KWD100 million (US$358 million), is planning to start its retail operations in the first quarter of 2012.

Warba Bank is 24% owned by the Kuwait Investment Authority, the country's sovereign wealth fund.

Call for guarantee

UAE: Nakheel, which is in talks with banks to raise its first funding since the 2007 crisis, may struggle to sell debt without a state pledge, according to analysts.

Serge Lioutyi, an emerging market credit sector specialist at Citigroup Global Markets in the UK, explained that most in the market think that

continued...

RATINGS

Good standing

BAHRAIN: Fitch has affirmed Ahli United Bank's (AUB) long-term issuer default rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+'. The outlook on the long-term IDR is stable.

Position maintained

MALAYSIA: RAM has reaffirmed the respective long- and short-term ratings of 'A2' and 'P1' for Hubline's RM150 million (US$48 million) Murabahah commercial papers/medium-term notes program.

The 'A2' rating of its RM70 million (US$22 million) Bai Bithaman Ajil Islamic bonds (2005/2012) has also been reaffirmed. Meanwhile, the negative outlook on the long-term ratings has been maintained.

Still standing tall

UAE: CI has affirmed Abu Dhabi Commercial Bank's financial strength rating at 'A-'.

Fine start

UAE: Fitch has assigned a final long-term rating of 'A+' to First Gulf Bank's (FGB) US$500 million five-year fixed rate trust certificates, issued by FGB Sukuk Company under its US$3.5 billion trust certificate issuance program.

continued...

Nakheel will not be able to pay off its existing debt without government help.

Lioutyi noted that if Nakheel is unable to repay debt with its own cash, it would need an "explicit government guarantee and even that would come at a high yield of over 10%".

Completing soon

BAHRAIN: Gulf Holding Company, which was set up by Gulf Finance House and Bayan Investment Company, has signed an MoU with Al Hamad Construction & Development Company to resume construction on its Villamar integrated residential and commercial complex.

The work is targeted for completion in 18 months, after a delay in its development due to the financial crisis.

According to Hisham Alrayes, the chairman of Gulf Holding Company, the project has been restructured; extending its short-term liabilities and bringing in new funding partners.

Facing the music

UAE: Dana Gas saw a sell-off of its shares amid uncertainty over how the company plans to repay its US$1 billion Sukuk due in October this year.

Mohammed Ali Yasin, the chief investment officer at CAPM Investment in Abu Dhabi, said that there is concern among investors over Dana Gas' ability to settle its financial commitments.

Asset sale to repay Jafza Sukuk?

UAE: Economic Zones World (EZW), a unit of Dubai World that operates the Jebel Ali Free Zone (Jafza), is reportedly considering the sale of its UK-based warehouse property developer Gazeley, as it looks to repay some of Jafza's US$2.04 billion Sukuk maturing in November 2012.

It is believed that the EZW has brought in investment bank Rothschild to assist in the sale process. EZW is said to be considering the repayment of over US$2 billion-worth of debt this year.

Ceiling for credit cards fees?

UAE: The Central Bank of the UAE is reportedly considering imposing a ceiling on credit card rates and Islamic credit card fees charged by banks in the emirates.

The central bank's action follows a sharp rise in fees on credit cards and complaints by clients about the introduction of new fees. Fees imposed by both conventional and Islamic banks include annual fees on the card, grant fees, charges on exceeding card limits, default fees, foreign exchange dealing fees, credit card replacement fees and fees on third party payments.

QFIB buys into snacks

QATAR: Qatar First Investment Bank (QFIB), a local Shariah compliant investment bank, has acquired a 15% stake in Lebanon-based snacks manufacturer Al Rifai International Holding.

However, QFIB did not reveal the size of the deal, which marks the bank's first venture into the food and beverage manufacturing industry.

Emad Mansour, the CEO of QFIB, said that the partnership aims to take advantage of the rapidly growing global savory snack market, which is expected to reach US$85.4 billion in value this year.

Coming up...

Volume 9 Issue 3 — 25th January 2012

Meet the Head
Mohamed Ben Youssef, executive director, General Council for Islamic Banks and Financial Institutions

Features
Debt capital markets; By Craig Nethercott, head of Islamic finance practice group, Latham & Watkins.

Islamic finance faces challenges in Africa; By Ahmed Suliman, chairman, Shariah supervisory board and head of Shariah consultancy, Sanlam Private Investments.

Break the barrier of Islamic private equity; By Mohammad Aamir, head of business development resource mobilization, AKD REIT Management.

Regulations of the Sukuk market in Malaysia; By Edib Smolo, researcher and coordinator, Islamic capital market unit, ISRA.

MOVES

KARACHI STOCK EXCHANGE

PAKISTAN: The Securities and Exchange Commission of Pakistan has re-appointed **Muneer Kamal**, **Shazad G Dada**, **Asif Qadir** and **Abdul Qadir Memon** as directors on the Karachi Stock Exchange's (KSE) board for the 2012 term.

UTI ASSET MANAGEMENT CO

INDIA: UTI Asset Management Co (UTIAMC) has appointed **Imtaiyazur Rahman** as interim CEO.

Imtaiyazur is currently the chief financial officer and company secretary at UTIAMC.

AJMAN BANK

UAE: Ajman Bank has appointed **Mohamed Amiri** as its acting CEO. Mohamed replaces Mubashar H Khokhar, who has resigned.

BANK ALFALAH

PAKISTAN: **Ali Sultan**, the director of the exchange policy department at the central bank, the State Bank of Pakistan (SBP), will reportedly join Bank Alfalah as head/senior executive vice-president of treasury, financial institutions and markets of its treasury department

BANK INTERNASIONAL INDONESIA

INDONESIA: Bank Internasional Indonesia, a subsidiary of Malaysia's Maybank, has appointed **Khairussaleh Ramli** as its new president director/CEO.

Khairussaleh is also the group chief financial officer of Maybank.

STANDARD CHARTERED SAADIQ MALAYSIA

MALAYSIA: **Azrulnizam Abdul Aziz** has resigned from his post as CEO and executive director of Standard Chartered Saadiq Malaysia.

Islamic Finance *news* understands that he is awaiting approval from the central bank, Bank Negara Malaysia, to head Al Rajhi Banking & Investment Corporation (Malaysia).

Green energy gains traction

In 2010, global investment in clean energy reached US$211 billion, charting a 28% year-on-year increase. Industry players expect to see this trend continue on an upward trajectory for the next 10 years as governments become more conscious of greenhouse gas emissions and the need for more sustainable forms of energy. In a testament to its commitment to wean itself from oil and gas, the Middle East has also begun looking into sustainable and clean energy development projects, with some jurisdictions (such as Saudi Arabia) already revealing plans to invest up to US$100 billion into clean energy resources over the next decade. Other Middle East countries such as Abu Dhabi, Kuwait and Qatar, along with North African countries such as Tunisia and Morocco, have also pledged billions of dollars into solar energy and renewable energy projects.

Recently, the market has been rife with talks of a potential 'Green Sukuk' as early as this year — most likely to originate from the UAE, initiated by the Climate Bonds Initiative, Clean Energy Business Council and the Gulf Bond and Sukuk Association. The collective is currently mulling a consultative process to develop standards, recommendations and best practices to facilitate the issuance.

Green Sukuk first came into focus when a representative of the World Bank, Sau Ngan Wong, revealed at last year's IFN 2011 Issuers and Investors Asia Forum that a Green Sukuk would be an effective tool to facilitate financing for sustainable projects; particularly as the world deviates from its dependency on the flailing European economy.

The World Bank is said to be in talks with a number of developing countries to explore the potential of a Green Sukuk to fund low carbon development or environmental projects. The agency is no stranger to Green financing; having issued the first bond targeted at environmentally friendly practices in 2008 for SEK, worth US$350 million and holding a tenor of six years at a 3.5% yield. The success of the bond, which reportedly outperformed conventional bonds on the secondary market, later spurred more such issuances in different currencies by the World Bank and other institutions such as the European Investment Bank, the International Finance Corporation and the Asian Development Bank.

Despite the altruistic nature of the bond and its appeal to investors looking to diversify funding, the major drawbacks of issuing a Green Sukuk include a lack of liquidity, legal uncertainty, inadequate policies and government support, and transactional risks— including greater technological risks associated with constructing and operating green technologies, as well as the higher yields required to offset the illiquidity of the green bond market and to mitigate higher political and technical risk.

However, the rising demand for power in fast-growing demographics such as the Middle East and Africa is expected to provide further impetus to the Green Sukuk cause. Reports have shown that utility demand in the GCC alone is expected to grow between 7-8% a year, with Gulf countries expected to spend US$45 billion before 2015 to increase power capacity by 32,000 megawatts. Demand is also strong for commercial banks to issue more green bonds of their own, according to a recent statement in which Allianz, Swiss Re and a coalition of other institutional investors outline a desire for more low carbon investment opportunities. "As insurers and reinsurers we are conscious of the long-term risks that climate change poses to society and how it will affect pricing of weather risk transfer solutions long-term. We are also conscious of our role as large investors and see the importance of using our assets to mitigate this risk," the statement read.

With regards to the UAE Green Sukuk, those behind the proposed issuance are confident that a sovereign issuance by the government of Dubai would create more impetus to such bonds. Aaron Bielenberg, the director of the Clean Energy Business Council, revealed: "The difference is [that] an issuer like the government of Dubai can potentially access a different set of investors focused on sustainable investing and can also potentially raise money at lower cost." — NH

Pending Approval

Still awaiting approval from Bank Negara Malaysia, the Malaysian central bank, the proposed merger between RHB Capital and OSK Holdings (worth an estimated US$605 million) is seen by most industry players as a step in the right direction. The deal, which first made headlines in October last year, is set to create the country's largest stockbroker should it go through.

The proposed merger is in line with the central bank's push for a more consolidated banking and finance system in the country, to create a more competitive and bullish investment environment. A source close to the deal revealed: "We expect the deal to go through, as it is in line with what the central bank is pushing for; which is more mergers and acquisitions in the country." He also added that both institutions involved are optimistic about the deal, as it will boost the banks' market capitalization as well as domestic and international reach.

On the Islamic banking front, industry players are confident that the merger is expected to benefit the subsequent merged entity; with both banks leveraging on their core strengths. RHB Capital has taken a more retail focus, while OSK has a broad regional reach for its brokerage services across Jakarta, Cambodia, Singapore and Hong Kong. RHB Investment Bank was also involved in the recent PLUS Sukuk issuance, worth US$9.7 billion, alongside CIMB Investment Bank, Maybank and AmInvestment Bank.

OSK had also previously expressed a desire to re-enter the Islamic debt capital markets via the issuance of Sukuk, after a relatively muted run on the arranging and issuance side. The bank came up tops on the Malaysian Rating Corporation's (MARC) Lead Manager Table in 2008, with a total issuance value of RM800 million (US$255.46 million), but has since lost ground in the sector.

According to reports, RHB Capital plans to issue new shares to OSK shareholders equivalent to approximately 10% of its share capital. — *NH*

Bahrain: Leading by resilience

BAHRAIN

By Dr Hatim El-Tahir, IFN Correspondent

Bahrain's position as the capital of the Islamic finance industry is affirmed by a number of factors and business support initiatives led by the government and business leaders. The Central Bank of Bahrain (CBB) and other government agencies have shown unwavering support and commitment to the Islamic finance industry. Equally important, the government of Bahrain has created a culture of resilience, reconciliation and reorganization which has encouraged community integrity and tolerance.

Three key factors have helped the country sustain its business viability and status as the choice for Islamic finance and business in the region. First and foremost: the political stability assurance and government support which culminated in the establishment of an independent commission inquiry. The Bahrain Independent Commission of Inquiry (BICI) was created in June 2011 to investigate and report on last year's unrest during the months of February/March. The Commission produced its report in November last year, and was largely welcomed by political, business, and civic groups.

Secondly, the perpetual financial and regulatory development, reflecting the commitment of the CBB to adapt international best practices and lead regulatory development in the region. For example, the CBB has suggested the introduction of new guidelines in the Rulebook, Volume 2 which regulates Islamic finance in the country.

> ***"Bahrain has experienced a growing number of Islamic funds, which now account for 44% of the total local funds licensed in the country"***

The new regulatory enhancement includes new guidelines in respect of Restricted Investment Accounts (RIAs). As of July this year, RIAs will be regulated under the Collective Investment Undertakings Module. Similar measures have been taken to improve the implementation plans of Basel II and III.

Among the other positive financial developments in the country is the continuation of sovereign Sukuk issuance, which has attracted regional and international investors. In July last year US$500 million-worth of Sukuk was issued, with the final transaction increased to US$750 million due to oversubscription.

Bahrain has also experienced a growing number of Islamic funds, which now account for 44% of the total local funds licensed in the country. Similarly, the share of Islamic finance has increased and now stands at US$24.2 billion, representing 12% of the total banking sector. The recent wave of consolidation initiatives within the Bahraini Islamic banking institutions are equally seen as a significant stimulus for growth opportunities and competition between other players in the industry.

Finally, regarding business support initiatives, two key business funds were established to finance development and bail out some small and medium-sized enterprises (SMEs) in the country. The GCC US$10 billion fund is a macro finance fund dedicated to financing social infrastructure and investment projects. On the other hand, the locally-established Tamkeen Fund of BHD10 million (US$26 million) was created to assist SMEs against the adverse impact of the economy.

Dr Hatim El-Tahir is the director of Deloitte Islamic Finance Knowledge Center. He can be contacted at heltahir@deloitte.com.

Canadian bank opens in Abu Dhabi

CANADA

By Jeffrey Graham, IFN Correspondent

On the 9th January 2012 Bank of Montreal, also known as the BMO Financial Group, opened a representative office in Abu Dhabi. It is the first Canadian bank to open in the Middle East in over 40 years. The Bank of Montreal is the fourth largest bank in Canada by deposits. The bank was established in 1817 making it Canada's oldest bank. In Canada, the bank operates as BMO Bank of Montreal and has more than 900 branches, serving over seven million customers. The bank also has substantial operations in the US, where it operates as BMO Harris Bank. BMO Capital Markets is BMO's investment and corporate banking division, while the wealth management division is branded as BMO Nesbitt Burns.

Since 2007, the bank has also owned Pyrford International, based in the UK. Pyrford is now part of BMO's private client group which provides wealth management services in North America and the Middle East, the UK and Europe to pension funds, charities, endowments, foundations and high net worth individuals. Pyrford offers a range of products in both segregated and pooled fund management including Shariah compliant strategies.

With its new presence in Abu Dhabi, the bank will be offering clients trade finance capabilities, as well as a broader range of corporate and institutional banking services. In the area of trade finance, the bank will provide clients with assistance in exporting to the Middle East, Turkey and North Africa: including market information, risk mitigation, letters of credit and guarantees. In the corporate and institutional banking space, the focus of the bank will be to offer its services to financial institutions, regional governments, sovereign wealth funds and family offices.

It is understood that the formal opening of the presence of the Bank of Montreal in Abu Dhabi will occur in May of this year.

Jeffrey Graham is a partner at Borden Ladner Gervais and he can be contacted at JGraham@blg.com.

Sukuk Musharakah: An interesting instrument for the Iranian capital market

IRAN

By Majid Pireh, IFN Correspondent

The Islamic financial system in Iran heralds pioneering work in the Islamic financial industry which has successfully structured Sukuk across the globe. Taken as a financial document, Sukuk Musharakah per se presents proof of involvement in the Islamic financial instruments issue which is most suitably created and employed by corporations, municipalities and other governmental entities.

In 1994, the Municipality of Tehran embarked on the issuance of Sukuk Musharakah worth US$28 million, with a four-year maturity period, to finance the Navab Project. Following this launch, other entities followed suit and the government of Iran, other municipalities, ministries and major private companies issued Sukuk to raise funds across all industry sectors for their own projects.

In the Iranian financial system, Sukuk Musharakah is widely used as a Shariah compatible financial instrument. Since in Iran all financial activities must obey Shariah principles and no issuer may issue any instrument that contradicts Shariah rules, the financial system uses Sukuk Musharakah to raise funds.

According to the law, the issuer may, upon a specific timetable (e.g. every three months) pay a provisional profit to the owners of securities. The issuer can pay the least confirmed rate of expected yield as the provisional profit and, at the end, deduct it from the realized profit. This payment, as jurisprudentially assumed, is that the issuer lends the owners an amount of money equal to the least confirmed rate of expected yield upon a specific timetable and on maturity date of securities: when he/she is going to buy the project from the owners of securities, he/she deducts the paid provisional profit and pays the rest.

So, the nature of the provisional profit is lending but as it is proportional to the expected return, it is called profit.

According to the principles of participation contracts in Islamic jurisprudence, profit or loss is distributed among all participants but with an article added to the contract, one of the participants may guarantee the principal of other participants.

In Sukuk Musharakah, when an issuer is a partner to the other participants, it may guarantee the loss of the project and subsequently, the principal of other participants (owner of securities).

The guaranty of profit where the issuer undertakes a specific rate of return for participants (owners of securities) would eliminate the nature of Musharakah and make some kind of bond which is among instances of riba. So, this kind of guaranty is not permissible.

Majid Pireh is an Islamic finance expert at the Securities and Exchange Organization of Iran. He can be contacted at m.pireh@seo.ir.

Qatar Central Bank ushers in 2012

QATAR

By Jaime Oon, IFN Correspondent

There was no last minute reprieve from the Qatar Central Bank (QCB) for the conventional banks and it has been reported that some of these banks, including Qatar National Bank (QNB) and Al Khaliji Commercial Bank, have now closed their Islamic windows; although some continue to manage Islamic assets for existing customers until maturity. The International Bank of Qatar also confirmed that it sold its Islamic corporate portfolio to Qatar Islamic Bank at the end of December 2011.

At the 8th International Conference on Islamic Economics and Finance, held in Doha last month, Sheikh Abdullah Saud al Thani, the governor of QCB, looked to the future of Islamic banking in Qatar. He shared his confidence that the banks are capable of rising to the challenge of supporting Qatar's economic development as per the National Vision 2030, and in particular highlighted the need to focus on widening their areas of activity. The two main areas for focus are the development of an appropriate legal framework and the development of products to ensure that they meet Shariah supervision requirements. Given that one of the main reasons for the closure of the Islamic windows was concern over supervision, this is likely to remain one of the key focus points of QCB over the coming year.

It was also discussed at the same conference whether we would soon be in a situation where there were few significant differences between Islamic and conventional financing. Again, there was a focus on the importance of ensuring that Islamic banking continues to be conducted on the basis of Shariah principles to ensure that benefits and safeguards are achieved for all stakeholders.

Finally, with the World Cup spend likely to begin in earnest this year, we believe that this presents huge opportunities for the Islamic banking sector in Qatar. Project financing activities are projected to be on the rise in the coming years and Islamic and conventional banks will need to work together to meet the significant funding requirements in respect of the infrastructure projects in the pipeline to make the World Cup a success.

> ***"The International Bank of Qatar also confirmed that it sold its Islamic corporate portfolio to Qatar Islamic Bank at the end of December 2011"***

Jaime Oon is a solicitor in Evershed's Islamic finance team. She can be contacted at JaimeOon@eversheds.com.

Daud speaks

By Daud Vicary Abdullah

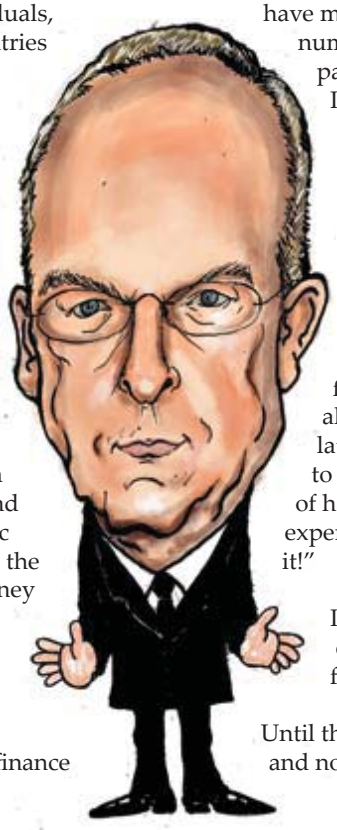
As we start a new year, I thought I would continue on the theme that I started last month with regards to collaboration. This time I would like to get a little more focused on the topic and relate it to some of the travel that I put in during December in the GCC and some plans that I have for visiting Africa in January.

> ***"If you build a reputation around these values, then the experienced ones will always recommend you to the less experienced ones"***

As a reasonably well versed Islamic finance practitioner, who also happens to live in one of the most developed Islamic finance countries, it is not surprising that my views and experience are often drawn upon by individuals, organizations and even countries that have not been exposed to as much experience and opportunity as I or the my country of residence. What did surprise me last month was that I found myself delivering executive workshops on pretty much the same topic, using the same material, in two different countries in the GCC. What is surprising about that, I hear you ask? Well it is simply the fact that one of the countries has been a long-standing supporter and active implementer of Islamic finance since the 1970s while the other has just started its journey in Islamic finance.

My presentation in the country that was just embarking on the road towards creating an Islamic finance industry was hardly surprising. The usual comments were about the importance of developing infrastructure and human capital; the importance of training the trainers and then transferring the skills; and the need to take ownership of the program yourself, rather than letting the consultants do things for you. The list goes on. However, I also delivered pretty much the same messages to a senior group of regulators and business leaders in a neighboring country that has been doing this in earnest for a couple of decades or more. That was a little more surprising as one might think that they already should know all this stuff.

What I have concluded from this exercise is simple. The spirit of collaboration exists. The importance of trusted relationships will always prevail. When you think you know it all or at least quite a lot about a subject, it is always good to take a step back and review where you really are with someone whom you trust and who will give you fair and balanced feedback. If you build a reputation around these values, then the experienced ones will always recommend you to the less experienced ones. All that really happens is that you use the same material but recognize that you have to "speak to the listening of the audience". Something that I know I have mentioned to you all on numerous occasions in the past but it is something that I will continue to repeat.



And so to Africa, where I will be meeting representatives from regulatory authorities from 19 countries interested in developing Islamic finance. The opportunity for collaboration will always exist and, as my late grandmother used to say: "What is the point of having knowledge and experience if you do not share it!"

I look forward to developing the story further next month.

Until then, there is much to do and not a moment to lose.

What a tangled web Goldman Sachs has woven

When news of Goldman Sachs' US$2 billion Sukuk first emerged, the market was almost euphoric in its reaction. Finally, the deal seemed to say, an American banking giant has recognized the merits of raising money Islamicly. It was hoped the deal would help to showcase the Islamic finance industry, which despite having topped US$1 trillion in value remains dwarfed by its conventional counterpart, especially in western markets.

However, the deal was quickly thrown into controversy, as Islamic Finance *news* was first to report, following questions raised over the Shariah compliance of the transaction.

The market has subsequently learned that some of the Shariah scholars identified by Goldman Sachs in its Sukuk prospectus as expected to sign off on the deal's compliance are not necessarily interested in being involved with the transaction.

Although both Goldman Sachs and Dar Al Istithmar (DI), the Shariah advisor for the deal, have reiterated their confidence in the Shariah compliance of the transaction, it seems their actions, or the lack of, could speak louder than their words. Following the announcement of the Sukuk in October last year the market has seen little progress, apart from the registration of the base prospectus with the Irish Stock Exchange (ISE).

With the Islamic bond market currently experiencing a bull run — including the issuance of the world's largest ever Sukuk and Saudi Arabia's first sovereign Sukuk in the second week of January — this could be the perfect opportunity for Goldman Sachs to put its money where its mouth is.

But whatever happens with the deal, rumblings of discontent among the Shariah compliant financial community have already been reported, with rumored concerns that the transaction has put Islamic finance in a bad light.

Delayed reaction

To recap: Mohammed Khnifer, an expert in Islamic finance and Sukuk structuring, raised concerns in November 2011 that the Sukuk was structured as a reverse Tawarruq, which is ruled impermissible by the International Council of Fiqh Academy. The report also questioned the use of the Sukuk's proceeds and its trading (see IFN Vol. 8, Issue 47).

The bank's initial reaction was apparently to lay low. Unlike most organizations placed under the media spotlight (think UBS' quick response to its US$2.3 billion rogue trading scandal) Goldman Sachs remained tight-lipped on the matter of its Shariah compliance, before commenting to Islamic Finance *news* in the middle of December last year that it was "entirely confident" in its program's compliance to Shariah law.

> ***"The time has come for the bank to make some crucial decisions"***

By remaining silent, however, the bank allowed room for further criticism of its plans. Harris Irfan, the managing partner of Cordoba Capital, was in December reported as saying that: "The commodity Murabahah structure is already under fire from much of the Islamic community, who consider it a shallow attempt to mimic conventional debt structures, and using such proceeds to fund conventional banking activities is ludicrous."

Yet through it all, Goldman Sachs' and Dar Al Istithmar's stance has remained firm, with both parties standing by their confidence in the program's compliance. The question is, therefore: why the delay in response, given the tumult in the Islamic finance community over the deal?

Now, already faced with industry uproar and accusations of giving Islamic finance a bad name, Goldman Sachs is taking further flak on the back of new reports alleging that three Shariah scholars, named in its prospectus as expected to endorse its Sukuk, have not in fact responded to its request. The scholars include Dr Daud Bakar, the president and CEO of Amanie Business Solutions; Sheikh Abdulla Sulaiman Al Manea, the deputy chairman of the Shariah board at AAOIFI; and Dr Mohamed Ali Elgari, a professor of Islamic economics; as well as two unidentified scholars who have reportedly expressed shock and concern over the listing of their names in the prospectus.

Time for damage control?

Three prominent individuals in connection to the Goldman Sachs deal — namely Geert Bossuyt, the CEO of Dar Al Istithmar; Asim Khan, its managing director and head of structuring; and Ali Abbas Zaidi, the vice president and executive director of fixed income, currency and commodities at Goldman Sachs in Dubai — are old hands and colleagues, having all previously worked together in the Islamic finance department at Deutsche Bank.

Boosuyt was the global head of Deutsche's Islamic business until 2009, based in Dubai; while Asim was a vice president at Deutsche Bank in London until 2008; and Ali was the global head of Islamic sales at the bank, also up to 2009, also in Dubai. Could these three, having already worked together on key industry transactions at Deutsche, put their heads together to solve Goldman Sachs' current conundrum? Perhaps this is similar to structures used when together at Deutsche?

Whatever the process may be, the time has come for Goldman Sachs to make some crucial decisions.

The blame game

So who is to blame for this debacle? Goldman Sachs or Dar Al Istithmar may not bear individual responsibility, but collectively there are issues that certainly could (and should) have been recognized in advance. As a Shariah advisor, DI should have known better - the ruling on Tawarruq has been common knowledge since 2009. Meanwhile Goldman Sachs, surely familiar with the sub-prime crisis fiasco which so seriously impacted western markets, should perhaps have approached with greater sensitivity a Shariah compliant industry already wary of its conventional counterpart.

As Mohammed Khnifer has put it: "Goldman Sachs could have easily come up with a pure form of a Sukuk structure, instead of risking it by gambling their reputation."

What the bank may not yet have realized, is that it has also jeopardized the reputation of Islamic finance. — *EB*

Islamic finance in Pakistan: A long way to go?

SANI-E-MEHMOOD KHAN believes that for the development of Islamic finance, a key issue is the lackluster interest in Islamic equity financing by the stock exchanges and mutual funds industries in Islamic countries.

One of the biggest challenges for Pakistan will be to bring the rules, regulations, policies and procedures of its financial institutions and banking systems in line with Islamic ideas of social and economic codes. Until the 1980s, Pakistan's entire financial system was based on interest, which was observed as alarming by the ruling elites of the post-Bhutto era.

A number of rapid steps thus taken included the revision of the Banking Companies Ordinance 1962 to facilitate non-interest based banking transactions; the replacement of interest-based investment offerings with profit and loss-based investment schemes by the National Investment Trust; the induction of interest-free instruments for corporate financing (participation term financing [PTC]), the promulgation of the Modaraba Companies Ordinance; and lastly, all commercial banking in Pakistani rupees was made interest-free by the end of 1985.

The premature and sudden conversion of the banking system to an Islamic system however, coupled with a lack of preparedness and understanding amongst financial institutions and the public, made it a hard nut to crack, and the decision was later set aside by the Appellate Bench of the Supreme Court in a review petition filed by the United Bank.

1990s

The 1990s turned out to be a decade of re-launching Islamic financial systems. The lessons learnt in the 1980s paved the way for a policy of promoting Islamic banking in parallel to the development of conventional finance.

The period between 1980s and mid-1990s saw a kind of soft battle of ideas and theories between conventional industry experts and pursuers of the Islamic financial system. The people at the helm in the financial sector at that point were not well conversant with principles of Shariah and believed that abrogating interest from the banking system would give leasing, loaning, and conventional financing-based ventures a not-for-profit motive; thereby defeating the very purpose of business.

In the late 1980s many companies were formed and registered under the Islamic regulatory auspices with a prospect of attaining the tax benefit. The 'C' level staff in the Islamic corporate sector were mostly western university-qualified and some of them, being non-Muslim, had little or no knowledge of the injunctions of Shariah. Thus people with minimal knowledge about Shariah were often seen memorizing Islamic terms such as Istisnah, Salam, Ijarah and Murabahah like school children cramming for an exam. The electronic phone-books, with barely reachable numbers of qualified Shariah scholars, acted as the financiers of last resort for such 'C' level executives.

> ***"The period between 1980s and mid-1990s observed a kind of soft battle of ideas and theories between conventional industry experts and pursuers of the Islamic financial system"***

Muhammad Taqi Usmani was the first to engage the 'suited and booted' western university-qualified 'C' level executives with a base-line principle that extending money to share profit (and losses) with a commercial intent was governed by a separate set-up in Shariah and extending money as interest-free loans was governed under a separate set-up in order to facilitate the act of helping, which is akin to charity. Construing the exclusion of interest from commercial financing on the premise that the financier cannot make a profit is a blatant prejudice. However, in light of all the research, I can safely commit to the fact all the combined pros of Islamic instruments, even when aggregated, do not provide a perfect substitute for interest. Similarly fixed interest rates, under no circumstances whatsoever, can match the rewards of the profit and loss sharing paradigm.

Dow Jones Indexes

In 1999, it was Dow Jones which became a pioneer in the Islamic finance market with the creation of the Dow Jones Islamic Market World Index and in 2006, the firm collaborated with JS Group to establish a Pakistan-based Islamic Index. The Dow Jones Islamic Index lasted for only a short span of time, however, and Shariah-conscious investors in Pakistan were once again left to wait and look for some other entity to provide a Shariah compliant benchmark index.

State Bank of Pakistan

At the turn of the century, the State Bank of Pakistan (SBP) started issuing licenses for Islamic banking to stand-alone Islamic banks. Al-Meezan Investment Bank, which had been functioning as an Islamic investment bank, became the first Islamic bank of the country to be awarded an Islamic banking license by the SBP. This was the time when the SBP also allowed conventional banks to set up Islamic banking subsidiaries or dedicated Islamic banking branches to offer Islamic banking services.

In 2008, the Karachi Stock Exchange and Al-Meezan Investments launched the Karachi, Meezan-thirty Index with a view to providing a Shariah compliant benchmark for the performance of Islamic equity funds in the country. The Karachi, Meezan Index (KMI-30) followed a different calculation method and had slightly different ratios criteria. Hence the need for a locally customized benchmark was fulfilled by the KMI-30 index. Besides tracking performance

continued...

Continued

of Shariah compliant equities, its construction was meant to increase investor trust and enhance participation. Any earnings that result from such investments are legitimate or halal subject to certain financial parameters outlined for stocks selection, which helps determine the level of involvement of interest and gharar in the overall business of the company. Screening criteria might differ from one Shariah board to the other and thus might result in a different compliant stock universe to invest in.

For stocks to be eligible for entry in KMI they have to satisfy all six Shariah screening criteria:

1. **Business of the investee company**
   The core business of the company should not violate any principle of Shariah. Therefore, it is not permissible to acquire the shares of companies providing financial services on interest, such as conventional banks, insurance companies, leasing companies or companies involved in some other business not approved by the Shariah, e.g. companies making or selling liquor, pork, haram meat, or involved in gambling, or any other impermissible activities. If the main business of the investee companies is halal, like automobiles, textiles, manufacturing concerns etc., but they deposit their surplus amounts in an interest-bearing account or borrow money on interest, the shareholder must express his/her disapproval against such dealings, preferably by raising his/her voice against such activities in the annual general meeting of the company and/or by sending a letter to the management in this regard.

2. **Interest-bearing debt to total assets = <37%**
   The interest-bearing debt to assets ratio should be less than 37%. To understand the rationale behind this condition, it should be kept in mind that such companies are mostly based on interest. Here again, the aforementioned principle applies, i.e. if the shareholder is not personally agreeable to such borrowings, but has been overruled by the majority, these borrowing transactions cannot be attributed to him/her. Debt, in this case, is classified as any interest-bearing debt including bonds, commercial paper, conventional bank loans, finance lease, hire purchase, issuing preference shares etc.

3. **Non-compliant investments to total assets = <33%**
   The ratio of non-compliant investments to total assets should be less than 33%. Non-Shariah compliant investments include investments in conventional mutual funds, conventional money market instruments, commercial papers, interest-bearing bank deposits, bonds, derivatives, etc. Non-compliant investments also include investments in companies which are declared Shariah non-compliant due to non-compliance to any of the mentioned criteria for Shariah compliance.

4. **Non-compliant income to total revenue = <5%**
   The ratio of non-compliant income to total revenue should be less than 5%. Total revenue includes gross revenue plus any other income earned by the company. Non-compliant income includes income from gambling, income from interest-based transactions, income from gharar-based transactions: i.e. derivatives, insurance claim reimbursement from a conventional insurance company, any penalty charged on late payment in credit sale, income from casinos, addictive drugs, alcohol, dividend income from abovementioned businesses or companies which have been declared Shariah non-compliant due to non-compliance to any of the mentioned criteria for Shariah compliance etc.

5. **Illiquid assets to total assets = >20%**
   The ratio of illiquid assets to total assets should be at least 20%. The sum of all those assets whose trade price can deviate from par value, according to the rules of Shariah, is considered the aggregate value of illiquid assets. Illiquid assets include inventory of raw materials, work-in-process, all fixed assets such as property, plant & equipment, stores and spares, stock in trade etc.

6. **Net liquid assets/share vs market price/share**
   Market price per share should be at least equal to or greater than net liquid assets per share. Net liquid assets per share are calculated by using the following formula:

After the availability of firsthand and reliable information about the Shariah compliant universe in a country, the next logical step is to have a Shariah compliant trading platform, ideally with a Shariah compliant mode of financing.

Islamic economists and financial experts agree that if certain conditions are met, it is lawful to invest and trade in the stock market. One question that frequently arises among theoreticians is whether the industry should use the existing financial infrastructure as a platform on which to develop its product range, or whether an entirely new structure must be invented. For the most part, the industry seems to have decided that for the time being it needs to live in the world as it is, not as it might like it to be.

Future of Islamic finance

The global interest in the Islamic finance industry and Pakistan's success in laying the basic foundation and core infrastructure of Islamic financial system lends confidence that the country has good potential and prospects to further exploit this industry. It is important that Pakistan adopts a more calibrated and coordinated approach and strategy for the development of Islamic financing products based on Murabahah.

A well-knitted Shariah compliant share financing product is the next logical step and a key missing link which has been long awaited by Shariah-conscious investors in Pakistan and globally.

Conclusion

For the development of Islamic finance globally, a key issue currently is the lackluster interest in Islamic equity financing by the stock exchanges and mutual funds industries in Islamic countries, which should focus on giving Islamic financing products and services a fair chance to compete with other financial products and systems.

Sani-e-Mehmood Khan is the general manager of product development and secretary to the Islamic Index Committee of the Karachi Stock Exchange. He can be contacted at sani.khan@kse.com.pk.

Treasury in Islamic banking: Challenges and opportunities

BISWAJIT DASGUPTA discusses some of the challenges faced by Islamic banks' treasuries.

Islamic banking has shown impressive growth over the last several years. While a comparison based on growth rates with conventional banking is somewhat misplaced for various reasons: such as the different stages in their lifecycle, the smaller base for Islamic banks and the deleveraging that conventional banks are going through due to regulatory or strategic reasons, it is nevertheless clear that Islamic banking is not just here to stay, but will experience rapid and sustained growth for the foreseeable future.

In fact, the advantages of the non-speculative nature of Islamic finance are becoming even more obvious against the backdrop of extreme volatility in the global financial markets.

Role of treasury in Islamic banks

The role of the treasury in Islamic banks is not dissimilar to that within a conventional bank, in that the main focus is the generation and utilization of liquidity in an optimal manner. Sources of liquidity are shareholders' funds as well as customer liabilities, which can take various forms such as current account deposits, savings account deposits, general (or unrestricted) investment deposits, specific (or restricted) investment deposits, Wakalah deposits and commodity Murabahah deposits. Similarly, excess funds not used for financing activities are reinvested in various Shariah compliant instruments in order to generate income.

Treasury also has to monitor and manage risks relating to the overall short and long-term returns of the bank and ensure that these stay within the risk guidelines stipulated by the assets and liability committee. This role is of strategic importance as it involves advising on the type of deposits that the bank should market and the type of financing that the bank should undertake in different market situations in order to avoid an undesirable impact on the bank's profitability. The actual level of involvement varies from institution to institution, but generally the department is expected to forecast the income and measure the sensitivity of the income to change in profit rates. A related function which the treasury usually contributes to (and sometimes manages) is funds transfer pricing, whereby it provides the appropriate profit rates which the different business areas should be charged or reimbursed in order to calculate their profitability.

Challenges

The requirement for Shariah compliance in Islamic banks adds a layer of complexity to the treasury management of Islamic banks.

1. Lack of standardization

While there is agreement on the source of the Shariah, compliance and interpretations vary throughout the Islamic banking world. Scholars belonging to different schools of Islamic thought and scholarship, and sometimes different countries, societies and cultures, have varying interpretations of Shariah and do not always agree on the treatment of banking products or contracts. This creates challenges on many fronts. For one, the legal, compliance and documentation costs for launching a new product, as well as time to market, go up significantly. This is particularly true in the case of business between Islamic institutions as they may need to comply with different requirements based on their own interpretation. Technology costs are usually higher as a greater degree of customization is required to comply with the specific requirements of the institution. This also leads to higher operational risks, as the workflow characteristics of every transaction need to be managed in order to achieve Shariah compliance.

The development of secondary markets is adversely affected as the due diligence process may sometimes mean that transient opportunities are difficult to exploit or not cost-effective.

Regulators also find it difficult to come up with a proper regulatory framework that can provide transparency and disclosure on the one hand, and provide support for the development of the industry on the other.

Liquidity management

In order to manage liquidity in an optimal manner, a treasurer needs to deploy short-term cash surpluses profitably and retain the ability to access liquidity at short notice in order to ensure that funds are available for unforeseen requirements, including large withdrawals by customers.

Most liquidity management products used by conventional banks are interest-based and therefore not Shariah compliant. The choices available to Islamic banks to manage their liquidity are extremely limited. While in theory products such as commodity Murabahah and Sukuk are available for this purpose, they are often not easy to use as the costs involved are too high. They also suffer from limited secondary markets with a small number of participants, a problem that is exacerbated by the fact that structures are not always acceptable to all participating institutions from a Shariah perspective. As a result, most banks are compelled to leave relatively large cash balances un-utilized, leading to a drain on profitability.

The International Islamic Financial Market (IIFM) is the global standardization body for the Islamic capital and money markets and has been tasked with developing an active secondary market in Shariah compliant instruments and strengthening the related documentation and institutional infrastructure. It has done some good work in this area and several standard contracts/documents are in various stages of development. These include a Master Wakalah Agreement, a Master Agreement for Treasury Placement and a document for collateralization; more is expected over the coming months.

Risk management

Apart from counterparty risk and operational risk, treasurers in

continued...

Continued

conventional banks are also required to manage assets/liabilities management (ALM) risks emanating from changes in interest rates.

In theory, return of capital and profits are not guaranteed for Islamic deposits (with the exception of current or demand deposits where return of capital is guaranteed) and, as such, they are vulnerable to loss of returns as well as capital in the event of the bank incurring a loss.

However, the commercial reality of operating in a market in which banks have to compete for deposits dictates that there is some pressure on Islamic banks to provide a level of return and capital protection that is comparable to conventional banks.

This, in turn, means that treasurers in Islamic banks have to apply some ALM techniques to protect the returns of the deposit book. Naturally, the need for this varies depending on the composition of the deposit base and is felt most acutely when investment deposits constitute a large part of the book.

One of the tools commonly employed by Islamic banks to manage ALM risks is a profit stabilization fund, whereby a certain amount is set aside from profits with the intention to 'subsidize' the return on deposits in less profitable years. However, this is somewhat difficult for banks which do not have a history long enough to allow the fund to grow meaningfully.

The use of derivatives, which are commonly employed by conventional banks for hedging financial risks, is generally not permitted by Shariah. Some Islamic hedging products (such as profit rate swaps) have been developed and are gradually gaining acceptance. However, the number of such products is still relatively small.

The IIFM and ISDA have jointly developed a Tahawwut Master Agreement, which is the first globally standardized documentation for privately negotiated Islamic hedging products. This is a breakthrough in Islamic finance and risk management and should provide a good platform for further development of products.

Future prospects

Overall, the Islamic banking industry seems destined to have a good future. Apart from the retail demand from new markets, a natural growth driver that is emerging is institutional demand for fixed income products such as Sukuk, which have performed extremely well through the market turmoil. According to the World Islamic Banking Competitiveness Report 2011 from Ernst & Young, Islamic banking assets are expected to reach US$1.1 trillion in 2012, a jump of almost 33% from their 2010 level of US$826 billion.

A lot of effort and innovation has been applied to ensure that the industry is capable of meeting the demands of the modern economy. To be sure, there are still some gaps and areas where improvement is needed, but these are evolutionary challenges that should be viewed in the context of the relatively short history of the industry. In fact, they could be very exciting opportunities for those who can find acceptable solutions.

The views expressed in this article represent the author's personal opinion and should not be construed to represent the views of Invest AD.

Biswajit Dasgupta is the head of treasury and trading at Invest AD. He can be contacted at bizdasgupta@gmail.com.

The Royal Bank of Scotland disaster: Lessons for Islamic finance

Islamic bankers should not regard financial disasters of the type that befell RBS as only specific to conventional finance, as many of the issues that led to RBS's failure are also risks in Islamic banking. MOHAMMED AMIN explores.

On the 1st January 2007 The Royal Bank of Scotland Group (RBS) was a giant of international finance, with a market capitalization of GBP62.8 billion (US$97.2 billion). Although based in the UK, it had a major presence in the US and significant operations in many other countries. Its consolidated balance sheet showed total assets of GBP871 billion (US$1.3 trillion), more than all the Islamic banks in the world combined, then or today. In the 12 months leading up to the 31st December 2007, RBS made a profit of GBP7.7 billion (US$12 billion) after tax.

Only 10 months after that, in October 2008, RBS needed emergency liquidity funding from the Bank of England in its capacity of UK lender of last resort, alongside emergency capital injections from the UK government in December 2008 and January 2009 totalling GBP45.5 billion (US$71 billion). Without that emergency funding and capital, RBS would clearly have failed: it reported a loss after tax for the year ended the 31st December 2008 of GBP34.3 billion (US$5 billion).

This was the greatest disaster that had ever befallen a UK bank.

What went wrong?

UK banks are regulated by the Financial Services Authority (FSA), and since RBS's near collapse (saved only by Bank of England and UK government intervention) many have asked whether the FSA's regulation was adequate. Accordingly, in December 2011 the FSA published its report, 'The failure of The Royal Bank of Scotland', explaining what happened and laying out the FSA's shortcomings in its regulation of RBS.

The FSA identified six key factors which led to RBS's failure:

- Significant weaknesses in RBS's capital position during the review period, as a result of management decisions;
- Over-reliance on risky short-term wholesale funding;
- Concerns and uncertainties over RBS's underlying asset quality;
- Substantial losses in credit trading activities, which eroded market confidence;
- The ABN AMRO acquisition, with which RBS proceeded without appropriate heed to the risks involved and with inadequate due diligence; and
- An overall systemic crisis in which the banks in worse relative positions were extremely vulnerable to failure. RBS was one such bank.

> *"While an Islamic bank would not engage in some of RBS's business lines, most of the causes of RBS's failure are also exposures within in Islamic finance"*

Is any of this relevant to Islamic finance?

The easy (but wrong) answer would be to say that because Islamic finance is different, it is not exposed to the same risks as conventional finance.

However Islamic banks fulfil essentially the same function as conventional banks, namely channelling money from one set of customers (called depositors in conventional finance) to another set of customers (called borrowers in conventional finance).

While an Islamic bank would not engage in some of RBS's business lines (for example trading in derivatives), most of the above causes of RBS's failure are also exposures within in Islamic finance. Some key ones are discussed below.

Weak capital position

Fundamentally, the owners of a bank always want to minimize the amount of capital they deploy in the business. The lower the capital deployed for a particular level of total business, the greater the return on equity (profits divided by equity). There are only two constraints on minimizing the capital:

1. External rules created and enforced by regulators.
2. The commonsense of the shareholders, since the lower the capital deployed the greater the risk of the total failure of the bank. Furthermore if a bank is perceived to have low capital, customers will be reluctant to supply it with money.

It is sometimes argued that Islamic banks have lower capital requirements than conventional banks, due to a significant proportion of their assets being financed by profit sharing investment accounts (PSIA).

In those jurisdictions where PSIA are offered, PSIA holders are not guaranteed full repayment of their account balances and in principle suffer the loss if the assets being financed underperform. The Islamic Financial Services Board standard, 'Capital Adequacy Standard for Institutions (Other Than Insurance Institutions) Offering Only Islamic

continued...

Continued

Financial Services December 2005', accepts this argument in principle.

However it points out in paragraphs 70-79 that, for the reasons explained in those paragraphs, regulators have discretion to require Islamic banks to recognize a proportion of the assets financed by PSIA when computing the required amount of capital.

> ***"If anything, Islamic banks are more exposed to asset concentration risk than conventional banks, since they finance a narrower range of assets"***

Over-reliance on risky short-term wholesale funding

As well as funding from customers holding current accounts and PSIA, Islamic banks also fund themselves via the Islamic money market using commodity Murabahah contracts, or sometimes Wakalah contracts. Reliance on such wholesale Islamic money market funding carries the same risks of sudden unavailability of fresh funds that RBS faced in the period running up to its needing Bank of England lender of last resort facilities.

Concerns and uncertainties about underlying asset quality

Islamic banks do not lend money to customers, but they do provide finance in other ways, such as leasing, Murabahah or diminishing Musharakah contracts over tangible assets, commodity Murabahah contracts, etc. Such financings are just as exposed to the customer's inability to continue making payments as are conventional loans.

While there will usually be an underlying asset which the Islamic bank can (subject to legal enforceability of the contracts) reclaim and sell, there is no assurance that the Islamic bank will realize any more in a default situation than would a conventional bank that had made a loan secured on a similar asset.

If anything, Islamic banks are more exposed to asset concentration risk than conventional banks, since they will finance a narrower range of assets than will conventional banks. All types of banks periodically experience distress from financing real estate after a major fall in real estate values, and Islamic banks' risk exposure is no less than that of conventional banks.

The ABN AMRO acquisition

The specific details of the acquisition of ABN AMRO (a Dutch bank with significant international operations) need not concern us. What matters are the following aspects of the acquisition:

- RBS management had previously undertaken the very successful acquisition and integration of another UK bank, National Westminster Bank. There is a saying: "Nothing fails like success" and the attempt to reproduce a past success by making another major acquisition proved very damaging. Islamic bankers are as vulnerable to hubris as are conventional bankers.

- The acquisition was hostile and made on the basis of very limited due diligence investigation of the target. Islamic banks are capable of making the same mistake.

- RBS financed a significant proportion of the price with a year funding because it expected to repay most of it with an expected cash receipt which ended up being delayed. When it did not materialize, RBS needed significant extra short-term funds which added to its funding burden.

  While Islamic banks would structure their funding differently, they are as capable of misjudging the period of time for which funding is required as are conventional banks.

Corporate governance generally

The FSA report does not list corporate governance as one of its six key causes of RBS's failure and does not reach a definitive conclusion on RBS's corporate governance. However part of paragraph 593 of the FSA report is worth reproducing:

"...The Review Team was able to identify little significant disagreement on major issues during the Review Period in a Board containing tough and experienced individuals with successful track records (see paragraph 647). Clearly constant disagreement would be debilitating for a board, but some divergence from consensus would not be unhealthy."

My experience from membership of various boards indicates that board members are often unwilling to appear awkward by challenging more senior board members (such as the chairman or chief executive) and often unwilling to resist an apparent board consensus by speaking up or demanding a vote.

Accordingly there is a significant risk in most organizations of individual board members 'going with the flow' and failing to ask challenging questions or vote against proposed actions. The risk is amplified in cultures that place particular emphasis on consensus and on respect for more senior people.

Conclusion

Islamic bankers should not regard financial disasters of the type that befell RBS as unique to conventional finance. Instead they should study RBS and similar situations closely, as many of the reasons that led to RBS's failure are also risks in Islamic banking.

Mohammed Amin is an Islamic finance consultant and was previously UK head of Islamic finance at PwC. He can be contacted at mohammed.amin@btinternet.com.

Egypt: Time to take the lead in Islamic finance?

MAHMOUD FAWZY ZAKY shares his views on why both Egypt and the Islamic finance industry will have much to gain if the Egyptian government finds a way to increase its engagement with Islamic finance.

Egypt has the longest history of Islamic finance in the region, with the MitGhamr Savings Bank, an Islamic credit union, dating from 1963. However Islamic finance in Egypt is not only underdeveloped in comparison to the Gulf region and Southeast Asia, but also now lags behind the development of the industry in the UK.

Islamic financial services in Egypt have limited penetration, with only three major fully-fledged Islamic financial institutions and some Islamic windows at conventional banks. According to a 2009 report, Islamic banking only accounts for 3-4% of Egypt's US$193 billion banking industry — compared to 46% in the UAE.

After the 25th January revolution in Egypt, the country was viewed as a promising market for expansion, not only because of its large population (around 70 million Muslims), but because the new political system is expected to be more sympathetic to Islamic traditions, due to the expected and increasing influence of the Muslim Brotherhood.

The primary impediment to the development of Islamic finance in Egypt in the past has been concerns over the undue political influence of Islamic groups, leading to fears of an Islamic state with an accompanying banking system similar to that of Iran or Pakistan. However, the Egyptian banking system is not expected to be converted into a full Islamic banking system on the lines of Sudan, Iran and Pakistan any time soon.

Egyptian Islamic banks

The Egyptian Islamic banking sector is made up of a few fully-fledged Islamic banks, and a number of conventional banks offering Islamic services. Three main Islamic banks currently dominate the sector.

Faisal Islamic Bank of Egypt is the largest and oldest Islamic bank in Egypt. As at the 31st December 2011, Faisal Islamic Bank held total assets amounting to TRL31.7 billion (US$5.3 billion), with a network of 25 branches. Al Baraka Bank Egypt, the Egyptian subsidiary of Bahrain-based Al Baraka Bank, has a long presence with a network of 24 branches. Its assets and liabilities currently amount to TRL13 billion (US$2.2 billion). Al Baraka re-branded its operations in 2009 and it now designates itself as a retail bank.

The National Bank for Development (NBD) has been part of the Abu Dhabi Islamic banking group since the last quarter of 2007 when Abu Dhabi Islamic Bank (ADIB) acquired NBD. NBD now offers a broad spectrum of Shariah compliant banking products and solutions for large corporates as well as individuals.

> *"Islamic financial services in Egypt have limited penetration, with only three major fully-fledged Islamic financial institutions and some Islamic windows at conventional banks"*

The Islamic banking system in Egypt can strengthen mutually beneficial financial links between Egypt and other regions of the Muslim world and promote economic integration. As much of the paid-up capital for the Islamic banks already operating in Egypt was raised in the GCC, this represented an inflow of foreign direct investments. As the GCC markets are limited by the small population, many Islamic financial institutions based there are looking to expand into other markets by establishing subsidiaries and joint ventures. Largely due to trans-Arab world media advertising, there is already potential client brand awareness of particular Islamic banks. Hence new entrants into Egyptian markets can take advantage of an at least partly informed market.

An interesting expansion model is Dubai Islamic Bank, which now has a growing branch network in Pakistan but as yet no branches in Egypt. Similarly Qatar Islamic Bank has subsidiaries in Kuala Lumpur, Beirut and London, and in 2010 signed an MOU with Banque Populaire Caisse d'Epargne, France's second largest banking group, in order to gain access to French retail banking and the small-to medium-sized business markets.

New opportunities

As the Islamic banks cannot hold treasury bills paying interest or accept interest payments on their deposits with central banks, these institutions earn no returns on treasury holdings; while their conventional competitors gain from such holdings. One solution is for the Egyptian government to enhance the issuance of short-term sovereign Sukuk or Islamic securities by which the Islamic banks can legitimately hold and earn a modest return.

In permitting the issuance of Sukuk, Egypt is opening the way for companies and institutional investors to use one of the tools of Shariah compliant finance. The Egyptian Financial Supervision Authority is planning to issue its first Islamic debt guidelines. Although the Islamic bond market still lacks regulation, it will be expected that the new regulations will help spur fixed-income activity in Egypt.

There is considerable potential for Islamic microfinance in Egypt. Egypt has a solid environment for Islamic microfinance given the relatively low levels of income and lack of regular secure employment for the majority of the population as well as for the high numbers of people who do not have bank accounts and have no collateral to offer for bank financing. Traditionally it was

continued...

Continued

moneylenders and pawnbrokers who provided finance for the poor, but the terms were often exploitative, reflecting the weak bargaining position of those seeking funding.

> ***There is considerable potential for Islamic microfinance in Egypt. Egypt has a solid environment for Islamic microfinance given the relatively low levels of income and lack of regular secure employment for the majority of the population***

Islamic microfinance can mitigate these challenges as it usually involves the creation of credit unions where the participants provide financing to each other through Qard Hasan.

Most of the traditional Egyptian microfinance institutions follow best practices and they have excellent loan portfolios and loan portfolio management systems and solid and loyal customers (as reflected in high repayment rates and high retention rates). However, the industry needs new methodologies and techniques like an Islamic microfinance methodology for it to progress.

There is a good model for Islamic microfinance in Egypt. The National Bank for Development has built a sustainable and profitable program for Islamic microcredit. This program was implemented through 43 branches, with two branches fully dedicated to Islamic microfinance. By the end of 2010, the program accounted for around 5% of the bank's lending and contributed more than 30% of its revenues.

Challenges of Islamic finance

There are many factors that account for the relative underdevelopment of Islamic finance in Egypt. Firstly, the lack of knowledge of Islamic banking principles amongst potential clients because of limited marketing; secondly, the absence of government support; and thirdly, the absence of a comprehensive legal and regulatory structure.

The lack of knowledge in Islamic banking in Egypt is an important issue. There is extensive coverage of Islamic banking developments in the media in the Gulf and Malaysia and not much in Egypt. The Egyptians — especially the lower middle income class — are still skeptical about Islamic finance because of the collapse of a number of fraudulent investment companies (such as Al-Rayan and Al-Saad) after swindling millions of Egyptians out of their savings through Ponzi schemes claiming to invest in Shariah compliant assets.

In Egypt there are no comprehensive Islamic banking laws apart from the limited provisions made under law No.48 of 1977. The licensing requirements for Islamic banks are identical to those for conventional banks in terms of capital requirements, liquidity ratios and financial reporting. These are not always helpful for Islamic banks however, as they are often at a disadvantage in relation to conventional banks with regard to regulatory requirements. Capital requirements are not a major problem and as Islamic banks all adhere to Basel II requirements, Basel III should not represent too much of an additional challenge.

But on the other hand, the Central Bank of Egypt has adopted a flexible approach to the regulation of Islamic banking, although it has not been as closely involved in international regulatory debates in such an intense manner as the Central Bank of Bahrain or Bank Negara Malaysia: institutions that have done much to promote their own countries as international centers for Islamic finance.

Egypt has no such ambitions, but the central bank is a full member of the IFSB. Furthermore on the 18-19th January 2011, just before the popular uprising, the Central Bank of Egypt hosted an IFSB Workshop at the Egyptian Banking Institute.

Conclusion

Both Egypt and the Islamic finance industry will have much to gain if the Egyptian government finds a way to increase its engagement with Islamic finance.

Mahmoud Fawzy Zaky is an investment analyst, foreign investment and corporate finance at Faisal Islamic Bank of Egypt and he can be contacted at economistmahmoud@gmail.com.

Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 9 Issue 2

A possible solution for recognition

Cover Story

Itqan Capital was launched last week in Saudi Arabia. Formerly the Al Tawfeek Financial Group, the new entity is now majority-owned by Bahrain's Al Baraka Banking Group (ABG) through its subsidiary Al Baraka Islamic Bank, which acquired a 60% stake of the Saudi-based closed joint stock company in October last year.

It has been reported that Al Tawfeek Financial Group has an authorized capital of SAR360 million (US$96 million) and undertakes Shariah compliant asset and portfolio management, custody, debt and equity arranging as well as research and advisory services.

Adnan Ahmed Yousif, the president and chief executive of ABG, termed the acquisition of Al-Tawfeek Financial Group as a "strategically vital acquisition for the group" which reflected its strategy to enter key regional markets such as Saudi Arabia, which it considers to be the largest Arab economy with strong fundamentals and a stable financial and investment environment.

With global uncertainties abounding on the back of the continuing Eurozone debt crisis and the recent downgrade of several European countries by Standard & Poor's, increasing numbers of investors are turning to Islamic finance as an alternative to the troubled conventional markets. Even conventional asset management and investment companies are joining the fray to obtain Islamic offerings for their portfolios.

Earlier last year, global investment banking and securities firm Goldman Sachs acquired Benchmark Mutual Fund in a deal rumored to be around a value of INR1.3 billion (US$25.1 million). As at October last year, Benchmark currently managed about INR32 billion (US$619.32 million)-worth of assets, mainly through exchange traded funds. Benchmark also manages GS S&P Shariah BeES – the first and only Shariah compliant ETF in the country.

Perhaps the biggest news in this sector last year was the merger of Nikko Asset Management (Nikko AM) and DBS Asset Management (DBSAM), completed at the end of September. The merger involved the acquisition of DBSAM by Nikko AM for S$137 million (US$104 million). It raised some eyebrows in the Islamic finance industry as Nikko AM also acquired a 51% stake in Asian Islamic Investment Management (AIIMAN), which is a joint venture between Singapore's DBSAM and Hwang-DBS (Malaysia) focused on Shariah compliant investment solutions.

Despite its new shareholder, AIIMAN has however made no changes in terms of management personnel or the direction of the company. This was Nikko AM's maiden foray into the Islamic finance industry. As at the 31st July 2011, AIIMAN's total assets under management, comprising corporate and discretionary portfolios, stood at approximately RM3.37 billion (US$1.07 billion).

Nikko AM highlighted its strategic plan to establish itself as a leading Asian asset management firm when it subsequently entered into a joint venture (JV) with Ambit Holdings to provide investment management and advisory services.

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

The joint venture will also manage and advise the dedicated India funds of Nikko AM and Ambit Holdings, whose assets under management amounted to US$150 million as at the 30th September 2011. The partnership also gives Ambit the ability to tap into Nikko AM's product development capabilities and extensive network of over 300 distributors across Asia. In addition, it provides Nikko AM with local knowledge and investment expertise for its India funds.

The biggest challenge faced by the majority of asset managers with Islamic funds is a lack of breadth and depth compared to conventional asset management firms. Indeed, performance of such funds in terms of returns does play a significant part in attracting investors (particularly institutional investors).

However, these investors are also interested in the size of such funds, as well as the reputation of the fund house, and perhaps this is an alternative way forward for the Islamic asset management industry. Mergers may be a solution to provide much needed leverage for smaller boutique Islamic asset management firms, enabling them to find a presence in the international arena. — RW

In this issue...

BLME provides Murabahah

UK: The Bank of London and The Middle East (BLME) has completed a GBP11.5 million (US$17.8 million) Murabahah financing transaction with local care home provider Healthcare Properties, a subsidiary of real estate investment and financing company Public Service Properties Investments.

The facility is secured by four care homes operated by European Care Group, a local operator of residential and specialist care homes in the UK.

Addleshaw Goddard advised BLME on the transaction, while PSPI was represented by Norton Rose.

Student housing investment

UK: Bahrain-based Tadhamon Capital, an Islamic investment company, has completed the acquisition of a 50% ownership in University Campus Suffolk's student accommodation, Athena Hall, located in Ipswich.

The transaction, which is worth GBP26.7 million (US$41 million), was concluded at a net initial yield of 7.3% and will distribute a quarterly net cash yield of 8% per annum to investors.

The acquisition was co-arranged by Tadhamon Capital and London's real estate investment manager, Apache Capital Partners.

Islamic fund platform on track

MALAYSIA: CIMB Principal Islamic Asset Management has received approval from the Central Bank of Ireland for the establishment of CIMB-Principal Islamic Asset Management (Ireland), making it the first Malaysian international Islamic funds platform domiciled in Dublin.

The newly formed CIMB-Principal Islamic Asset Management (Ireland) will serve as an investment manager of Dublin-based Undertakings for Collective Investment in Transferable Securities (UCITS) for Islamic funds.

CIMB-Principal Islamic Asset Management will also launch three new UCITS-compliant equity funds under the new platform: comprising the Islamic ASEAN Equity Fund, the Islamic Asia-Pacific ex-Japan Fund and the Islamic Global Emerging Markets Fund.

The three funds will be registered and distributed in seven jurisdictions: Bahrain, Germany, Saudi Arabia, Singapore, Switzerland, the UAE and the UK.

Gatehouse exits real estate investment

US: Gatehouse Bank has completed its first real estate-realized investment through the sale of medical facility VA Oceanside Clinic, near San Diego, California for US$54.5 million.

The sale was conducted through a collaboration with its sister company, Kuwait-based investment firm Global Securities House, and US real estate advisory firm Archstreet Capital Advisors.

The sale equates to a return on equity of 21% over its acquisition cost of US$44.8 million.

The VA Oceanside Clinic is an 80,000 sqm medical facility which was leased and operated by the US department of veteran affairs for 20 years.

Open for business

SAUDI ARABIA: Investment-based firm Itqan Capital, formerly known as Altawfeek Financial Group, has launched its operations in Jeddah.

Abdul Aziz M A Yamani, the chairman of Itqan, said that the firm's future focus will be on four areas: asset management, custodial services, investment banking and principal investment.

Itqan is majority-owned by Bahrain's Al Baraka Islamic Bank.

New gold notes

UAE: Abu Dhabi Islamic Bank (ADIB) has launched its one-year Murabahah-based ADIB Capital Protected Gold Notes.

Investors can choose one of three investment options: the 80% Capital Protected Gold Note, the 98% Capital Protected Gold Note, or a combination of the 98% Gold Note with selected mutual funds based on their risk tolerance and profile.

Subscription for notes is available until the 26th January.

More investment products to come

MALAYSIA: HSBC Amanah Malaysia will focus on launching several Shariah compliant investment-linked products and structured funds such as Real Estate Investment Trust products, said Rafe Haneef, its CEO.

"Moving forward, we are looking at more investment products. The range of asset products at HSBC Amanah is pretty much complete," he said.

Handle cross-border matters first

MALAYSIA: There exists a need to address cross-border issues including the regulatory framework for funds approval, distribution and supervision, as the Islamic fund management industry moves towards greater internationalization, said Zarinah Anwar, the chairman of the Securities Commission Malaysia.

In view of this, Zarinah explained that cross-border collaboration among regulators is an important aspect of the industry's development to ensure appropriate investor protection and effective oversight of related intermediaries and their cross-border activities.

These factors are especially crucial as the growth of Malaysia's Islamic capital market will be driven by further internationalization and a distinctive value proposition of products.

Equity fund screening

MALAYSIA: OSK-UOB Islamic Fund Management has signed an agreement with IdealRatings to use the latter's research-based screening for its global growth strategy of equity funds.

Mohamed Noor, the CEO of OSK-UOB Islamic Fund Management, said that the firm is confident that IdealRatings can provide top quality Shariah screening data for its Global Halal Food Fund and other funds it will offer in the future.

Shariah compliant investing: Moral obligations versus returns trade-off

Do investors have to compromise on returns when investing in Shariah compliant equities? ABDULAZEEZ DAVIDS provides a case study of an Islamic equity fund in South Africa.

Shariah investing, being a part of Islamic theology relating to business dealings, is considered an important part of Muslims' adherence to their faith. In summary, Islamic Shariah law prohibits investments in alcohol, gambling, pornography and similar industries – the so-called sin industries.

Furthermore, Shariah law prohibits Muslims from dealing in interest – both the paying and receipt thereof. For investors that want to adhere to Shariah, the universe of available investments therefore reduces substantially as a consequence and in particular sectors like banking, beverages, media and entertainment become no-go areas for investment.

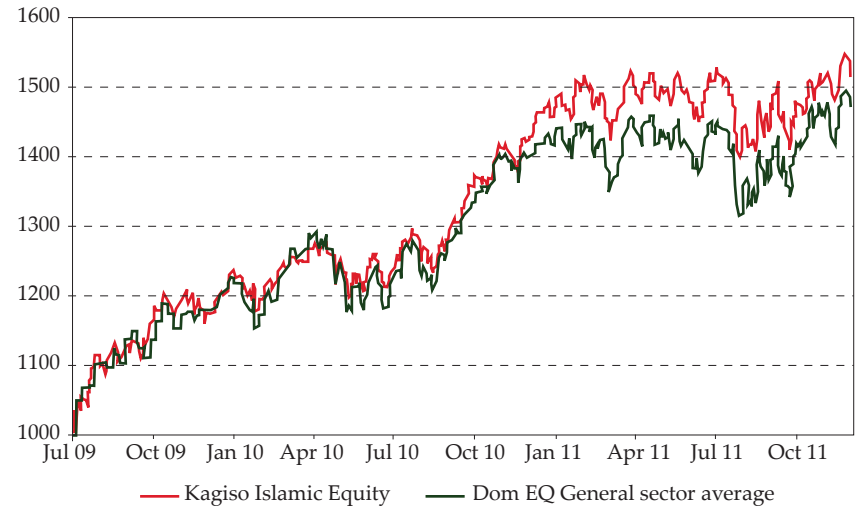
Furthermore, for companies with Shariah compliant business activities, debt and cash balance levels need to be closely managed to avoid the payment or receipt of excessive amounts of interest. As a result of the perceived onerous rules and limitations placed on Shariah investors, the conventionally-held view is that Shariah investing will result in lower returns compared to conventional investing.

At Kagiso Asset Management, we do not share this conventional view. We launched a Shariah compliant equity unit trust in July 2009 because we are of the view that, even with the perceived limitations placed on us, we would be able to outperform our traditional competitors in the unit trust industry.

We benchmark our performance relative to the mean performance of our peers with a view to outperforming this benchmark and being amongst the top 20% of funds on a consistent basis. As can be seen from Graph 1, our Kagiso Islamic Equity Fund has outperformed the mean fund since its inception in mid-July 2009.

A ZAR1,000 (US$122.9) investment in the Kagiso Islamic Equity Fund was worth ZAR1,513 (US$186) at the end of November 2011, versus a market value of ZAR1,468 (US$180.5) for the mean general equity unit trust fund. This translates in to an annualised return of 18.7% for the Kagiso Islamic Equity Fund compared to a 16.9% annualised return for the mean fund.

Graph 1: Kagiso Islamic Equity Fund since inception



Source: Morningstar
Based on lump sum investment with income reinvented/NAV-NAV

Table 1

	Investment on 31st July 2004	Value on 30th November 2011	Annualized return
All Share Index	R1,000	R3,131	17.03%
Pure stocks	R1,000	R4,324	22.04%

	Investment on 31st July 2004	Value on 30th November 2011	Annualized return
All Share Index	R1,000	R3,131	17.03%
Sin stocks	R1,000	R2,388	12.86%

	Investment on 31st July 2004	Value on 30th November 2011	Annualized return
All Share Index	R1,000	R3,131	17.03%
Pure Low Debt Stocks stocks	R1,000	R3,370	18.15%

	Investment on 31st July 2004	Value on 30th November 2011	Annualized return
All Share Index	R1,000	R3,131	17.03%
Sin High debt stocks	R1,000	R1,975	9.81%

Source: Kagiso Asset Management

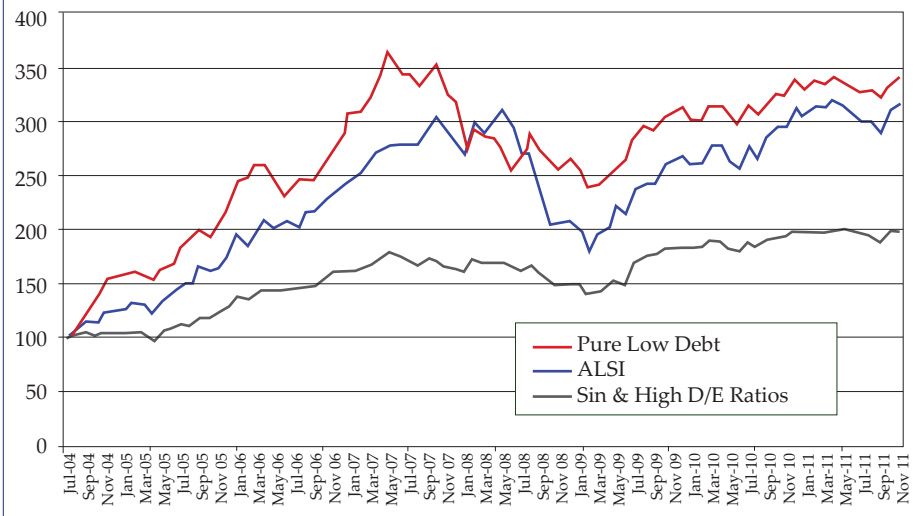
Longer-dated returns

As part of our pre-launch research for the Kagiso Islamic Equity Fund, we looked at historic returns on the Johannesburg Stock Exchange (JSE) All Share Index and

continued...

Continued

Graph 2



Source: Kagiso Asset Management

specifically, the returns from a Shariah compliant or 'pure' portfolio of listed stocks relative to the JSE All Share Index and a portfolio of non-permissible or 'sin' stocks.

Due to changes in the JSE's equity classification system, we could only calculate returns from July 2004: nevertheless we had five years of data to our launch month of July 2009. We recently updated the research to incorporate the latest data to the end of November 2011, a total of 88 months.

Of the 164 eligible listed stocks that had sufficient data, 44 could be classified as sin stocks (i.e., the companies were involved in banking, conventional insurance, alcoholic beverages, gambling and entertainment). The other 120 stocks' business activities were considered to be Shariah compliant. We classified a further 27 stocks as 'high debt' stocks because their average debt levels exceeded the allowable threshold of 30% as prescribed by AAIOFI. As a consequence, our pure portfolio was narrowed down to 93 stocks, compared to the sin portfolio of 71 stocks.

> ***"After taking into account the 30% debt tolerance level, pure stocks outperformed the sin portfolio by over 8% over the period"***

Measuring performance

We calculated the performance of the two portfolios and the JSE All Share Index using pricing data supplied by the JSE to INet-Bridge, excluding dividends. The inclusion of dividends would have favoured the pure portfolio, as the companies in the portfolio tended to have higher dividend pay-out ratios and stronger balance sheets compared to the sin portfolio. Significantly, the measuring period included the 2008 recession, as well as the preceding bull market period. The results of the back-testing can be summarised as per Table 1.

As indicated in the table, the JSE All Share Index returned 17% over the 88-month period, translating into a portfolio value of ZAR3,131 (US$385.1) at the end of November 2011, following a ZAR1,000 investment on the 31st July 2004.

A pure portfolio returned 22% over the same period, translating into an annualised alpha of 5% per annum. A sin portfolio only returned 12.8%, resulting in underperformance of over 4% per annum. After taking into account the 30% debt tolerance level, pure stocks outperformed the sin portfolio by over 8% over the period. Graph 2 summarizes the performance of the two portfolios relative to the JSE All Share Index.

Conclusion

The outperformance of the pure portfolio was expected during the recession given the stable balance sheets of the underlying companies. However, the preceding bull market as well as the subsequent rapid recovery would have favored geared stocks disproportionately. Nevertheless, a pure Shariah compliant portfolio would not only have outperformed the broader market but also earned a substantial real return over the last seven years.

Abdulazeez Davids is the head of research and portfolio manager at Kagiso Asset Management. He currently manages the Kagiso Islamic Equity Fund as well as segregated equity portfolios for institutional clients. He can be contacted at adavids@kagisoam.com.

Next Forum Question:

> **"What is the outlook for the Islamic debt capital market this year, given the prevailing Euro crisis and global economic landscape?"**

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before the 20th January 2012.

Mega Dana Syariah

The fund aims to obtain sustainable returns over the long-term with a moderate risk level, through Shariah compliant investment.

What led to this fund being launched?
Reasonable necessity in the market share of Indonesia: due to the majority of residents being Muslim, to allow investors to invest in accordance with the principles of Shariah. Mega Syariah Funds aim to acquire investment results sustainable over the long-term with a moderate level of risk through investments based on Shariah.

Why has this particular region / asset class been chosen?
The majority religion in Indonesia is Muslim. Therefore we have a huge potential target market. Moreover, the potential growth for the Shariah market as a whole is still very high.

What are the key factors that drive the fund's performance?
The Sukuk market in Indonesia is still relatively small and yet growing, so there's still a considerable chance to grow.

Who are your investors?
Both institutional and individual retail clients. Most of our potential customers come from big cities in Indonesia (Jakarta, Surabaya, Yogayakarta, etc). We currently focus on our domestic clients. However this does not preclude the possibility of going international.

What specific risks does the fund take into consideration? And why?
The main problems are likely to be due to the global economical situation. This could result in the most influential risks that we face in the future: for example, the Europe crisis.

What are the sectors you are heavily invested in and why?
The fund is heavily invested in government bonds, especially in the SBSN Ijarah or Sukuk retail market, issued by financial institutions to reduce their risk profile. We also have diversification with stocks in the property, mining, infrastructure and consumer goods sectors to minimize risk.

What are the sectors you have recently exited and why?
Specific stocks that give a good a rate of return and significant growth fundamentally: such as government Sukuk.

How has this change affected your portfolio of this fund?
This portfolio will affect growth in returns and investment in the future.

What is the rate of return of this fund?
Currently we give 3.42%.

What is the market outlook for this fund?
It is very positive.

How has this fund performed compared to your initial expectations?
The fund has consistently outperformed the benchmark.

> *"We believe our performance in coming years will continue to improve, due to the Indonesian sovereign rating upgrade to investment grade status"*

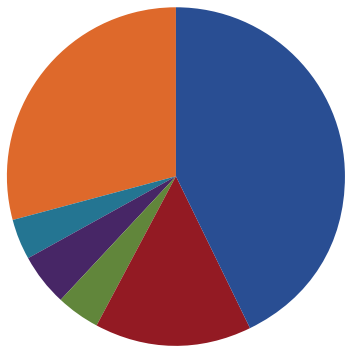
Has your strategy for this fund changed since inception, and if so how?
Since our Shariah fund contains more Sukuk and fixed income instruments (government bonds) we maintain the same strategy.

Why should investors choose this fund over others?
This Shariah fund shows consistent outperformance and since the portfolio contains more government bonds, the potential risks are minimized. We believe our performance in coming years will continue to improve, due to the Indonesian sovereign rating upgrade to investment grade status.

Fact sheet	
Fund Manager	Sutjipto J. Hugeng
Trustee	n/a
Shariah Advisor(s)	K.H. Ma'rufAmin Kanny Hidaya, SE
Benchmark (Index)	1. IHSG + SBI 2. Indeks Reksa Dana Campuran
Domicile	Jakarta, Indonesia
Inception date	13th September 2007
Fund Characteristics	**Fund Type** Open **Fund Size** Rp. 27,584,623,485 (US$2,998,980) **NAV per Share** Rp 1,794.66 (US$0.195) **Minimum Investment** Rp 500,000.00 (US$54.35) **Management Fee** 1 % p.a

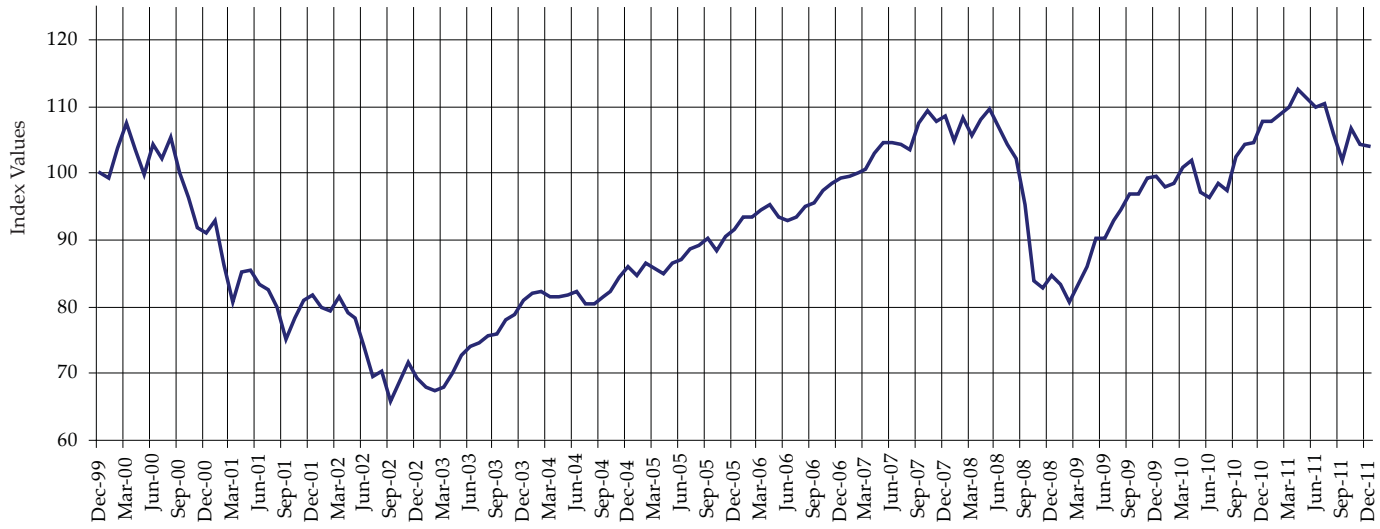
Perfomance summary	
YTD Return	3.42 %
Benchmark	1. IHSG + SBI : 2.31 % 2. Index Reksa Dana Campuran : 2.57 %
Cumulative return since inception	78.54 %

***Fund Portfolio Composition :**



IFR001	43%
SR01	15%
UNTR	5%
SMGR	4%
PPLNO8C	4%
Others	29%

Eurekahedge Global Islamic Fund Index



Top 10 Monthly returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	9.10	Saudi Arabia
2	AlAhli Saudi Mid Cap Equity	NCB Capital Company	8.08	Saudi Arabia
3	AlAhli Saudi Trading Equity	The National Commercial Bank	7.56	Saudi Arabia
4	Jadwa Saudi Equity	Jadwa Investment	7.47	Saudi Arabia
5	Al-Saffa Saudi Equity Trading	Banque Saudi Fransi	6.92	Saudi Arabia
6	Al-Mubarak Pure Saudi Equity	Arab National Bank	6.91	Saudi Arabia
7	Amanah Saudi Equity	SABB	6.78	Saudi Arabia
8	AmIttikal	AmInvestment Management	6.72	Malaysia
9	Jadwa GCC Equity	Jadwa Investment	6.46	Saudi Arabia
10	Jadwa Arab Markets Equity	Jadwa Investment	6.31	Saudi Arabia
	Eurekahedge Islamic Fund Index		**0.86**	

Based on 70.43% of funds which have reported December 2011 returns as at 17th January 2012

Top 10 Monthly Returns for Global funds

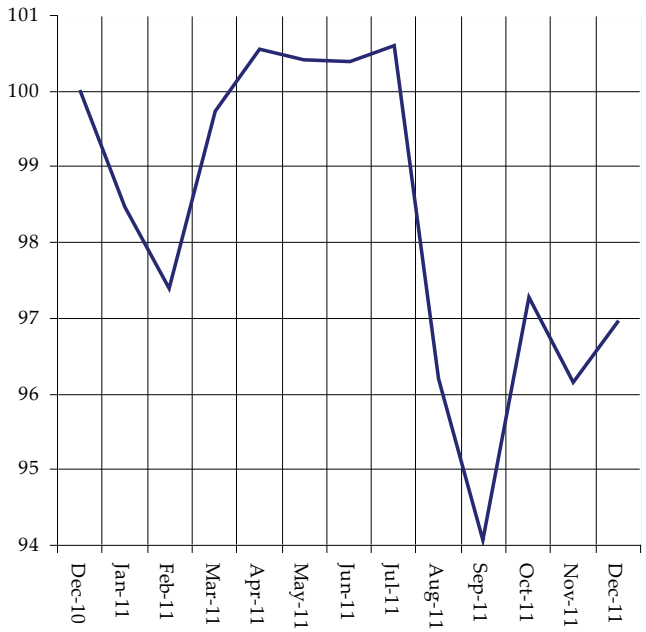
	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Russell Jadwa World Equity	Jadwa Investment	5.45	Saudi Arabia
2	AlAhli Global Real Estate	The National Commercial Bank	4.87	Saudi Arabia
3	SWIP Islamic Global Equity - Class A	Scottish Widows Investment Partnership	4.44	UK
4	AmOasis Global Islamic Equity	AmInvestment Management	4.24	Malaysia
5	Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	3.29	Guernsey
6	Global Equity - Musharaka	Riyad Bank	2.76	Saudi Arabia
7	Al Shamekh Islamic Portfolio	Riyad Bank	2.71	Saudi Arabia
8	ETFS Physical Palladium	ETFS Metal Securities	2.54	Jersey
9	Al-Mubarak Global Equity	Arab National Bank	2.44	Saudi Arabia
10	Al Shuja'a Islamic Portfolio	Riyad Bank	2.11	Saudi Arabia
	Eurekahedge Global Islamic Fund Index		**-0.37**	

Based on 81.94% of funds which have reported December 2011 returns as at 17th January 2012

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

Eurekahedge Islamic Fund Balanced Index over the last 5 years

Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Fund of Funds by 3 month returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Russell Jadwa World Equity	Jadwa Investment	5.39	Saudi Arabia
2	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	3.74	Saudi Arabia
3	Al-Mubarak Balanced	Arab National Bank	2.99	Saudi Arabia
4	Al Rajhi Multi Asset Growth	Al Rajhi Bank	2.40	Saudi Arabia
5	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	1.65	Saudi Arabia
6	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	0.95	Saudi Arabia
7	AlManarah High Growth Portfolio	The National Commercial Bank	0.74	Saudi Arabia
8	Jadwa Balanced Allocation	Jadwa Investment	0.59	Saudi Arabia
9	AlManarah Conservative Growth Portfolio	The National Commercial Bank	0.47	Saudi Arabia
10	AlManarah Medium Growth Portfolio	The National Commercial Bank	0.46	Saudi Arabia

Based on 93.34% of funds which have reported December 2011 returns as at 17th January 2012

Top 5 Real Estate Funds by 3 month returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Markaz Real Estate	Kuwait Financial Centre	1.53	Kuwait
2	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	1.16	Saudi Arabia
3	Al-'Aqar KPJ REIT	AmMerchant Bank	0.89	Malaysia
4	Al Dar Real Estate	ADAM	0.89	Kuwait
5	Solidarity International Real Estate Fund	Solidarity Funds Company	0.71	Bahrain

Based on 100.00% of funds which have reported November 2011 returns as at 17th January-2012

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

Takaful news

Brought to you by Takaful IKHLAS®

18th January 2012

Takaful and investment plan

With a more guaranteed interest, Takaful has changed its status from just an alternative to something of a requirement or obligation. SYED MOHEEB SYED KAMARULZAMAN discusses.

Cover story

Man and his wealth are inseparable. Thus, Islam recognizes the human need to acquire wealth, and in relation to this, our religion has outlined a definite set of laws to be followed by man in his interaction with wealth as a means to enjoy the comforts of life.

Having wealth alone without it being managed and developed for the goodness of mankind is contrary to what is demanded by Islam. Islam decrees such wealth to be developed; and prohibits one from freezing it.

Nowadays, people are beginning to turn to investments as an alternative form of income to achieve their future objectives. Yet today our society is overwhelmed by various investment methods; both legal and illegal, including 'get-rich-quick' schemes.

It is undeniable that the increased awareness for investing among the Islamic community today is very encouraging. However, such enthusiasm is not a reason to ignore the difference between the real investment methods and the bogus ones; for failure to distinguish between them may produce catastrophic results in the future. Therefore, every member of society should have some basic knowledge related to their investments before deciding to invest.

With the development of the Takaful industry, Takaful operators are also offering many innovative products that meet the needs of the society. To fulfill the customers' needs not only in terms of Takaful coverage but also to reap the profits from the investment activities of Takaful handlers, Takaful Ikhlas is offering a product which combines the elements of Takaful coverage together with the elements of investment; known as 'investment-linked'. Subscriptions to these investment-linked products are expected to continue to escalate in line with the increasing income of Malaysians.

> *"The investment-linked Takaful plan is a long-term savings plan based on the method of investing in a group of shares which are divided into several units"*

Investment-linked Takaful plan

The investment-linked Takaful plan is a long-term savings plan based on the method of investing in a group of shares which are divided into several units (something akin to unit trusts) and combined with Takaful protection benefits.

The significant distinction between the Takaful investment-linked products compared to other investment methods is the element of protection. A participant will not only reap the benefits of investment profits, but will also enjoy the elements of protection should the participant suffer any of the risks covered under the plan.

Tabarru

In the Takaful system, the implementation of Tabarru is bound to the principles of Takaful: to create a mutual atmosphere of helping one another. As a simple analogy, participant A would make a contribution to help participant B, and participant B would donate to help participant A. This would create a helping environment known as Takaful. Here, participants help one another, contrary to conventional insurance system where the dealings only occur between participants and the company. The role of Tabarru that serves as a charitable contribution is regarded as very special in Islam.

Through the Takaful system, this practice can be even better, more systematic and professional. Furthermore, the practice of Tabarru through this system is termed

continued...

Continued

as a 'first class' Tabarru, as it is done sincerely. The chance for us to seize this opportunity is wide open whether we become a Takaful customer, employee or even a representative (agent).

Participants who joined the investment-linked Takaful plan are also making the right choice for choosing an investment method which is line with Shariah. The Takaful system is free from the elements of gharar, riba and maysir. The absence of gharar shows that Takaful is a transparent system as it does not hide the facts and is free from any hidden agenda.

Regulators

Participants need not feel apprehensive because the responsible bodies in relation to the Takaful industry in Malaysia, such as the central bank, Bank Negara Malaysia (BNM), have established a regulatory framework of Shariah compliance which is robust and efficient.

The Takaful Act 1984 allocated several provisions that require Takaful operators to ensure that all their activities comply with Shariah and this is accompanied by circulars issued from time to time by BNM.

In fact, based on the Act each Takaful operator must establish a Shariah committee to ensure that their operations are Shariah compliant. Besides that, the Takaful operators must also make available a full-time Shariah officer on duty to ensure that every aspect of Shariah compliance is given priority.

Conclusion

With the wider availability of Islamic financial facilities such as Takaful in the market, which are offering a better product and a more guaranteed interest, choosing this Islamic facility has changed its status from just being an alternative to something of a requirement or obligation.

Syed Moheeb Syed Kamarulzaman is president and CEO of Takaful Ikhlas. He can be contacted at ikhlascare@takaful-ikhlas.com.my.

Possible Takaful venture?

MALAYSIA: Zurich Insurance Co has not dismissed the possibility of venturing into Takaful, said Philip Smith, the head of special projects, global life Asia Pacific and the Middle East, at Zurich Insurance.

This follows Zurich Insurance's acquisition of the General and Life insurance businesses of Malaysian Assurance Alliance (MAA) from MAA Holdings in September 2011. However, the acquisition did not include MAA Takaful.

Takaful licenses on hold

KENYA: The award of new Takaful licenses in Kenya has been frozen until appropriate regulations on the industry are established in the country, said Sammy Mutua Makove, the CEO of the Insurance Regulatory Authority (IRA).

Currently, the country's insurance law does not recognize Takaful as a standalone product, although the law allows the IRA to issue ad hoc regulations authorizing individual operators on a case-by-case basis to sell Takaful products.

Makove added that the IRA has received many inquiries from local and foreign insurance firms keen on setting up Takaful firms. However, it cannot proceed with licensing until proper regulations are established based on the operational experience of Kenya's two licensed local Takaful operators, the Takaful Insurance of Africa and First Community Bank's Takaful subsidiary, FCB Takaful (Insurance) Agency.

Double offerings

BAHRAIN: BMI Bank and regional insurer Medgulf Allianz Takaful have launched an investment plan and a children's education plan under their long-term bancassurance products.

Some of the features of these two products include an option to choose the currency and investments; payment frequency; the choice to reduce or cease payments after investing a substantial amount; and access to savings.

Good news for Takaful industry

PAKISTAN: The Securities and Exchange Commission of Pakistan has finalized a draft on regulations that will allow major insurance companies to establish Takaful windows and offer Takaful products through their branch networks.

The laws will be discussed with stakeholders from the insurance industry in February this year, with firms expected to be formally allowed to offer Takaful products in March.

Latest Takaful report out

GLOBAL: AM Best Company has released an updated criteria report on rating Takaful companies.

The updated criteria report takes into account the changes reflected in the Takaful market; particularly regarding the development of the regulatory framework within certain countries and the key issues relating to Takaful operating structures.

Nik Joharris Nik Ahmad, CEO, Century Banking Corporation

Nik Joharris Nik Ahmad was appointed as the CEO of Century Banking Corporation in December 2010. He holds an LLB (Hons) with business law from the University of Coventry, UK and an MBA in Islamic banking and finance from the International Islamic University of Malaysia.

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

My career has spanned several countries, including Malaysia, Kuwait, Bahrain, Saudi Arabia and finally Mauritius. The organizations that I have worked for include a local bourse, a regulatory body and investment banks. My first foray into Islamic finance was when I joined a team at an investment bank in Malaysia looking at origination and execution of Sukuk. From thereon there was no turning back, as the industry appeals to me both as a Muslim and as a professional.

What does your role involve?

At this position meeting shareholders' aspirations is the key. We are building an Islamic bank from scratch in a country where we are the first Islamic bank and Muslims are a minority. Therefore, the role of the CEO is much more than just a figurehead.

Laying down the foundations is my key objective at the moment; this includes setting the bank on the correct strategy path, building the capabilities in every department, scouting for business opportunities locally and in the region; and all these with a focus to meet expectations of the shareholders.

Every aspect of the business needs undivided attention. Be it in originating and executing deals or ordering stationery, everything needs to be done right.

What is your greatest achievement to date?

These are early days to talk about

achievements. We have a robust business plan that will take us beyond the next three years and the results will speak for themselves. Working in an untested market, especially in Islamic finance, it is crucial to be nimble. Not all products and services will yield the same; as our experience tells us. So, the ability to act on our feet is paramount.

To date, approximately seven months after we began operations, we have closed two Murabahah financing facilities for corporates in Mauritius and the pipeline is building steadily over time.

What are the strengths of your business?

Our strength is essentially the combination of our shareholders (60% from Qatar and 40% from Mauritius), the management team and our geographical presence.

The shareholders have given us a leapfrog to reach for opportunities in our target markets. They have been instrumental in supporting us on both deal referrals and, especially, investors' network.

The management team has in-depth experience in their respective fields and, most importantly, has spent a good number of years in emerging markets before joining the bank.

We are close to Africa and India, where we believe Islamic finance will grow exponentially in the near future. Being in Mauritius provides the ideal entry point for this.

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

This is an extension to the strengths of our business. With a management team which understands emerging markets, coupled with supportive shareholders, the equation is just right.

What are the obstacles faced in running your business today?

The financial crises affecting Europe and the US paint a grim picture for everyone and we believe that no international banker is immune to that.

Nevertheless, we feel that Islamic finance may well be the way forward and having a foothold in new markets now will be an opportunity to differentiate ourselves.

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

The penetration rate for Islamic finance even among Muslims globally is still low: around 20% as reported by many parties.

We foresee that the growth will escalate as more and more positive exposure is given to the industry, not through better promotions but through success stories of economies already adopting and embracing Islamic finance.

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

Misconception. Many people still view Islamic finance merely as a religious decision rather than an alternative way of doing business and, more painfully, that Islamic finance is just a sham with no difference between profit and interest.

This is affecting business dealings with many potential corporates and individuals, especially in markets which are new to Islamic finance.

Education is definitely one of the most effective ways to reverse the misconception but, I believe, a more effective measure is for all of us existing practitioners to 'walk the walk' as well as 'talking the talk'.

ISSUER	SIZE	DATE ANNOUNCED
1Malaysia	TBA	16th January 2012
HSBC Amanah	TBA	12th January 2012
Bank Muamalat Indonesia	IDR1.25 trillion	9th January 2012
Indonesian finance ministry	TBA	5th January 2012
Sudan	TBA	3rd January 2012
Malaysian Airline System and Air Asia	RM12 billion	23rd December 2011
Emery Oleochemicals Group	US$151 million	20th December 2011
Sarawak Energy	RM1.5 billion	13th December 2011
Saudi Arabia	TBA	13th December 2011
General Authority of Civil Aviation	US$7.2 billion	11th December 2011
South Africa	TBA	6th December 2011
KMCOB Capital	RM343.1 million	5th December 2011
Emirates NBD	TBA	29th November 2011
Solum Asset Management	TBA	27th November 2011
Indonesian finance ministry	TBA	24th November 2011
Albaraka Turk Katilim Bankasi	US$200 million	21st November 2011
Majid Al Futtaim	US$500 million	21st November 2011
Bank Syariah Mandiri	IDR500 billion	18th November 2011
UEM Group & EPF	RM33 billion	17th November 2011
PLUS Expressways	RM30 billion	16th November 2011
Abu Dhabi Islamic Bank	US$500 million	9th November 2011
Emirates Airline	TBA	8th November 2011
Poh Kong Holdings	RM150 million	1st November 2011
DRB Hicom	RM1.8 billion	1st November 2011
Sabah Credit Corporation	RM1 billion	28th October 2011
Credit Agricole	TBA	27th October 2011
Anih Berhad	RM2.5 billion	24th October 2011
Axis Real estate Investment Trust	RM300 million	24th October 2011
Finance ministry of Pakistan	TBA	20th October 2011
Goldman Sachs	US$2 billion	19th October 2011
Almaraj, Saudi Arabia	TBA	16th October 2011
Mydin	RM350 million	13th October 2011
Barwa Bank	TBA	11th October 2011
Mashreq Al Islami	TBA	10th October 2011
Dow Chemical Company & Saudi Arabian Oil Company	TBA	9th October 2011
National Iranian Oil Company	TBA	1st October 2011
Qatar International Islamic Bank	TBA	28th September 2011
Tamweel	US$300-US$500 million	27th September 2011
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Bank Negara Malaysia	RM1 billion	6th September 2011
Bank Syariah Mandiri	IDR450 million	25th August 2011
Aref Investment Group	TBA	24th August 2011
Kuala Lumpur Kepong Berhad	RM300 million	22nd August 2011
Nakheel	AED4.8 billion	10th August 2011
Chemical Company of Malaysia	RM120 million	5th August 2011
Hub Power Company	PKR2 billion	2nd August 2011

IFN Correspondents

AFGHANISTAN: Dr Alam Hamdard Khan
deputy chief of Islamic banking, Bank Mille Afghan

AUSTRALIA: David Wood
partner, Mallesons Stephen Jaques

BAHRAIN: Dr Hatim El-Tahir
director, Islamic Finance Knowledge Centre, Deloitte & Touche

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BRUNEI: James Chiew Siew Hua
senior partner, Abrahams Davidson & Co

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

HONG KONG & CHINA: Anthony Chan
partner, Brandt Chan & Partners in association with SNR Denton

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

IRAQ: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

JORDAN: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LUXEMBOURG: Marc Theisen
partner, Theisen Law

MALAYSIA: Nik Norishky Thani
head special projects (Islamic), PNB

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

NEW ZEALAND: Dr Mustafa Farouk
counsel member for Islamic financial institutions, FIANZ

OMAN: Anthony Watson
senior associate, Al Busaidy Mansoor Jamal & Co

PAKISTAN: Bilal Rasul
director (enforcement), SEC of Pakistan

QATAR: Jaime Oon
solicitor, Eversheds

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

SRI LANKA: Roshan Madewala
director/CEO, Research Intelligence Unit

SWITZERLAND: Khadra Abdullahi
associate of investment banking, Faisal Private Bank

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

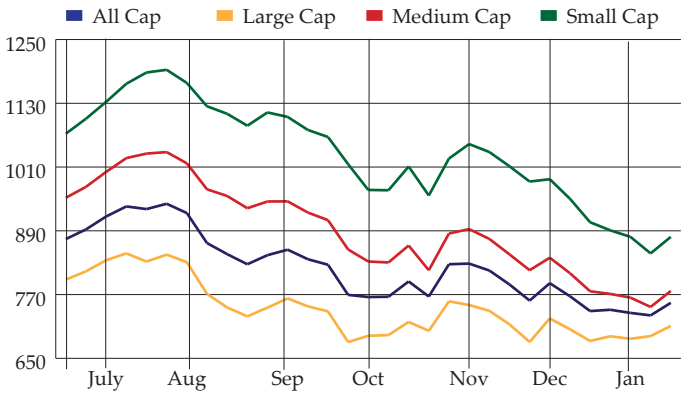
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

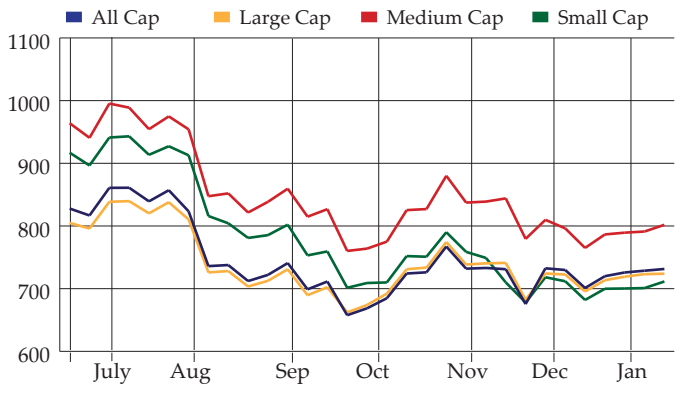
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

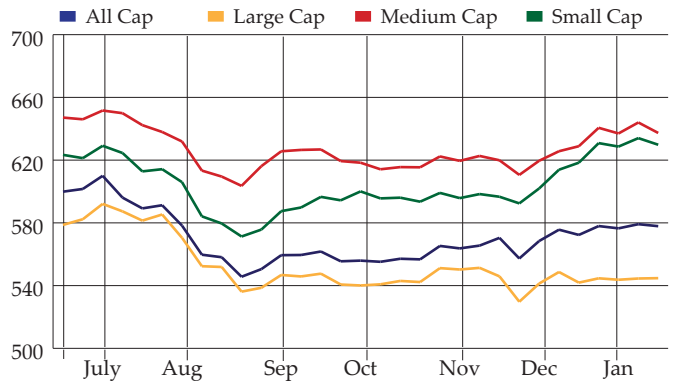
REDmoney Asia ex. Japan *6 Months*



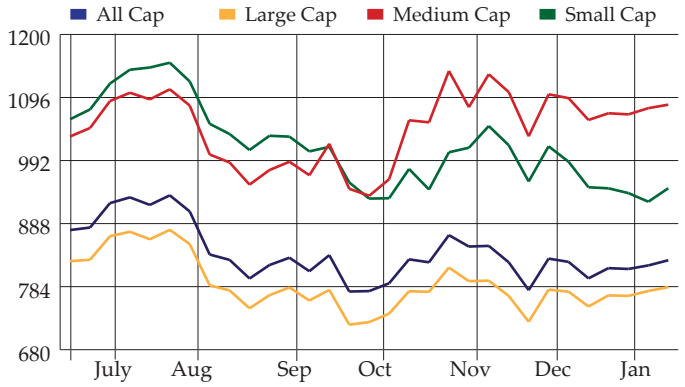
REDmoney Europe *6 Months*



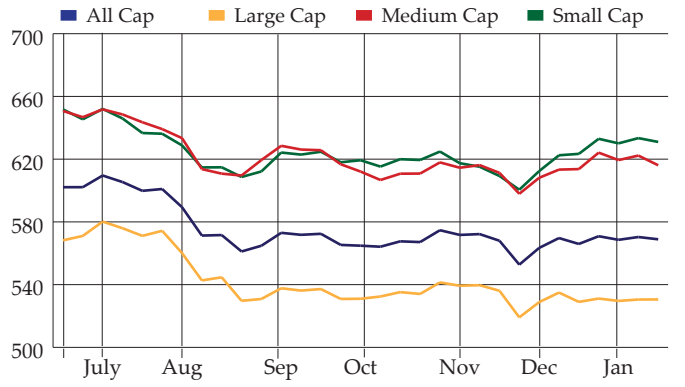
REDmoney GCC *6 Months*



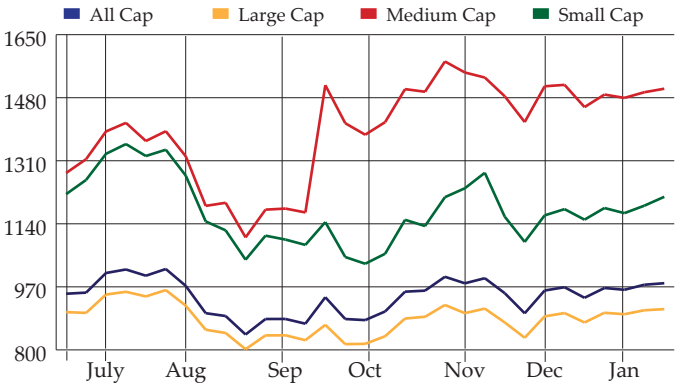
REDmoney Global *6 Months*



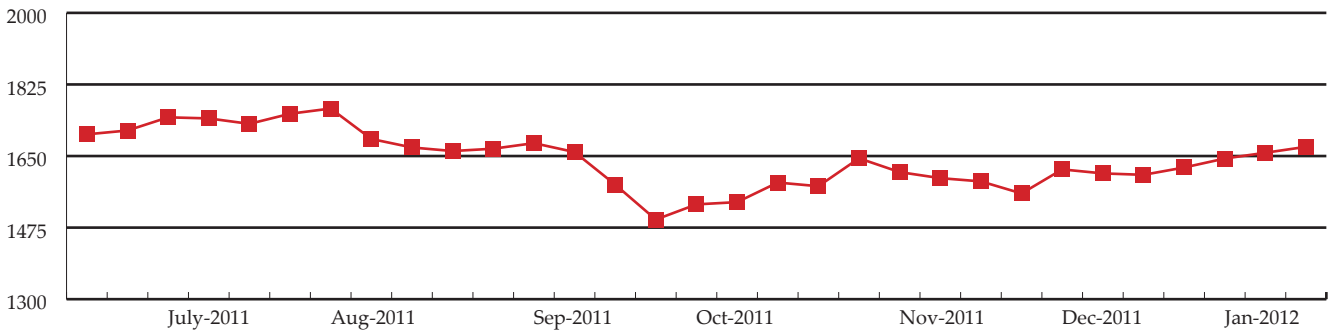
REDmoney MENA *6 Months*



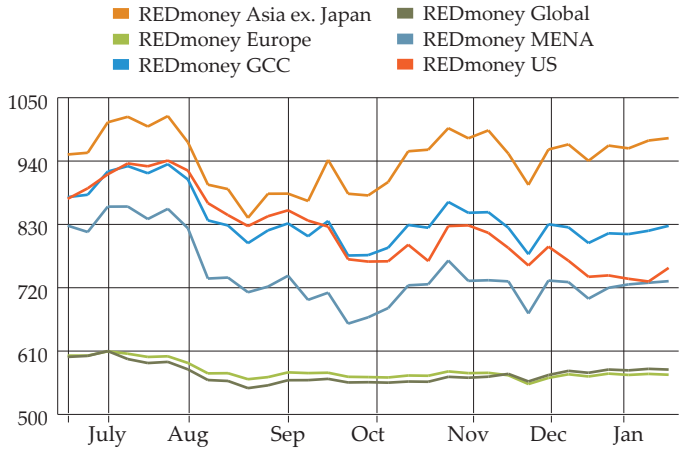
REDmoney US *6 Months*



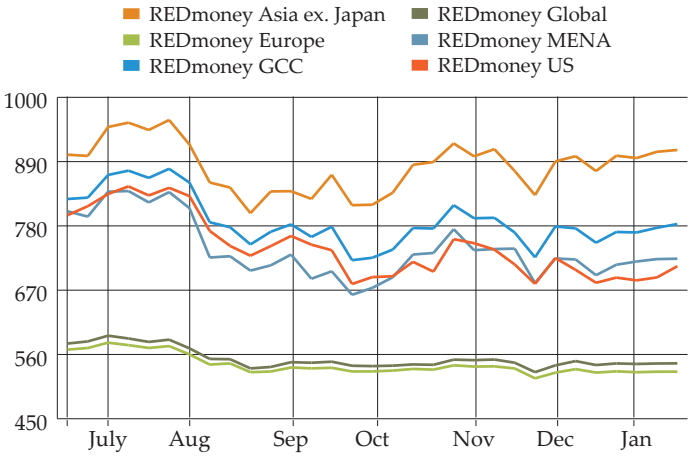
SAMI Halal Food Participation (All Cap) *6 months*



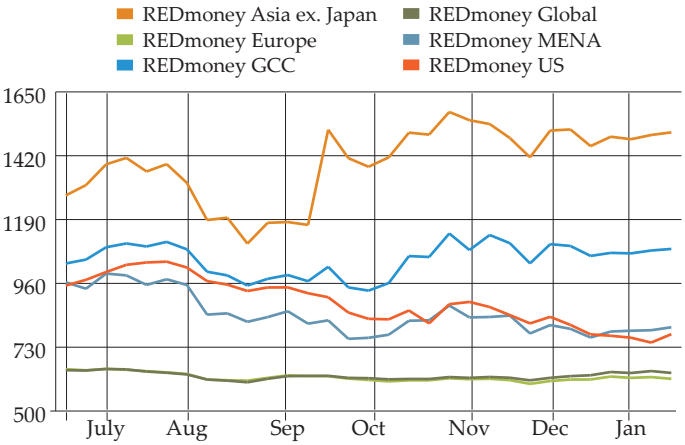
REDmoney Global Shariah Index Series (All Cap) *6 Months*



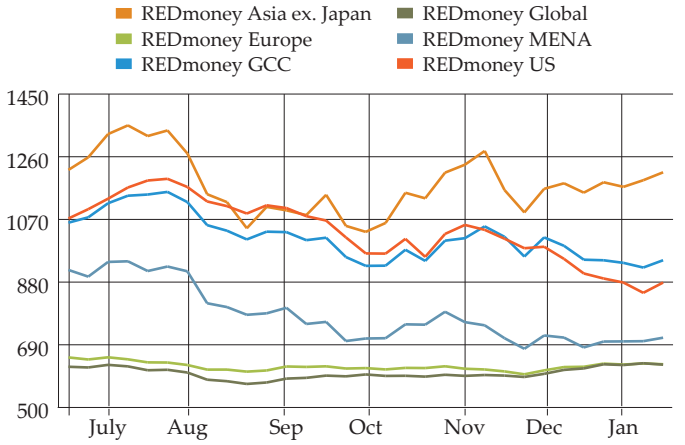
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



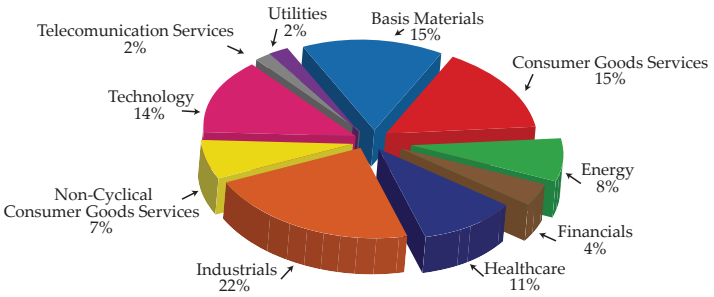
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

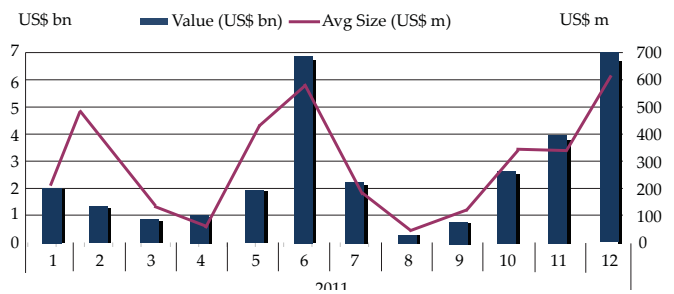
Andrew Morgan
Managing Director, REDmoney Group

Email: Andrew.Morgan@REDmoneygroup.com
Tel +603 2162 7800

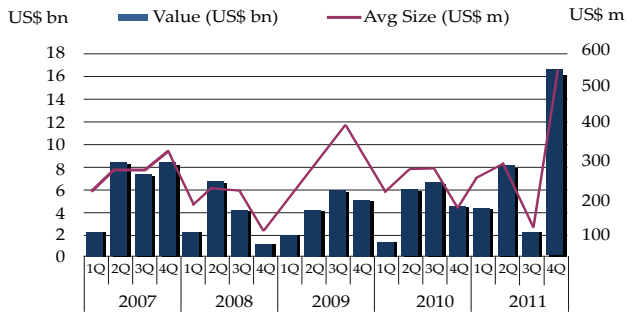
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
12th Jan 2012	Tamweel	UAE	Sukuk	Euro market public issue	300	Standard Chartered, Dubai Islamic Bank, Citigroup
11th Jan 2012	FGB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
10th Jan 2012	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup Emirates NBD
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	6,155	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	3,455	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Dec 2011	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	JPMorgan
28th Nov 2011	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	132	Maybank Investment Bank
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	786	CIMB Group, Maybank Investment Bank
22nd Nov 2011	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup, KFH, Commerzbank Group
16th Nov 2011	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	Standard Chartered, BNP Paribas, Citigroup
16th Nov 2011	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14th Nov 2011	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	Standard Chartered, HSBC, Citigroup
2nd Nov 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	139	CIMB Group
25th Oct 2011	Manjung Island Energy	Malaysia	Sukuk	Domestic market public issue	1,545	Lembaga Tabung Haji, CIMB Group
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group"
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	190	Public Bank, AmInvestment Bank
14th Sep 2011	MISC	Malaysia	Sukuk	Domestic market public issue	263	HSBC, CIMB Group, AmInvestment Bank
13th Sep 2011	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	101	CIMB Group, AmInvestment Bank, Maybank Investment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	9,610	2	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	3,272	4	HSBC, CIMB Group, Maybank Investment Bank
3	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup Maybank Investment Bank
4	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
5	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
6	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
7	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
8	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1	CIMB Group, Maybank Investment Bank
9	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
9	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
11	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	732	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
13	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
14	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
14	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	1	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
14	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
14	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
14	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
20	Saudi International Petrochemical	Saudi Arabia	Debut issue	Domestic market public issue	480	1	CIMB Group, AmInvestment Bank, Maybank Investment Bank
21	Sharjah Islamic Bank	UAE	Issue price undisclosed	Euro market public issue	400	1	Standard Chartered, HSBC
22	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	397	10	CIMB Group, AmInvestment Bank
23	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
24	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
25	Tamweel	UAE	Sukuk	Euro market public issue	300	1	Standard Chartered, Dubai Islamic Bank, Citigroup
25	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	1	JPMorgan
27	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, AmInvestment Bank, Maybank Investment Bank
28	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
29	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
30	Telekom Malaysia	Malaysia	Domestic rating: RAM: AAA	Domestic market public issue	263	3	CIMB Group, AmInvestment Bank
	Total				**33,809**	**103**	

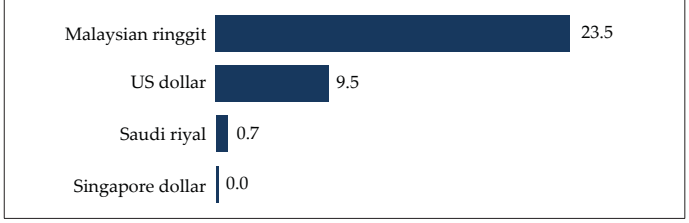
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	7,871	34	23.3
2	Maybank Investment Bank	6,973	32	20.6
3	AmInvestment Bank	4,565	28	13.5
4	HSBC	3,623	16	10.7
5	RHB Capital	2,488	15	7.4
6	Standard Chartered Bank	1,941	12	5.7
7	Citigroup	1,692	8	5.0
8	Lembaga Tabung Haji	919	3	2.7
9	JPMorgan	558	3	1.7
10	BNP Paribas	438	2	1.3
11	Deutsche Bank	427	2	1.3
12	National Bank of Abu Dhabi	292	3	0.9
13	RBS	250	2	0.7
14	Riyad Bank	240	1	0.7
15	OCBC	168	6	0.5
16	Abu Dhabi Islamic Bank	153	2	0.5
17	Hong Leong Bank	141	4	0.4
18	Affin Investment Bank	136	4	0.4
19	Bank of America Merrill Lynch	125	1	0.4
19	Abu Dhabi Commercial Bank	125	1	0.4
21	Public Bank	118	4	0.4
22	KFH	109	2	0.3
23	Dubai Islamic Bank	100	1	0.3
24	Nomura	83	1	0.3
24	Emirates NBD	83	1	0.3
26	Commerzbank Group	70	1	0.2
27	DRB-HICOM	67	1	0.2
28	Malaysian Industrial Development Finance	40	1	0.1
	Total	**13**	**2**	**100.0**

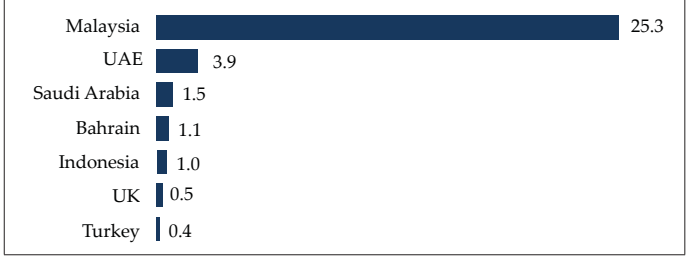
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	921	3	9.2
2	HSBC Holdings	771	3	7.7
3	Samba Financial Group	592	4	5.9
4	Public Investment Fund	463	2	4.6
4	Arab National Bank	463	2	4.6
6	Sumitomo Mitsui Financial Group	404	2	4.0
7	KfW Bankengruppe	369	2	3.7
8	Mitsubishi UFJ Financial Group	360	1	3.6
9	Australia & New Zealand Banking Group	289	1	2.9
9	Mizuho Financial Group	289	1	2.9

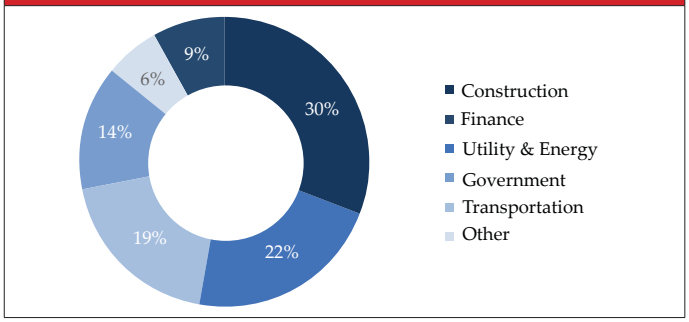
Sukuk Volume by Currency US$ (billion) *12 Months*



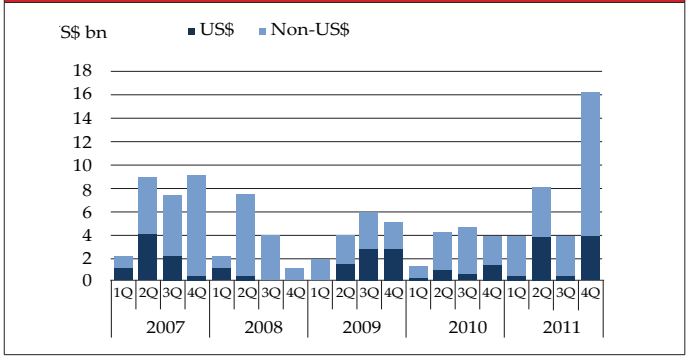
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisors Ranking *12 Months*

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	4,198	2	23.9
2	White & Case	3,281	1	18.7
3	Skadden Arps Slate Meagher & Flom	3,281	1	18.7
4	Clifford Chance	1,200	1	6.8
4	Al-Jadaan & Partners Law Firm	1,200	1	6.8
6	Baker & McKenzie	1,200	1	6.8
7	Chadbourne & Parke	917	1	5.2
8	Baker Botts	917	1	5.2
9	Afridi & Angell	267	1	1.5
9	Latham & Watkins	267	1	1.5
9	Herbert Smith Gleiss Lutz Stibbe	267	1	1.5

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	826	5	11.3
2	Citigroup	501	8	6.9
3	Samba Capital	472	3	6.5
4	Standard Chartered Bank	368	7	5.1
5	CIMB Group	304	3	4.2
6	Noor Islamic Bank	297	3	4.1
7	Barwa Bank	266	2	3.7
8	RBS	233	1	3.2
9	Saudi National Commercial Bank	219	1	3.0
9	Banque Saudi Fransi	219	1	3.0
9	Arab National Bank	219	1	3.0
12	Qatar Islamic Bank	213	1	2.9
12	Qatar International Islamic Bank	213	1	2.9
12	Masraf Al Rayan	213	1	2.9
15	Deutsche Bank	204	2	2.8
16	Arab Banking Corporation	172	4	2.4
17	Abu Dhabi Islamic Bank	171	4	2.4
18	RHB Capital	164	1	2.3
18	Maybank Investment Bank	164	1	2.3
18	Lembaga Tabung Haji	164	1	2.3
18	AmInvestment Bank	164	1	2.3
22	Emirates NBD	160	3	2.2
23	Bank of America Merrill Lynch	126	3	1.7
24	Bank of China	93	1	1.3
25	OCBC	88	1	1.2
26	WestLB	70	2	1.0
27	Bank Al-Jazira	68	1	0.9
27	Alinma Bank	68	1	0.9
27	Al-Rajhi Banking & Investment	68	1	0.9
30	National Bank of Abu Dhabi	61	1	0.8
30	Commerzbank Group	61	1	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Citigroup	618	8	8.5
2	HSBC	305	2	4.2
3	Samba Capital	233	1	3.2
3	RBS	233	1	3.2
5	Abu Dhabi Islamic Bank	219	4	3.0
6	Standard Chartered Bank	165	3	2.3
7	Emirates NBD	122	2	1.7
8	Bank of China	93	1	1.3
9	National Bank of Kuwait	87	1	1.2
10	Dubai Islamic Bank	72	1	1.0
10	Deutsche Bank	72	1	1.0

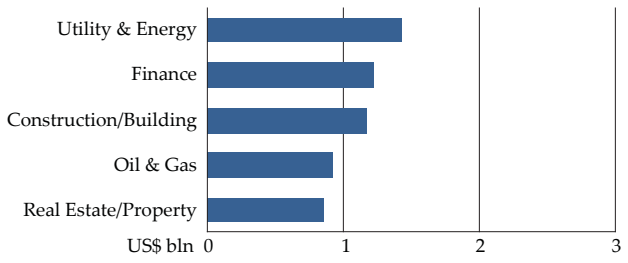
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2011	Barzan Gas	Qatar	5,442
2nd Dec 2011	Hajr for Electricity Production	Saudi Arabia	1,981
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World	UAE	850
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
31st Mar 2011	National Central Cooling	UAE	757
17th May 2011	Emaar Propertie	UAE	699
23rd May 2011	Natrindo Telepon Seluler	Indonesia	450
22nd Sep 2011	Albaraka Turk	Turkey	344

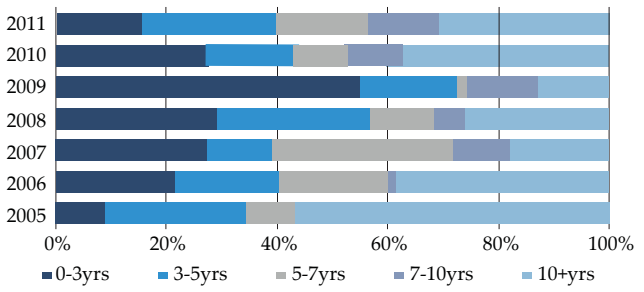
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	UAE	1,756	8	24.1
2	Saudi Arabia	1,511	3	20.7
3	Malaysia	1,190	3	16.3
4	Turkey	998	6	13.7
5	Qatar	850	1	11.7
6	Indonesia	501	3	6.9
7	Pakistan	203	4	2.8
8	China	93	1	1.3
9	Kuwait	87	1	1.2
10	Russian Federation	60	1	0.8

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Jennifer Cheung (Media Relations)
Email: Jennifer.Cheung@Dealogic.com Tel: +852 2804 1223

23rd — 24th January 2012
Oman First Islamic Finance Conference
Oman (*Iktissad Events*)

7th — 8th February 2012
The 8th Middle East Insurance Forum
Bahrain (*MegaEvents*)

15th — 16th February 2012
Credit Risk Asia
Singapore (*Fleming Gulf*)

21st – 24th February 2012
Islamic Finance Africa
Africa *(IIR South Africa)*

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

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

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

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

16th — 17th April 2012
The 7th Annual World Takaful Conference
Dusit Thani, Dubai (*MEGA Events*)

18th April 2012
The 2nd Annual Middle East Islamic Finance and Investment Conference
Dusit Thani, Dubai (*MEGA Events*)

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

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

21st — 22nd May 2012
The 8th Annual World Islamic Funds and Financial Markets Conference
Gulf Hotel, Bahrain (*MEGA Events*)

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

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

5th — 6th June 2012
The 3rd Annual World Islamic Banking Conference : Asia Summit
Singapore (*MEGA Events*)

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

29th June — 1st July
International Conference of Islamic Economics and Business (ICIEB 2012)
Melaka, Malaysia (*UiTM (Johor) & Universitas Indonesia*)

TBA
The 3rd Annual World Takaful Conference : Family Takaful Summit
Kuala Lumpur (*MEGA Events*)

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

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

22nd – 23rd October 2012
IFN Europe Forum 2012
London, UK *(REDmoney events)*

TBA
The 2nd Annual International Summit on Islamic Corporate Finance
Abu Dhabi (*MEGA Events*)

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

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

9th — 11th December 2012
The 19th Annual World Islamic Banking Conference
Gulf Hotel, Bahrain (*MEGA Events*)

Islamic Finance *news*

Features Editor & Copy Editor Lauren Mcaughtry
Lauren.Mcaughtry@REDmoneyGroup.com

Associate Editor Scott Weber
Scott.Weber@REDmoneyGroup.com

Islamic Investor Editor Raphael Wong
Raphael.Wong@REDmoneyGroup.com

Supplements Editor Nazneen Halim
Nazneen.Halim@REDmoneyGroup.com

Senior Publishing Manager Sasikala Thiagaraja
Sasikala@REDmoneyGroup.com

Copy Editor Roshan Kaur Sandhu
Roshan.Kaur@REDmoneyGroup.com

News Editor Ellina Badri
Ellina.Badri@REDmoneyGroup.com

Journalists Lai Pei Yee
Peiyee.Lai@REDmoneyGroup.com

Correspondents Kamal Bairamov, Shirene Shan

Forum Editor Christina Morgan
Christina.Morgan@REDmoneyGroup.com

Production Manager Hasnani Aspari
Hasnani.Aspari@REDmoneyGroup.com

Production Editors Mohd Hanif Mat Nor
Hanif.Nor@REDmoneyGroup.com

Norzabidi Abdullah
Zabidi.Abdullah@REDmoneyGroup.com

Senior Production Designer Mohamad Rozman Besiri
Rozman.Besiri@REDmoneyGroup.com

Business Development Managers Andrew Cheng
Andrew.Cheng@REDmoneyGroup.com
Tel: +603 2162 7800 x 55

June Abu Zaid
June.Abuzaid@REDmoneyGroup.com
Tel: +603 2162 7800 x 56

Rizal Halim Dahlan
Rizal.Dahlan@REDmoneyGroup.com
Tel: +603 2162 7800 x 13

Subscriptions Director Musfaizal Mustafa
Musfaizal.Mustafa@REDmoneyGroup.com
Tel: +603 2162 7800 x 24

Subscriptions Executive Ratna Sari Ya'acob
Ratna.Yaacob@REDmoneyGroup.com
Tel: +603 2162 7800 x 38

Sivaranjani Sukumaran
Sivaranjani.Sukumaran@REDmoneyGroup.com
Tel: +603 2162 7800 x 41

Financial Controller Faizah Hassan
Faizah.Hassan@REDmoneyGroup.com

Deputy Publisher & Director Geraldine Chan
Geraldine.Chan@REDmoneyGroup.com

Managing Director Andrew Tebbutt
Andrew.Tebbutt@REDmoneyGroup.com

Managing Director & Publisher Andrew Morgan
Andrew.Morgan@REDmoneyGroup.com

Published By: REDmoney Group
21/F, Menara Park, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia, Tel: +603 2162 7800 Fax: +603 2162 7810

COMPANY INDEX