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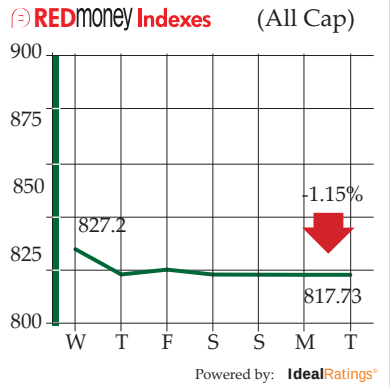

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Singapore: How soon is now?

With its position at the beating heart of the Asian growth boom and on the back of deteriorating European performance, the merlion is going from strength to strength. And as one of the leading asset management centers of the world and with close links to core Islamic markets, it is on paper the ideal platform for international Islamic finance. So what is holding it back?

Up until now, the core markets for Islamic finance have been those with strong Muslim populations. But as Islamic finance develops, so does the importance of cross-border relationships, and new factors are beginning to influence competitiveness. It is becoming increasingly important to interact with other regions and deepen economic cooperation between leading Islamic finance centers, in order to benefit from the rapid expansion and robust development of the industry: especially in the strong growth regions of Asia and the Middle East.

Ideal location

And where is better positioned to take advantage of this than Singapore? With its financial expertise, strong international links and close ties with both Malaysia and the Middle East the country presents the ideal platform to promote the new international outlook the industry needs.

Although the country has a relatively small Muslim population, it has already recognized the potential offered by Islamic finance. Tai Boon Leung, the executive director of the Monetary Authority of Singapore (MAS), announced recently that: "As an international financial center with more than 700 financial institutions, we intend to, through our participation, bring Islamic finance to a more diverse audience and promote greater acceptance internationally."

Toby O'Connor, CEO of Singapore-based Islamic Bank of Asia, agrees that: "Generally, Singapore is a very good place to be right now, and has only got better over the last few years. In Singapore the environment is very favorable, the governance is very strong, and it is attracting global firms and business seeking growth in this part of the world."

Asset management

One of Singapore's leading strengths is asset management, and some industry players have noted with surprise its slow entry into the Islamic space, given its conventional expertise. Singapore has now identified this gap, and is actively encouraging development. Tai notes that: "Financial institutions in Singapore should tap on the core strengths of our financial center: that is, in banking, capital markets and asset management, to create new, innovative products and to explore new growth areas such as trade finance."

The sector is undoubtedly growing, particularly as the ongoing financial crisis in Europe leads investors to seek safe havens in growth regions. Singapore has

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Coaxing the late bloomers

Editor's Note

Amidst the many potential markets for the growth of Islamic finance, there exist pockets where the industry's development is slower than initially envisioned. While opportunities for our industry in some of these jurisdictions look good on paper, there appear to be barriers holding these markets back from fully developing their respective Islamic finance industries. This week, we take a look at some of those late bloomers.

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IDB and Azerbaijan's national water operator agree on terms to finance water project

More debt offerings in the future, says finance minister of Saudi Arabia

Saudi Hollandi Bank to provide US$123 million Islamic financing to **National Prawn Company**

Dubai Duty Free increases five-year, multi-tranche Islamic and conventional financing to US$1.5 billion

Dubai Islamic Bank launches US$500 million, five-year Sukuk

Malaysia plans US$624.71 million Sukuk issuance for mass railway project

Kuwait Finance House in discussions to sell stake in **Al Salam Hospital**

Gulf Finance House increases paid-up capital to US$426.18 million

The National Industrialization Company prices US$533.3 million Sukuk at 105 basis points over six-month Saibor

Embattled **MAS** announces US$800.19 million Sukuk plan

Bank Nizwa's US$155.33 million IPO closes with strong finish

Gulf International Bank sets up US$1.11 billion ringgit-denominated Sukuk program

Morocco mulls over Islamic bond issuance

Bank Muamalat Indonesia plans to complete takeover of **Al-Ijarah Indonesia Finance** in the second half of this year

Indonesia raises US$58.8 million via Sukuk auction

Bank Muamalat Indonesia to issue US$84 million Sukuk in the third week of June

Fixed income markets unfazed by Eurozone jitters

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IDB grants Mali US$400,000 to help overcome food crisis

Thai Hotels Association advised to discuss financial aid with **Islamic Bank of Thailand**

Bank Syariah Mandiri posts US$20.6 million profit in Q1

Bank Indonesia could announce reduction in banks' single-shareholder limits next month

CIMB Group Holdings Q1 profit surges 10% year-on-year

Maybank reports US$428.46 million in first quarter profit

Indonesia's Sukuk yields on the decline

AFFIN Holdings reports first quarter results

Pakistan's Islamic banking market share projected to grow to over 15% by 2016

BIMB Holdings posts profit before Zakat and taxation of US$53 million in Q1

Islamic financial institutions to see more regulations ahead

Bank Internasional Indonesia still mulling over merger of Shariah unit with **Maybank Islamic**

Kuveyt Türk Katilim Bankasi reports 18% growth in first quarter results

2012 London Sukuk Summit to discuss **PLUS** Sukuk

Al Baraka among Middle East banks eyeing Australian exposure

MENA banks in need of fresh capital to meet Basel III requirements

JAFZ Sukuk announces periodic distribution of US$31 million for Sukuk trust certificates

Sakana Holistic Housing Solutions signs home financing MoU with **Ark Holding**

Sukuk can bridge local banks' asset-liability mismatch, says **Alinma Bank**

UAE Sukuk market in for a resurgence?

Islamic banking popularity on the rise in Oman

HSBC Oman and **Oman International Bank** merger temporarily halted due to lawsuit claim

Dubai International Financial Center entities report growth in deposits, loans and advances as at Q1

Gulf Finance House looks to diversify income

ICD subsidiary, **Bidaya**, to launch new financial firm

ISLAMIC INVESTOR

Better Islamic finance planning can help turn country into high income nation, says **Financial Planning Association of Malaysia**

HSBC Qatar launches MENA Sukuk and bond platform

Securities Commission Malaysia updates list of Shariah compliant securities

Bursa Malaysia plans bond trading for individuals in the third quarter of this year

UBL Fund Managers announces interim distribution for UBL Islamic Savings Fund

Bapepam updates list of Islamic securities

Diyanah Islamic Financial Services launched

TAKAFUL

American Insurance Association highlights importance of Takaful

GCC Takaful market expected to grow faster than the rest of the industry, says **QFC Authority**

Syarikat Takaful Malaysia posts US$9.8 million in profit after taxation and Zakat in Q1

Sun Life Financial to provide Life Takaful coverage for fund investors

Takaful profits in Bahrain down despite increased penetration in overall insurance sector

Al Rajhi Insurance (Bahrain) to acquire further 10% stake in **Al Rajhi Company for Cooperative Insurance**

Saudi's capital market authority fines **Al Rajhi Company for Cooperative Insurance**

RATINGS

JCR-VIS revises management quality rating of **Faysal Asset Management**

RAM reaffirms ratings on **Adventa**'s US$48 million Islamic notes

RAM reaffirms ratings on **Telekom Malaysia**'s Islamic notes

MOVES

Emirates NBD names **Mohammad Kamran Wajid** as CEO of two subsidiaries

Warba Bank names two new senior officials

Coutts appoints **Ali Hammad** as co-head of Middle East

StanChart names **Morad Mahlouji** as new regional head of MENA and Pakistan

Fajr Capital names **Adib Abdullah Al-Zamil** as new chairman

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seen several new funds established in recent years including Maybank's Singapore Unit Trusts Ethical Growth Fund; Daiwa Asset Management (Singapore)'s exchange-traded fund offering access to leading Japanese firms; and more recently the Securus Data Property Fund investing in the innovative new asset class of data centers. And of course, Sabana REIT is the largest Shariah compliant REIT by total assets globally.

However, the market remains small: primarily due to its conventional strength which has in the past stifled Islamic investment. O'Connor, however, believes this is changing. "With the development of Singapore as a global financial hub, and with the deterioration of a lot of the western markets, Singapore has attrracted a lot of assets — mostly on the conventional side. But what that has done is encouraged people to think about other types of product, including Shariah compliant products. It's still a very very small piece of the whole pie, but it is something I think banks and clients are now focusing on as an alternative to increase distribution and access to new investors."

Capital market potential

Another key area for the country is the capital market space, which looks set for strong growth over the next few years. As global demand grows, Singapore stands to benefit from its proximity to large regional populations in Indonesia and Malaysia, while leveraging its reputation for strong governance and international expertise.

Sukuk in particular may have a rosy future, according to some industry experts. Shariah compliant products reportedly accounted for 10% of debt issuances in Singapore in 2011, or US$2.5 billion.

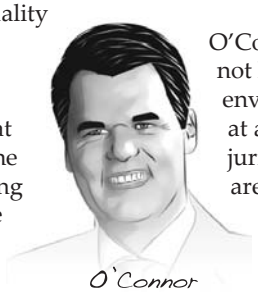
"In the current state of global uncertainty, investors are looking for high quality credit instruments," explains a leading banker. "That is where there will be more emphasis this year, and we should be looking at the big blue chip companies in the region. Singapore should be trying to attract them and we should be looking at more issuances out of Singapore because the more high-rated credit instruments you have, the greater the likelihood people will buy them."

Regulatory strength

Although regulatory issues are often cited as a reason for the slow development of Islamic finance, in Singapore this is not the case. The country has a highly supportive regulatory and tax framework and has seen active encouragement from the authorities to develop a level playing field for Islamic finance. MAS has provided a number of incentives for the development of Islamic finance including reduced taxes for Islamic transactions, the waiving of stamp duty for Islamic real estate financing, and a 5% concessionary tax rate for Islamic financing.

> ***"Financial institutions in Singapore have been wary of Islamic finance due to the small domestic market"***

To develop Singapore as a key fund management center in Asia, the government has placed a focus on the asset management industry, with specific measures including tax exemptions for offshore funds, a 10% tax rate for fund managers and tax exemption for Singapore resident funds. This has resulted in a rapid expansion of the industry in Singapore over the last few years, and fund managers are now increasingly looking to Singapore as an attractive domicile for Islamic funds.



O'Connor notes that: "We're not held back by the regulatory environment here in Singapore at all. There are certain jurisdictions across Asia which are less developed from a regulatory perspective, and

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CLOSING BELL

Sixth International Takaful Summit in July

UK: The sixth International Takaful Summit, for which Islamic Finance *news* is Islamic media partner, will be held from the 10-12th July in London.

Speakers at the summit include Dr Alberto Brugnoni, the director general of ASSAIF; Chakib Abouzaid, CEO of Takaful Re; and Mahomed Akoob, the managing director of Hannover Re Takaful.

CBB sells Sukuk

BAHRAIN: The Central Bank of Bahrain (CBB)'s BHD18 million (US$47.89 million) monthly issuance of Sukuk Al-Salam has been oversubscribed by 178%.

The 133rd issuance of Sukuk Al-Salam has an expected return of 1.18%. It matures on the 29th August this year.

Ownership caps could limit funding

INDONESIA: A plan by Bank Indonesia, the central bank, to limit single ownership in local banks could hurt the country's ability to tap regional banking funds to build much-needed infrastructure, said Piyush Gupta, CEO and director of Singapore's DBS Group.

DBS has made a US$9.1 billion bid for Indonesia's Bank Danamon.

6% for MAS Sukuk?

MALAYSIA: Potential investors are likely to demand a yield of at least 6% for Malaysian Airline System (MAS)'s planned RM2.5 billion (US$780.88 million) Sukuk program, following the carrier's recent announcement of a fifth straight quarterly loss; amounting to RM171 million (US$54 million) in the first quarter of this year.

The rate is two percentage points more than the average rate on global Sukuk.

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towards Islamic finance in particular. That is not the case in Singapore. The regulatory environment here is very friendly. The authorities here are actively promoting ties with the Middle East, and want to see a successful Islamic finance industry develop."

Key challenges

So what is holding back the development of the industry? It is clearly not a lack of regulatory support: the framework is in place and the environment is highly favorable. Instead, the country struggles with a lack of critical mass from the bottom up. With its small population of around 5 million, of which only 15% is Muslim, financial institutions in Singapore have been wary of Islamic finance due to the small domestic market.

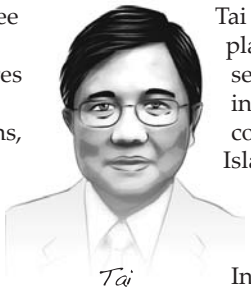
So as the country expands its horizons to a wider international investor base, the next step is to raise awareness of its position and potential. Andrew White, the director of International Islamic Law & Finance Center at Singapore Management University, believes that: "We need a greater degree of awareness as to what these products are, and the structures and facilities that are being offered by financial institutions, as a lot of people just don't understand."

The importance of this has already been recognized by the authorities. In a recent speech Tai confirmed that: "To create the conditions for sustainable growth, the industry must build a broader customer and asset base by raising investor awareness and acceptance."

And the future is bright, believes O'Connor. "The Islamic industry here will take some time to develop. But if you look at the talent, at the education programs that are starting here, you can be reasonably confident that over time the talent pool and the general client base here will get more comfortable with it."

Cross-border connections

One of the most important factors in Singapore's foray into Islamic finance is its international reputation, which allow it to develop valuable cross-border links. The country over the last few years has been building strong connections to the Middle East — in 2011 bilateral trade flows between Singapore and the GCC grew by over 40% to reach SG$62 billion (US$ 48.6 billion).



Tai

Tai notes that: "The diversity of players offering Islamic financial services in Singapore has increased. Regional banks have contributed significantly to the Islamic finance landscape here, bringing with them years of experience and expertise from their home countries. International banks have supported the investments of Singapore players such as AEP Investment Management and Keppel Data Center Investment Management. In addition, a growing cluster of Middle Eastern banks operating in Singapore have begun to offer Islamic financial services. Together with the local banks who have been serving the market, such diversity will bring about a more vibrant and competitive industry."

> ***"The key factor that will differentiate Singapore is its strength in cross-border activity"***

Big brother

And of course, the historical and geographical links to the core regional markets of Indonesia and Malaysia must not be forgotten. Singapore has long stood in the shadow of Malaysia when it comes to Islamic finance, but could this be changing?

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O'Connor points out that: "When people look at the Islamic finance leadership in this part of the world they will generally look at Malaysia: and Malaysia is that much further ahead. But it is an environment where you have a very large Muslim population and there is strong encouragement around Islamic finance. A lot of the issuance is domestically-oriented.

"But then people look at Singapore, which has a smaller Muslim population but is positioning itself as a global financial hub that is inclusive of Islamic finance alongside the conventional and everything else, and that is a model for other countries, whether they have large Muslim populations or not, which are looking to attract cross-border capital flows."

A level playing field

In Malaysia, it is an advantage to be Islamic and the authorities have pushed this. In Singapore on the other hand, O'Connor explains that: "Most of our business is not necessarily won on that basis. It's a level playing field and our clients have the option to go and get the cheapest source of finance or the best skillsets that they are willing to pay for. So we have to position ourselves, to take advantage of what Singapore has got as a location.

"Singapore is not Malaysia in terms of general encouragement to do something Islamic. It's an environment where the client can choose the best access to whatever instrument or way of doing things that they want, without being constrained in either direction."

This may not be an advantage for Islamic institutions in the same way, but on the other hand it gives them exactly what they have always asked for: equal opportunities. Now they just have to take advantage of them.

Differentiation

So how can they do that? The key factor that will differentiate Singapore is its strength in cross-border activity. O'Connor explains that: "Obviously conventional banks have a big headstart and we operate in a competitive industry. So you instead have to differentiate on other factors. On geographical access, on the argument that you can provide the customer with better and broader access to a different customer base, which may have some cost benefits… these are the benefits which may help the development of the business more broadly.

"In general, we are winning business because we are differentiating by our ability to access markets and offer skillsets and a business model which allows us to work in a very flexible way with an identified client base which often may not be well covered, for whatever reason, by the bigger firms."

Down to us

At the end of the day, says an industry expert: "It's not about what can Singapore do for us, at this point. It must be the practitioners who make it relevant to the customer base. There is a limit to how much more the government can do without the demand there to push it forwards."

The authorities have led the horse to water. It's now up to the industry to drink. — *LM*

Coaxing the late bloomers

Editor's Note

Amidst the many potential markets for the growth of Islamic finance, there exist pockets where the industry's development is slower than initially envisioned. While opportunities for our industry in some of these jurisdictions look good on paper, there appear to be barriers holding these markets back from fully developing their respective Islamic finance industries. This week, we take a look at some of those late bloomers.

Singapore is among those markets where the growth of Islamic finance continues to lag behind that of its neighbors. Our cover story this week investigates the reasons why, as well as looking at how the island republic can grow to meet market expectations.

We also have a report by our IFN Correspondent on the development of Islamic trade finance in Singapore.

As one of the more dynamic markets in the MENA region, Lebanon has also fallen short of expectations for the rapid growth of Islamic finance in the country; and this week's issue highlights the developments of the industry there in a feature by Ma'an Barazy, the managing partner and CEO of Data and Investment Consult-Lebanon.

We also take a look at Islamic microfinance, with a report by Ronald Rulindo of the IFSB and Sutan Emir Hidayat of the University College Bahrain, who write on the challenges and the way forward for the sector; while Moinuddin Malim of Mashreq Al-Islami Finance contributes an article on the basic requirements of Islamic microfinance.

Caroline Barton, of law firm Appleby's Cayman Islands office, discusses the role of offshore jurisdictions in Islamic finance; while Tony Hidayat of Indonesia's Bank BRI Syariah contributes our Takaful feature on Islamic insurance in Indonesia.

This week, our IFN Reports cover Shariah compliant green financing, and investing in Saudi Arabia; while our IFN Correspondents write on Islamic finance laws in Egypt and the Sukuk market in Turkey.

Meet the Head talks to Naoki Ishikawa, a partner at law firm Mori Hamada & Matsumoto; and our Case Study looks at Dubai Islamic Bank's US$500 million Sukuk.

DEALS

IDB financing for water project

AZERBAIJAN: The IDB and state-owned water operator Azersu have agreed on terms of financing for a water supply and sanitation reconstruction project in the country.

The size of the financing was not disclosed.

Saudi hints at more Sukuk

SAUDI ARABIA: The kingdom is expected to issue more Islamic and conventional bonds this year, including from the government, said Dr Ibrahim Al-Assaf, its finance minister.

He said this is as local firms, including government agencies, have the ability to generate income and operate commercially.

Islamic financing for aquaculture

SAUDI ARABIA: Saudi Hollandi Bank has signed an Islamic financing agreement worth up to SAR460 million (US$123 million) with local-based aquaculture firm, National Prawn Company.

The financing will be used to fund NPC's long-term expansion plans, including the second phase of the development of its prawn and fish cultivation projects in the town of Al-Laith.

DDF increases financing

UAE: Dubai Duty Free (DDF) has increased the size of a five-year, multi-tranche Islamic and conventional financing from US$1.1 billion to US$1.5 billion after banks offered to provide more than the company initially applied for.

Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Citigroup, Dubai Islamic Bank, Emirates NBD and HSBC are involved in the transaction, which is due to complete in the next few weeks.

The funds will be used to develop the Dubai International Airport.

DIB launches Sukuk

UAE: Dubai Islamic Bank (DIB) has launched a US$500 million, five-year Sukuk priced at 365 basis points overmidswaps.

Deutsche Bank, DIB, Emirates NBD and National Bank of Abu Dhabi are lead arrangers for the transaction, which saw US$1.8 billion-worth of orders as at its launch.

MRT Sukuk in the works

MALAYSIA: The government is reportedly planning to sell at least RM2 billion (US$624.71 million)-worth of Sukuk to fund construction of the first phase of the Klang Valley My Rapid Transit (MRT) mass railway project.

Dana Infra, a company set up by the finance ministry to finance the country's development projects, could also increase the offering to RM3 billion (US$937.06 million) if there is sufficient investor demand.

The issuance date has not been fixed. However, roadshows for the Sukuk could start in June.

KFH to divest stake in hospital

KUWAIT: Kuwait Finance House (KFH) is in talks to sell its interest in local private hospital, Al Salam Hospital.

Further details were not disclosed, including regarding KFH's existing stake in the hospital.

GFH raises capital

BAHRAIN: Gulf Finance House (GFH) has increased its paid-up capital Murabahah conversion of 5.73 million shares worth US$1.25 million.

Its new total paid-up capital is US$426.18 million.

TASNEE sells Sukuk

SAUDI ARABIA: Local industrial and petrochemical company The National Industrialization Company (TASNEE) has priced its privately-placed, seven-year, SAR2 billion (US$533.3 million) Sukuk at 105 basis points over the six-month Saibor.

The offering attracted an order book of SAR5.2 billion (US$1.39 billion) and was sold to government institutions, insurance companies, investment funds and banks.

HSBC Saudi Arabia was the arranger for the transaction.

Embattled MAS announces US$800.19 million Sukuk plan

MALAYSIA: National carrier Malaysian Airline System (MAS) has unveiled a RM2.5 billion (US$800.19 million) Sukuk program in an effort to boost capital after reporting record losses in 2011.

Its Sukuk program forms the tip of the iceberg of a RM9 billion (US$2.88 billion) funding plan that includes a RM1 billion (US$320.08 million) bridging loan from a consortium of banks and a proposal for the government to set up a special purpose vehicle to raise RM5.3 billion (US$1.69 billion) to pay for aircraft purchases.

"The proposed Sukuk would have an effective tenor of 10 years, as MAS would have a call option to redeem the Sukuk in full from year 10 onwards. For the first 10 years, the profit rate payable on the Sukuk is based on the prevailing market rate at the time of issuance; and after the tenth year, the profit rate payable on the Sukuk would rise by a pre-determined rate.

"We anticipate to drawdown the first tranche of RM1 billion of the proposed Sukuk, sometime in June 2012 once all regulatory approvals are cleared," said MAS. The remainder will be offered in the next three months.

MAS also received a RM1 billion bridging loan from CIMB Bank on the 30th March 2012 to ensure its working capital cash balances remain adequate until the expected drawdown of the first tranche of its planned Sukuk.

Having been distressed for several years, the airline recently announced its widest ever loss of RM2.5 billion for 2011, followed by a loss of RM171.8 million (US$54.99 million) in the first quarter of this year. It reported cash and cash equivalents of just RM1.35 billion (US$432.1 million) during the quarter.

Meanwhile, the armed forces fund (LTAT), Employees Provident Fund, Retirement Fund Incorporated and Permodalan Nasional Berhad are among institutions expected to take up the papers.

The airline has also received Securities Commission Malaysia's approval for the Sukuk program; for which Maybank Investment Bank has been mandated principal advisor, lead arranger and sole lead manager.

Strong finish for Bank Nizwa IPO

OMAN: Bank Nizwa's OMR60 million (US$155.33 million) IPO, which closed on the 22nd May 2012, was oversubscribed 11 times, receiving US$1.77 billion-worth of bids from investors.

The bank floated 600 million ordinary shares at an offer price of OMR0.10 (US$0.26) per share. Its listing date is the 12th June.

RM Sukuk for GIB

GLOBAL: Bahrain-based Gulf International Bank (GIB) has set up a RM3.5 billion (US$1.11 billion) Sukuk program as part of an effort to diversity its funding sources.

Standard Chartered and CIMB Investment Bank were appointed the lead arrangers on the medium-term notes program; while GIB Capital, a unit of GIB, will be the international coordinator for the transaction.

Morocco to turn to Sukuk?

MOROCCO: The government is considering the issuance of an Islamic bond as it finalizes the kingdom's legal framework for Sukuk issuance, said El Hassan Eddez, the deputy director of treasury and external finance at the economy and finance ministry's debt office.

The framework is expected to be in place by next year.

Acquisition deadline extended

INDONESIA: Bank Muamalat Indonesia (BMI) is planning to complete the acquisition of its Islamic financing subsidiary, Al-Ijarah Indonesia Finance, in the second half of this year; after initially targeting to complete the takeover in the first half.

AndiBuchari, the bank's compliance and corporate planning director, said that the new deadline was approved at a shareholders' meeting.

BMI is expecting to increase its stake in Al-Ijarah to 90% from the present 33.3%, which will help boost its retail financing portfolio.

Missing the target

INDONESIA: The finance ministry raised IDR550 billion (US$58.8 million) through a Sukuk auction on the 22nd May, below its target of IDR1 trillion (US$107 million).

Proceeds from the issuance will be used to fund the country's budget deficit this year.

BMI to sell Sukuk in June

INDONESIA: Bank Muamalat Indonesia (BMI) will issue IDR800 billion (US$84 million)-worth of Sukuk in the third week of June.

The bank is targeting to price the Sukuk at a yield of 9%.

DEAL TRACKER Full Deal Tracker on page 35

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
General Authority of Civil Aviation	TBA	TBA	24th May 2012
Morocco sovereign	TBA	TBA	23rd May 2012
Malaysian Airline System	RM	780.88 million	22nd May 2012
Amer Group Holding	EGP	438.1 million	14th May 2012
Qatar sovereign	TBA	TBA	9th May 2012

Fixed income markets unfazed by Eurozone jitters

GLOBAL: The wider market may be feeling jittery due to the ongoing Greece crisis but the fixed income space remains unfazed, with Sukuk sales set to continue at a rapid pace.

Yields have also maintained stability and are expected to stay steady going forward.

Although the euro declined to a near two-year low on the 24th May, as Greece moved closer towards an exit from the Eurozone, the currency has not been significantly devalued; with liquidity still abundant in the market, according to the Malaysian head of debt capital markets at a European bank.

Speaking to Islamic Finance *news*, the banker noted that while the debt market may see some "blips", these are not due to the Greek crisis; but more as a result of local and regional factors.

Yields on Malaysian corporate 'AAA'-rated Sukuk have risen marginally from the beginning of the year, to 3.89% as at the 23rd May; while falling from 3.91% a month earlier, according to data from Bond Pricing Agency Malaysia.

Meanwhile in Dubai, despite a small increase in yields to 4.32% as at the 23rd May from 4.29% a month earlier, yields in the emirate have fallen from 5.28% at the start of the year, data from the HSBC/Nasdaq Dubai Corporate US Dollar Sukuk Index shows.

Continued investor confidence and demand for Sukuk have also helped a slew of issuances this year; with issuers such as Banque Saudi Fransi, The National Industrialization Company (TASNEE) and Dubai Islamic Bank (DIB) successfully tapping the Islamic debt market in May.

Banque Saudi Fransi's US$750 million offering saw orders worth US$4 billion; TASNEE's SAR2 billion (US$533.31 million) attracted an order book of SAR5.2 billion (US$1.39 billion); and DIB's US$500 million program was oversubscribed four times.

With some banks cutting back on financing, the Sukuk market is clearly providing a booming avenue for corporate fund raising.

AFRICA

Food financing for Mali

MALI: The IDB has granted US$400,000 to the republic to help it cope with its food crisis, resulting from poor rainfall and political instability.

The grant will be jointly managed and coordinated by Mali's authorities and Islamic Relief Worldwide, a non-profit organization.

ASIA

THA to approach IBank

THAILAND: The government has advised the Thai Hotels Association (THA) to discuss financial assistance possibilities with Islamic Bank of Thailand (IBank) after rejecting a THB10 billion (US$317.37 million) aid request from the association.

BSM's Q1 profits soar

INDONESIA: Bank Syariah Mandiri (BSM) has reported a net profit of IDR192.72 billion (US$20.6 million) for the first quarter of this year, a 42.87% increase from the same period last year.

Its assets grew 36.8% to IDR49.62 trillion (US$5.3 billion).

Indonesia ownership cap out soon

INDONESIA: The country's central bank, Bank Indonesia, is expected to announce a reduction in the single-shareholder threshold of local banks from 99% currently to below 50% next month.

The central bank is reportedly planning to limit the ownership in banks to 40% for financial institutions, 30% for non-financial institutions and 20% for individuals.

Lower profit for CIMB Islamic

MALAYSIA: CIMB Group Holdings has reported a 10% year-on-year growth in its first quarter 2012 net profit to RM1.01 billion (US$319.05 million), driven by its corporate banking and treasury markets business; and contributions from its Indonesian unit, CIMB Niaga.

However, CIMB Islamic recorded a 13.3% year-on-year decline in pre-tax profit to RM127 million (US$40.12 million), due to lower Islamic capital market activities.

Maybank Q1 results higher

MALAYSIA: Maybank has reported a 17.9% year-on-year growth to RM1.35 billion (US$428.46 million) for the first quarter ended the 31st March 2012.

The group's Islamic banking income increased by RM396.3 million (US$125.78 million), while its non-interest income rose RM479.2 million (US$152.09 million) to RM1.41 billion (US$447.5 million).

Indonesia Sukuk yields down

INDONESIA: Yields on local Sukuk declined this month amid speculation that supply will wane after the government rejected bids at an auction for the first time since March this year.

The yield on 5.45% Sukuk maturing in January 2022 fell one basis point (bps) in the fourth week of May to 6.72%, the first decline since the 29th April. Meanwhile, the spread between the Sukuk and Malaysia's benchmark 10-year Sukuk narrowed one bps to 298 bps.

AFFIN Holdings Q1 profit up

MALAYSIA: AFFIN Holdings reported a net profit of RM166 million (US$51.9 million) for the quarter ended the 31st March 2012, against RM106.1 million (US$33.17 million) in the previous corresponding period.

Meanwhile, AFFIN Islamic Bank reported pre-tax profits of RM20.7 million (US$6.56 million), up 17.5% from a year earlier.

Islamic banking to grow in Pakistan

PAKISTAN: The share of Islamic banking in the country is projected to grow to more than 15% by 2016 from 8% currently, said Irfan Siddiqui, the president and CEO of Meezan Bank.

The industry, which has shown rapid growth in the past ten years, is expected to grow further through increased penetration of Shariah-based products and services.

Higher profit for BIMB

MALAYSIA: BIMB Holdings, the parent company of Bank Islam Malaysia, reported a profit before Zakat and

continued...

Islamic financial institutions to see more regulations ahead

GLOBAL: Despite inherently stricter standards in the Shariah compliant financial industry, Islamic financial institutions remain governed by guidelines in the wider financial landscape; and the current time is undoubtedly the most challenging as banks encounter a slew of new regulations to observe.

In the UAE, the central bank reaffirmed that none of the emirates' banks will be exempted from its recently passed regulations limiting the level of bank financing to local governments and government-related entities (GRE); noting that it is sticking with its September 2012 deadline for the new rules.

The central bank's firm stance appears to be posing challenges to banks such as Emirates NBD (ENBD), which owns Shariah compliant units Dubai Bank and Emirates Islamic Bank. As at the first quarter of this year, state-linked financing at ENBD still exceeds the new limit capping government and GRE lending to 100% of banks' capital base; with around AED62.18 billion (US$16.94 billion)-worth of state-linked financing equivalent to around 130% of its capital base.

The UAE central bank has also called for a federal-level central Shariah committee to help develop the emirates' Sukuk market.

Above all, Islamic banks around the world must contend with accounting and Shariah standards; guided by bodies such as AAOIFI and IFSB. While a lack of consensus on the standards and its implementation remains, increased linkages with the conventional industry's regulators suggest that Islamic financial institutions may be moving closer towards streamlined rules.

For example, the World Bank now includes adherence to IFSB standards in its financial sector assessment program, carried out with the IMF, which assesses, among others, countries' compliance with the Basel Committee on Banking Supervision's core principles.

With financial regulations only to become stricter, Islamic financial institutions may face a tougher time ahead as they must uphold their reputation for having a higher benchmark for governance vis-à-vis their conventional counterparts.

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taxation of RM167.3 million (US$53 million) for the first quarter ended the 31st March 2012, an increase of 16.2% over the same period in 2011.

The growth was attributed to higher net income of 22.2%, or RM81.6 million (US$26 million).

No decision yet on Shariah unit merger

INDONESIA: Bank Internasional Indonesia (BII), the Indonesian arm of Malaysia's Maybank, has yet to decide on a merger of its Shariah unit, BII Syariah, with Maybank Islamic.

Khairussaleh Ramli, the president director of BII, said that until a decision is made, the bank will focus on further developing BII Syariah. The Islamic unit's assets currently amounts to around IDR400 billion (US$42.4 million).

EUROPE

KFH-Turkey records Q1 profit

TURKEY: Kuveyt Türk Katılım Bankası has reported a year-on-year growth of 18% in net profit to TRL87 million (US$47.59 million) for the quarter ended the 31st March 2012.

The bank also opened 25 new branches during the period, bringing the total to 183.

Addressing market developments

UK: The 2012 London Sukuk Summit, for which Islamic Finance *news* is the lead media partner, will address Islamic bond market developments including the RM30.6 billion (US$9.7 billion) Sukuk issued by Malaysia's Projek Lebuhraya Usahasama (PLUS).

To be held on the 6-7th June 2012, speakers include Izzaddin Idris, CEO of UEM Group, the holding company of PLUS; and Mohamad Safri Shahul Hamid, the deputy CEO of CIMB Islamic.

GLOBAL

Al Baraka heading for Oz?

GLOBAL: Al Baraka Banking Group is said to be among Middle East banks taking initial steps to secure a banking license in Australia.

Its efforts come as more Middle East and Asian banks eye the Australian market; as European banks scale back overseas exposure.

Fresh capital needed for MENA banks

GLOBAL: Up to 20% of banks in the MENA region are in need of fresh capital to safely meet requirements under Basel III banking rules, according to a report by Arqaam Capital.

Seven banks under Arqaam's research coverage, including Ahli United Bank and Emirates NBD, are considered to be undercapitalized; while a further five banks, including Kuwait Finance House, risk requiring more capital as a result of paying high dividends.

MIDDLE EAST

Periodic coupon for JAFZ Sukuk

UAE: JAFZ Sukuk, the special purpose vehicle of Jebel Ali Free Zone, has announced a periodic distribution of AED113 million (US$31 million) for its AED7.5 billion (US$2.04 billion) Sukuk trust certificates due this year.

The certificates have a profit rate of 2.99%.

Home financing from Sakana

BAHRAIN: Sakana Holistic Housing Solutions has signed an MoU with Ark Holding to provide home financing for ready-to-move-in luxury villas located in the Saar residential area.

Sakana will offer financing of up to 90% of the property value, subject to a maximum of BHD350,000 (US$922,728); and repayment terms of up to 30 years for the villas.

Asset-liability mismatch in Saudi

SAUDI ARABIA: The issuance of long-dated securities such as Sukuk could help bridge the asset-liability mismatch faced by the kingdom's banks, said Abdulmohsen Abdulaziz Al-Fares, CEO of Alinma Bank.

continued...

UAE Sukuk market in for a resurgence?

UAE: Investors will likely breathe a sigh of relief following Jebel Ali Free Zone (Jafza)'s announcement of the early settlement of its AED7.5 billion (US$2 billion) Sukuk; as the UAE market shows it has improved fundamentals since the 2008/2009 financial crisis.

Jafza will now repay its Sukuk at the end of this month, six months earlier than its November maturity; marking the second early repayment by a Dubai government-linked entity since Dubai Holdings Commercial Operations Group repaid a US$500 million conventional bond in February this year.

The market has praised Dubai's efforts at managing its debt, although a slew of maturities loom in the coming years. One obligation which has dominated investor concerns is Dana Gas' US$920 million Sukuk, due in October this year. While not a Dubai state-linked firm, the debt has been under close watch as its approaching maturity could mark the first Sukuk restructuring in the UAE.

Nonetheless, continued successful issuances such as Dubai Islamic Bank's recent US$500 million sale suggest that investors remain hungry for Shariah compliant debt; leaving room for more offerings going forward.

Another deal in the pipeline is a planned Sukuk from conglomerate Dubai Investments, which seeks to raise AED1 billion (US$272 million) to fund the expansion of production lines at its glass manufacturing factory.

With more companies successfully managing their debt obligations and reassuring investors; and more issuers waiting in the wings to tap the market, the UAE's Sukuk market may be in for a resurgence.

RATINGS

Revised rating

PAKISTAN: JCR-VIS has revised its management quality rating on Faysal Asset Management from 'AM2-' to 'AM3+'.

The rating carries a stable outlook.

Standing firm

MALAYSIA: RAM has reaffirmed the respective long- and short-term ratings of glove manufacturer Adventa's RM150 million (US$48 million) Islamic commercial papers/Islamic medium-term notes program (2011/2018) at 'AAA(bg)' and 'P1', with a stable outlook.

The 'AAA(bg)' rating reflects the guarantee extended by Maybank Islamic, which helped arrange the transaction, while the 'P1' rating is based on the company's strong position within the surgicalglove market.

Stable position

MALAYSIA: RAM has reaffirmed the respective 'AAA' and 'P1' ratings of Telekom Malaysia's Islamic medium-term notes program and Islamic commercial papers program. The programs' total combined limit is RM2 billion (US$633 million).

Concurrently, it also reaffirmed its 'AAA' rating on Telekom subsidiary, HijrahPertama's RM2.92 billion (US$925 million) Islamic stapled income securities.

continued...

He noted that the maturity mismatch between assets and liabilities is the largest risk faced by local banks; leading to a need to find "creative" ways to bridge the gap.

Meanwhile, he also said that the kingdom's lending market is expected to continue growing due to ample liquidity and the large number of projects in the market requiring funding.

"It will be a double-digit growth. [A cut in] funding by some international banks is creating opportunities for local banks," he added.

Room for growth

OMAN: Around 20% of the sultanate's population prefers Shariah compliant banking, leading to a large potential for the growth of the local industry, according to a report by Gulf Baader Capital Markets.

"With the emergence of Islamic banking in Oman, not only is a new market being formed with wider variety of products and services, there is also expectation of a shift from conventional banking to Islamic banking," it said.

Lawsuit delays merger

OMAN: The HSBC Oman and Oman International Bank merger has been put on hold due to a lawsuit filed against the UK-based bank.

Following a lawsuit filed by an unnamed businessman seeking a compensation claim of OMR2 million (US$5.18 million) from HSBC, the ministry said that the merger would not be allowed to proceed until the case is settled or withdrawn.

Good growth in DIFC

UAE: Deposits at entities regulated by the Dubai International Financial Center (DIFC) rose at an average annual rate of 39% in the past three years; reaching US$12.8 billion at the end of the first quarter of 2012.

Loans and advances of the regulated entities rose by 40% during the period, amounting to US$14.7 billion; while assets under management reachedUS$8.1 billion.

As of March this year, the DIFC community comprised 861 active registered companies, 2% more than at the end of last year.

GFH eyes growth

BAHRAIN: Gulf Finance House (GFH) is looking to increase its stake in its subsidiaries and make an acquisition as it seeks diversify its income, according to Hisham Al Rayes, its acting CEO.

However, the bank has not decided on an acquisition target.

He also said that the bank sees its majority shareholding in Khaleeji Commercial Bank and its stake in cement producer Cemena and Bahrain Aluminium Extrusion Company as among core assets; amid its disposals of property and land.

GFH also plans to restart its Villamar property project; comprising a mixed retail and residential complex on Bahrain's waterfront.

Bidaya to launch new financial firm

SAUDI ARABIA: Bidaya, a mortgage firm owned by the Islamic Corporation for the Development of the Private Sector (ICD), has entered into a joint venture with Mortgage Finance Company to launch a new finance firm with a capital of SAR1 billion (US$266.7 million).

The joint venture is aimed at facilitating the purchase of residential units for Saudi citizens.

Coming up...

Volume 9 Issue 22 — 6th June 2012

Meet the Head
Amer Mohamed Al Jabri, CEO, Al Jazeera Finance

Features
Offshore centers; By Amjad Hussain, a partner at K&L Gates (Doha).

'Co-opetition' strategy in development of Indonesia Islamic banking; By Tony Hidayat, an Islamic banking researcher and strategic analyst at Bank BRI Syariah.

UAE Takaful market update; By Muhammad Owais Ansari, chief actuary at FWU Global Takaful Solutions.

MOVES

EMIRATES NBD

UAE: Emirates NBD has appointed **Mohammad Kamran Wajid** as CEO of its subsidiaries, Emirates NBD Capital and Emirates Financial Services.

WARBA BANK

KUWAIT: Warba Bank has appointed **Basel Jassem Al Obeid** as its chief corporate banking officer and **Feroz Noorani** as its chief risk officer.

Prior to their appointments, Basel was the head of international banking credit at Ahli United Bank while Feroz headed the risk management and compliance group at Al Hilal Bank Group.

COUTTS

GLOBAL: Private banking and wealth management firm Coutts has appointed **Ali Hammad** as the co-head of its Middle East business.

Based in London, Ali will partner Amir Sadr, the Dubai-based co-head of Coutts Middle East.

STANDARD CHARTERED BANK

GLOBAL: Standard Chartered Bank has named **Morad Mahlouji** as its new regional head of origination and client coverage for MENA and Pakistan.

FAJR CAPITAL

UAE: Fajr Capital has named **Adib Abdullah Al-Zamil** as the new chairman of its board of directors and as an independent director. Prior to this appointment, Adib served as the managing director of finance and investments at Saudi Arabia's Zamil Group.

The future is green

In the last few weeks, several reports have surfaced on the Shariah compliant financing of water and power projects focused in the South Asia region. Financing green projects via the Islamic route has been taken on by the Islamic Development Bank (IDB) which has used the proceeds for construction of numerous infrastructure projects involving wind farms, water supply, and sanitation; as well as agricultural development projects in Asia and Africa.

Green financing has long been touted as conducive to the Islamic space as both are wholesome — based on the concept of promoting good practices and values besides enhancing the general welfare of society. This idea has been echoed by R Seetharaman, CEO of Doha Bank, who reportedly said that environmental issues such as sustainable environmental development, developing water resources, facing global warming, ensuring women's participation and promotion of small-scale enterprises were some of the areas where Islamic banking could play a pivotal role. However he said that since Islamic finance was still in a nascent stage, there were several challenges to be overcome.

Although he did not provide further details, issues such as an improvement of regulation, tax, strengthening insolvency framework, standardization, liquidity and risk management are some of the common challenges faced.

The appeal of Islamic finance has crossed over to the conventional space as more investors become keen to invest in what are clearly lower risk investments due to the nature of Shariah principles. This growing interest is illustrated by the participation of the Asian Development Bank (ADB) in a Shariah compliant financing of two projects to build wind farms in Pakistan worth US$66 million.

Siddhartha Shah, a senior investment specialist in the private sector operations department of ADB, was quoted as saying that the transaction allowed the multilateral development finance institution to be more responsive towards borrower demand, besides having the opportunity to participate in the fastest growing segment of the global financial system.

Perhaps the most interesting space to watch in this sector will be the world's first pending environmentally friendly Sukuk, the proceeds of which will be used to finance solar parks, biogas plants and energy efficient devices for homes. The first meeting of the Green Sukuk Working Group was held in Dubai two months ago. The working group comprises the Climate Bonds Initiative, the Clean Energy Business Council of the Middle East and North Africa as well as the Gulf Bond and Sukuk Association. No specific date has been provided by the working group on the launch of this highly anticipated 'Green Sukuk'.

The UAE Sukuk market, which is slowly seeing a resurgence, may find this Sukuk yet another means of accessing a different set of investors who are focused on sustainable investing. According to a recent report, conventional green bonds totaled US$3 billion as of last year so this is perhaps the type of innovation needed in Islamic finance to propel the industry to its next level. — *RW*

RHB Capital and OSK Investment Bank seal merger

RHB Capital (RHBCap) and OSK Holdings have sealed a RM1.95 billion (US$609.09 million) deal to merge RHBCap with OSK Investment Bank (OSK IB), in a transaction that will create the country's largest stockbroker and investment bank by assets.

The merger is also expected to boost RHBCap's involvement in Islamic capital market deals and increase the banking group's attractiveness as an acquisition target for foreign investors; especially Middle East financial institutions looking to grab a slice of Malaysia's Islamic banking market.

Under the transaction, RHBCap will acquire 100% of OSK IB in exchange for RM147.5 million (US$46.07 million) in cash and 245 million in new RHBCap shares. The deal values OSK IB at 1.77 times price-to-book.

OSK Holdings will own the third-largest stake in RHBCap, with a 10% interest, after the merger is complete; expected in the fourth quarter of this year.

RHBCap's other largest shareholders comprise Abu Dhabi's Aabar Investments and the Employees Provident Fund (EPF). Following the merger, their shareholdings in RHBCap will be diluted to 40.7% and 22.5%, respectively.

The transaction will also give OSK Holdings the right to nominate a director each in RHBCap and its subsidiaries, RHB Bank and RHB Investment Bank.

The deal is expected to increase RHB Investment Bank's revenue contributions to RHBCap to 25% from 18%, with the enlarged investment bank likely to have more leverage in winning Islamic transactions. As at the 29th May, RHBCap was the fifth biggest manager of global Sukuk in Dealogic's top 30 global Sukuk managers list; managing 24 deals worth US$2.87 billion in the last 12 months.

RHBCap also reported a 5% year-on-year decline in its net profit to RM435.6 million (US$136.06 million) in the first quarter of this year. The slower growth was attributed in part to lower profit contributions from its corporate and investment, retail, business and global financial banking operations.

Meanwhile, RHB Islamic Bank recorded a pre-tax profit of RM100.7 million (U$31.45 million) during the period, from RM35 million (US$10.93 million) a year earlier; contributed by a higher net writeback of loan loss provisions and higher net profit income from financing assets. — *EB*

Saudi Arabia: On the path to success

After a slew of successful issuances in the first half of this year, coupled with political and socioeconomic stability and a highly liquid market, investors from both the conventional and Islamic realm have begun to look to Saudi Arabia as a viable hub for investments. However, the kingdom has in the past been seen as a relatively insular market compared to other GCC states such as Dubai and Qatar, causing it lose out on potential foreign investments; particularly in areas such as real estate, which many believe is an upcoming sector in the country.

A recent report stated that the Saudi Arabian projects and real estate market is expected to continue on an upward trend based on its population demographic, which is expected to increase by 50% to 28 million by 2020. The government has allocated up to US$90 billion, or 50% of its total budget, on infrastructure projects; with all the 13 regions in the kingdom seeing some form of development, with special focus on the most underdeveloped regions.

Speaking to Islamic Finance news Naim Azad Din, the vice-president of asset management at Sidra Capital in Saudi Arabia, revealed that despite the massive potential for real estate investments in the country, there are still many conflicting issues which could act as roadblocks to the growth of this sector, and it is ultimately up to the government to remedy this. "Interest in the residential market from various market participants is consistently strong: mainly from prospective house buyers, construction companies, developers and banks. The market is robust with a huge potential for growth given demand and shortage of supply," he said. "However, my fear is that on average the majority of the society still cannot afford them in view of their high prices, which is primarily attributed to rising land prices. This situation is made worse with the absence of a mortgage law. As a result, the rental market remains strong and is able to provide a good yield. However, given the escalating land prices, I am afraid that the idea of affordable housing will never get off the drawing board without more active participation from the government."

> ***"It is ultimately up to the government of Saudi Arabia to create a more investor-friendly environment for both local and foreign players"***

The decision to incorporate a mortgage law into the country's system has still not been finalized despite years of back and forth between the country's Shura Council and the government, suffocating the market and hindering its growth potential. Naim commented: "It is definitely a hurdle but the banks and non-bank financial institutions are already providing mortgages even without the mortgage law. However, this is only provided to selected credible and financially stable clients. Also, the market has become institutionalized with a concentration of real estate ownerships, even for retail offerings. What the mortgage law will provide, among other things, is the definitive rights of the lenders, which will become important in cases of default. It allows the lenders to operate with a proper security provision — the ability to charge a property under its name and application of lenders' rights should the borrower breach certain covenants. This is definitely a safety net that most lenders would want and its absence has prevented the real estate market from reaching its fullest potential. Otherwise, it will remain as a luxury item which is elusive to the majority of the society."

Investors have also expressed interest in Islamic real estate investment trusts (i-REITs) in Saudi Arabia; and despite it being a relatively new concept in the kingdom, there is much potential as long as it is supported by favorable regulations. The first cross-border i-REIT initiative was launched in 2008 by Saudi-based Sumou Holdings and Encore Management based in Switzerland, whilst Shariah compliant real estate companies such as Dar Al Arkan have also been thriving in the kingdom. However, Naim explained: "At the moment, such arrangements can only be done on a closed-ended basis as opposed to being listed as a REIT."

Industry players also believe that there has been a stark lack of effort by the government to encourage foreign participation in the kingdom through licensing and the creation of a more transparent investment environment. And although foreign interest is high, particularly in the hospitality and development sectors, the floodgates have yet to open. "We have seen interest from international players who are considering ownership of buildings in major cities in Saudi Arabia, mainly in the hospitality sector. However, despite all these interests, in my view, the main concern for non-GCC investors would be the transparency of law concerning ownership and its applications. Will their investments be safe and protected?" asked Naim.

It is ultimately up to the government of Saudi Arabia to create a more investor-friendly environment for both local and foreign players, to capitalize on the current excitement surrounding its successful first half. — *NH*

Next Forum Question:

> **"In the short, medium and long-term, how can Islamic institutions flush with liquidity address the problem of a lack of Islamic products in which to invest?"**

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 1st June 2012.

Laws to accommodate Islamic finance in Egypt

EGYPT

By Dr Walid Hegazy, IFN Correspondent

The growth of the Islamic finance industry in Egypt continues to increase significantly due to the rise of Islamic political parties, which has encouraged the transformation of the Egyptian economy to be in compliance with Islamic teachings.

In this respect, it has been suggested by the Islamic political parties to amend the current endowment 'Al-waqf' law with the aim of making it compliant with Islamic teachings. Since the current endowment law was influenced by the former regime's tendencies, which reflected a desire to control the Islamic endowment and the financial resources it provides in a way that violates the teachings of Islam, the Islamic parties have proposed new bills to replace the current law. The most important suggestions made in this regard are to reduce the control of the government over Al-waqf and to establish an Islamic Waqf model, which resembles the one applied in Egypt prior the military coup of 1952.

The launching of the Egyptian Islamic Finance Association (EIFA), which was one of the very first Egyptian associations to be established in the post-25th January revolution period, has played an undeniable role in promoting and spreading public awareness of the Islamic finance industry. The EIFA includes numerous legal, financial and economic experts who all believe in the importance of the growth of Islamic finance in the Egyptian community.

The EIFA recently organized a conference in association with the Child Cancer Hospital 57357, to discuss and exchange views on the importance of the Islamic endowment and its relation with Islamic finance, and the role of the financial sector in promoting it.

Dr Walid Hegazy is the managing partner of law firm Hegazy & Associates in association with Crowell & Moring. He can be contacted at whegazy@hegazylaw.com.

Singapore looking to grow Islamic trade finance

SINGAPORE

By Yeo Wico, IFN Correspondent

In his opening remarks at the Islamic Finance news roadshow in Singapore in March earlier this year Tai Boon Leong, the executive director of the Monetary Authority of Singapore, suggested that banks with Islamic operations in Singapore could and should look to Islamic trade finance as a source of growth. He cited the funding pressures faced by European banks, which have traditionally been strong in the trade finance sector, as being one of the factors creating this opportunity.

As cited by Tai, in 2011 bilateral trade flows between Singapore and the GCC grew by over 40% and reached SG$62 billion (US$ 48.6 billion). Considering the volatile nature of 2011, where the European debt crisis, geopolitical tensions in the MENA region and the Japan nuclear disaster threatened to derail the momentum of global economic recovery, there appears to be much cause for optimism for the continued and resilient growth of the trade finance sector in Singapore.

> *"Trade finance is an area which is naturally suited to Shariah compliance: as it is based on the actual flow of commodities"*

Singapore has for some time now enjoyed significant success in the area of trade finance. Its geographical location as a well-connected global city in Asia and its status as a major finance hub have enabled it to capitalize on both regional and global trade flows, supported by a diverse community of key market players. This opportunity for growth is one that banks with Islamic finance operations would do well to exploit, since trade finance is an area which is naturally suited to Shariah compliance: as it is based on the actual flow of commodities, in line with the emphasis under Shariah of supporting tangible assets and real economic activities.

The combination of significant and resilient trade flows through Singapore, the presence of strong industry players and Singapore's existing expertise in conventional trade finance suggests that there is potential for Islamic trade finance to flourish in Singapore and to complement its existing strengths in the Islamic capital markets, contributing to a more wholesome Islamic finance eco-system.

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2012: Sukuk year for Turkey

TURKEY

By Ali Ceylan, IFN Correspondent

As a part of the government's desire to boost the Islamic finance industry in Turkey, Sukuk issuance has become an important topic for the Turkish economy. The government is planning to accelerate the growth of the Turkish economy by implementing Sukuk as one of the main instruments for development.

In this regard Mehmet Simsek, the minister of finance, and Ali Babacan, the deputy prime minister, have made several statements emphasizing the importance of Sukuk issuance. Mehmet has stated that the private sector has already issued Sukuk and is working on further Sukuk projects. He has also stated that Turkey is willing to become a part of the Sukuk sector by issuing a sovereign Sukuk which will significantly encourage banks and financial institutions to continue and increase their investments in Islamic finance.

Ali has stated that government projects such as Galataport, Haydarpasaport and other similar major projects will be financed by Sukuk with the cooperation of the government and the private sector. It is also expected to finance the third Bosphorus bridge project by issuing lease certificates (Sukuk Ijarah).

Role of Sukuk

The World Bank, the Capital Markets Board of Turkey and the Turkish participation bank Albaraka Türk jointly organized and hosted a conference on the 18th May 2012 in Istanbul. Many leading individuals and corporations attended the conference, where the role of Sukuk in the development of the Islamic finance industry was discussed.

The conference enlightened Turkey's future concerning Islamic finance; particularly on Sukuk issuances by the Turkish government and private sector companies.

Ayhan Keser, the assistant general manager of Albaraka Türk, mentioned the importance of local players in the Sukuk market. He stated that only two Sukuk issuances have been realized in Turkey by Küveyt Türk Katilim Bankasi. However these Sukuk issuances were made in US dollars and were only targeting foreign investors. He underlined that the Sukuk issuers in future should also focus on the domestic market and should consider issuances in the Turkish lira.

Albaraka Türk is planning to issue lease certificates in the second half of 2012 provided that the market conditions are positive. This issuance will make Albaraka Türk the second Sukuk issuer in Turkey.

In the closing remarks of the conference Cavit Dagdas, the deputy undersecretary of the treasury, stated that the government is very positive about Sukuk and has already started to work on a draft law which is now being discussed in the parliament commissions. He mentioned that the draft law may be enacted by late June and the first sovereign Sukuk issuance may be realized in the second half of 2012.

Ali Ceylan is a partner at Baspinar & Partners Law Firm. He can be contacted at ali.ceylan@baspinar.av.tr.

Dubai Islamic Bank US$500 million Sukuk

Dubai Islamic Bank (DIB) launched a US$500 million Sukuk on the 22nd May, in an offering that formed part of its US$2.5 billion trust certificate issuance program. The sale also marked the first time DIB has tapped the debt markets since 2007, when it issued a US$750 million Sukuk that matured in March this year. The Sukuk was repaid via DIB's own funding sources.

DIB's latest offering was issued via DIB Sukuk, the bank's special purpose company, incorporated in the Cayman Islands solely to act as the issuer of the certificates and as trustee for Sukukholders.

Utilization of proceeds

Dr Adnan Chilwan, the deputy CEO of DIB, said that the new issuance was driven by the bank's need to maintain a presence in the international debt capital markets, in addition to its strategy of diversifying its funding sources.

Subscription

The issuance, which was priced at 365 basis points over five-year midswaps, was oversubscribed four times. The papers saw a 61% take-up by banks, alongside funds (24%), private banks (8%) and sovereign and supranational agencies (7%).

> *"The new issuance was driven by the bank's need to maintain a presence in the international debt capital markets"*

Participating banks and law firms

In addition to the joint lead managers, which also acted as joint bookrunners, DIB hired Sharjah Islamic Bank and Union National Bank as senior co-managers and Qatar Islamic Bank as co-manager.

The transaction also saw the participation of offshore legal firm Maples & Calder, which advised DIB on the set-up of DIB Sukuk. — *EB*

Dubai Islamic Bank Sukuk

US$500 million

22nd May 2012

Issuer	DIB Sukuk
Obligor	Dubai Islamic Bank
Purpose of issuance	To diversify funding sources
Tenor	Five years
Currency	US dollars
Profit rate	4.75%
Joint lead managers	Deutsche Bank, DIB, Emirates NBD, HSBC and National Bank of Abu Dhabi
Legal advisors	Allen & Overy (for DIB) and Clifford Chance (for mandated banks)
Geographical breakdown of investors	Middle East (73%), Europe (15%) and Asia (12%)

Lebanon's Islamic banking: More words than deeds

Lebanon is struggling to develop an Islamic banking sector amid regional political turmoil and a challenging regulatory and tax regime. MA'AN BARAZY explores the current situation for Islamic banks in the country and takes a look at what we can expect in the future.

More than eight years have elapsed since the ratification of the law pertaining to regulate Islamic banking in Lebanon. However this practice is still a rare commodity in the market. There are five banks enjoying an Islamic license and operating under foreign restrictions in Lebanon out of 63 banks, statistics show. They are all operating under foreign licenses.

Beirut-based Lebanese Islamic Bank started offering Shariah compliant services in 2005 after receiving the first Islamic banking license from the central bank, according to data on its website. Albaraka Banking Group, the biggest publicly traded Islamic lender in Bahrain; Arab Finance House (Islamic Bank); and Blom Development Bank are the other three Shariah compliant banks in the country.

Although central bank sources disclose that they are working with a group of local lenders to amend a 2004 law that allowed the establishment of Shariah compliant banks, the interest for Islamic operations is yet to be seen in a country where more than 60% of the population is Muslim. The Central Bank of Lebanon has also disclosed that it will be considering introducing a product in the first quarter that helps Islamic lenders manage their liquidity.

The consolidated balance sheet of Islamic banks is not significant although trade finance with Iraq has been the major Islamic product in the market through the Baghdad-based Al-Bilad Islamic Bank.

Reportedly the governor of the Central Bank of Lebanon, Riad Salameh, will intervene with ministry of finance officials in June to amend certain laws which prevent the development of Islamic finance. Lebanon, which is a regular issuer of non-Islamic bonds, doesn't plan to issue Sukuk however, especially if the transaction has to be backed by assets, as it will require a law that allows the state to pledge public assets.

The performance of Lebanon's bonds reflects strong demand from cash-rich domestic banks, making the country stand out as the closest thing to a safe haven during market turmoil.

The country is rated 'B' by Standard & Poor's, five levels below investment grade; and 'B1' by Moody's Investors Service, the fourth-highest junk rating. The cost of insuring Lebanon's debt against default is the third highest in the Middle East after Egypt and Iraq.

It was not until 2004 that Islamic banks were given authorization to operate in Lebanon. Under Law No. 575 dated the 11th February 2004, and supplemented by two circulars dated the 30th August 2004, the central bank of Lebanon set the regulatory framework for Islamic banking in Lebanon. The issuance of Islamic bonds, known as Sukuk, is still under study by the central bank and needs a lot of time to be implemented. Many experts see huge potential with the issuing of Sukuk.

Lebanon's borrowing costs have recently dropped close to a record low as investors dismiss the effect of Syria's crisis on banks, in the most indebted Arab nation. The yield on the 6.6% bonds due November 2026 fell 31 basis points this year to 6.25% last month, three basis points above the March all-time low. Average sovereign bond rates in the Middle East declined six basis points to 5.75% in the same period.

While the IMF estimates that economic growth will pick up to 3% this year from 1.5% in 2011, the expansion is still "well below Lebanon's potential," said Nemat Shafik, the deputy managing director of the IMF, in a statement on the 10th May. In 2010, deposits maintained a brisk pace thanks to attractive rates of return and depositor confidence (among the diaspora and non-residents from the Gulf) inspired by the Lebanese pound's peg to the US dollar, a trend expected to continue into 2011. Banks prefer to cover a significant portion of the state's financing needs rather than grant loans to the private sector. They are thus overexposed to sovereign risk and vulnerable due to highly dollarized deposits.

More risks

Islamic banks are suffering from higher risks in the market than their peers. Most income of banks is drawn out of subscribing to the government issued treasury bills; a source of net interest income they cannot afford the luxury to abide with.

Lebanon has often proved resilient during bouts of regional upheaval and Lebanese sovereign debt can be seen as a regional safe haven supported by a loyal Arab investor base. Credit default swaps on Lebanon's debt sank 27 basis points in 2012 to 445 on the 1st May, the lowest since December. The drastic year-on-year decrease of 33% in capital inflows as of the end of February 2011 and the reduction of requests for foreign financed projects presented to IDAL from nine in the first quarter of 2010 to two at the end of March 2011 is a disquieting testimony to this reality.

As for consolidation, there are very limited possibilities to exploit potential synergies as long as the reluctance of bank shareholders and managements to merge out of family-run businesses will persist.

Banks in Lebanon have been used to easy profits associated with low administrative costs via their investment in high yielding treasury bills with practically no currency risk due to the pegging of the Lebanese pound to the US dollar. Since yields have regularly decreased in the past five years and as bankers realize that lending to the public sector now borders on unsafe proportions of their balance sheets (it is running at 32% at present, down from 38% in previous years) they have operated a strategic shift in business

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models and realized that there is no escape from doing 'real' banking work. This practice cannot simply apply to Islamic banks for reasons common to Shariah investing.

Deposits in Lebanese banks grew at an annualized rate of 8% this year, the same as during all of last year, the central bank governor said last week. Balance sheets of banks in Lebanon grew by an annual 11% in January, according to central bank data.

A US$700 million Lebanese eurobond issued last month was 30% oversubscribed, resulting in a boost to the finance ministry's coffers. The first tranche of the eurobonds brought in US$600 million, up from the original plan to raise US$350 million. It carries a 5% yield and matures on the 12th October 2017.

The second tranche brought in US$350 million as originally planned. It carries a 6.4% yield and will mature on the 27th April 2026. Non-Lebanese accounted for 30% of the subscribers with the remaining issuance taken up by the local banks, holders of the majority of Lebanon's hefty debt. Byblos Bank and Bank of America-Merrill Lynch were the lead managers on the Eurobond. The proceeds of this issue are to refinance US$293 million and EUR115 million (US$151 million) in eurobonds which matured in March and April 2012, respectively. Lebanon's finance ministry revealed earlier this year that it will be issuing US$5 billion worth of eurobonds and treasury bills to cover the public debt in 2012.

Central bank statistics show that the consolidated balance sheet of financial institutions in Lebanon reached US$1.1079 billion at the end of March 2012, up by 6% from US$1.0456 billion at the end of March 2011. Liabilities to the private sector went down by 5.9%, from US$277.6 million at the end of March 2011 to US$261.2 million at the end of March 2012. Only 5% have an Islamic base

In Lebanon the banking system is one of the key strengths of the economy. Banks remain well capitalized, very liquid and profitable, with non-performing loans in decline.

VAT on Islamic operations

However experts have identified a number of laws to be amended to pave the way for Islamic banking licenses. Islamic banks are subject to a VAT tax although Lebanese commercial banks are exempt from this tax. The introduction of VAT in Lebanon has been hailed as a public finance success. The relative ease of accounting, implementation and collection of VAT are some of the main reasons behind its popularity and its adoption in more than 130 countries today and in Lebanon since 2002. VAT is widely used in countries in the Middle East and North Africa region.

"In Lebanon the banking system is one of the key strengths of the economy. Banks remain well capitalized, very liquid and profitable, with non-performing loans in decline"

In January of 2007 and as part of the reform package presented at the Paris III Conference on Assistance to Lebanon, the Lebanese government proposed to increase the VAT rate from its current%10 to 12% in 2008, and 15% in 2010. The tax increase comes in the context of a general agenda of fiscal discipline adopted by the Lebanese government and in an effort to redress the budget deficit from the revenue cuts that resulted from trade liberalization measures that the government had passed.

After the skyrocketing post-civil war debt and trade and fiscal reforms since the early 1990s, the ministry of finance said it would raise VAT to 12 % in order to boost government revenues. If the news materializes this will push Islamic banking a step further from Lebanon.

Cross-border expansion

However, one may regrettably have to wonder now about the magnitude of the impact of the regional turmoil not only on the revenues from off shore operations but on the soundness of the loan portfolios themselves, especially in the absence of sufficient transparency regarding the nature and the quality of the upstream scrutiny process applied to these loans and transactions.

Credit subsidies

Islamic banks also fall short of benefiting from a subsidized interest rate on their credits.

The subsidized interest rate is funded by the Lebanese treasury and managed by the central bank. It favors industry, tourism, agriculture, craft industry and technology.

The loan amount varies between LBP15-50 billion (US$10-33 billion). The subsidized interest rate is calculated as 7% for the first LBP5 billion (US$3.3 billion) and 5% on the remaining amount.

The subsidy stretches over a period of seven years and has a grace period from six to 24 months interest rate in Lebanese pounds with a maximum for the two-years treasury bills at + 1%.

Repayment modes should not exceed a maximum of 15% of the capital during the first two years. There is no refunding for such subsidies: nor funding for working capital or equity participation or working capital requirements or debt restructuring plans; as the project has to be executed in Lebanon.

Islamic banks also suffer from a lack of proper real estate collateral. Since they are considered as foreign enterprises they have to be included as a part of a 10% foreign ownership quota of real estate permitted to foreigners.

Consequently they are also able to hedge the risks on their lending; in a country already suffering from a regress in credits to the private sector.

The central bank is helped to create an

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'awakening' which has resulted in a substantial and rapid increase in private sector lending which has led to the addition of over 300,000 new clients to the sector's consolidated books over the past 18 months.

This was obtained via inciting measures coined by the central bank at the expense of introducing some additional fragility into the system, albeit partially mitigated by the trade-off (does the present economic situation require more growth or more security?) and partially by the global size of the credit portfolio which does not exceed 37% of total bank assets.

Home loans, car loans, sector-specific facilities (technology, industry, tourism, etc.) were accordingly granted to corporate and retail markets long-starved by the crowding-out effect of lending for years primarily to the public sector.

This initiative has undoubtedly contributed to stimulating the economy and achieving the growth rates we have witnessed in 2008, 2009 and to a lesser extent in 2010. But, it has also exposed the banks to growth fluctuations as the number of non-performing-loans (NPLs) may increase exponentially with a depressed economic situation caused by further political irresponsibility. This practice has not been successful yet in 2012.

This outcome would become even more likely and acute if insufficient credit analysis and proper diligence were exercised at the time of approving all these loans. Should this scenario develop, depending on the magnitude of the defaults, it might shave off close to US$2 billion of shareholders' equity and jeopardize the entire capitalization process mentioned earlier.

Conclusion

If the central bank does not push for a ratification of different laws that hinge on Islamic banking practice in Lebanon, the future of the industry is bleak. It is true that the banking sector has accumulated buffers but is facing an increasingly challenging environment.

Thanks to prudent management and conservative regulation, banks report capital above the regulatory minimum, high liquidity buffers, low levels of nonperforming loans and stable profits. However, the recent expansion cannot be left to conventional banking alone as more international banks are exposed to heightened risk from the regional turmoil.

Conventional banks' stability is tied to an economy which is becoming more resilient in recent years thanks to a marked reduction in the government debt-to-GDP ratio and a build-up of large foreign reserves. Still, government debt at 134% of GDP at the end of October 2011 remains among the highest in the world and gives rise to large recurrent financing needs.

The large banking sector funds itself from short-term deposits to roll over its large exposure to the sovereign, exposing itself to a maturity mismatch. This fragile stability will need an exit strategy soon. Islamic banks will be the ideal haven.

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Islamic microfinance: Challenges and the way forward

RONALD RULINDO and SUTAN EMIR HIDAYAT discuss ways to enhance market awareness of Islamic microfinance and evaluate the challenges faced by the sector.

Recently, attention to Islamic microfinance has reached its pinnacle. Stakeholders of the Islamic financial services industry are trying to look into the possibility of a socio-business model of microfinance based on Shariah compliant principles.

The establishment of Islamic microfinance institutions (IMFIs) is supported by the fact that over 1.2 billion Muslims, stretching from Indonesia to Senegal, are living below the poverty line in both urban and rural parts of the world. These Muslims not only need access to financial services, but want services that are Shariah compliant.

Although the development of IMFIs started a long time ago, many people are still unaware of the business model of this institution.

Business model of Islamic microfinance

Microfinance is defined as a form of financial development that primarily focuses on alleviating poverty through providing a broad range of products to micro and small-sized enterprises. These include financing, insurance, transactional services, remittance and most importantly, savings. The term microfinance is often used interchangeably with microcredit. However, the activities of microcredit are basically limited to giving small loans to low-income individuals.

A similar definition of microfinance can be applied to Islamic microfinance. However, products and services of Islamic microfinance have to be compliant with Shariah principles. For example in savings, instead of offering interest-bearing deposits, Islamic microfinance can offer Wadiah, Qard or Mudarabah deposits.

Similar to the practice of an Islamic bank, in a Wadiah deposit, Islamic microfinance plays a custodian role to the depositors' funds. In this contract, the principal of the fund is guaranteed, but not the return. However, based on the discretion of an Islamic microfinance management, depositors may receive some return as a gift (Hibah) on their deposits.

Different to general practice in Islamic banks, Islamic microfinance (due to its socio-business model) can offer a Qard savings account. In this model, depositors technically provide a Qard Hassan (benevolent loan). Funds generated from this model, therefore, can be used to finance poor micro-entrepreneurs. The duration of this Qard, however, should be clearly stated, and it can be renewed after due dates.

> *"Although the development of the IMFIs started a long time ago, many people are still unaware of the business model of this institution"*

The practice of a Mudarabah deposit is similar to the practice of Islamic banks. It is a profit sharing ratio contract whereby depositors invest their funds in Islamic microfinance as a Rab al Maal and the Islamic microfinance acts as a Mudarib. In a Mudarabah deposit, depositors may receive return on their investments and at the same time may bear some losses unless the losses are due to the misconduct and negligence of the Islamic microfinance management.

Similar concepts and techniques to Islamic banks also apply on the asset side of Islamic microfinance. Most Shariah compliant contracts such as Mudarabah (profit sharing and loss bearing), Musharakah (profit/loss sharing), Murabahah (sale plus profit), Ijarah (lease) as well as Salam and Istisnah (ordered sales), can be equally applied in an Islamic microfinance setting. The main difference is the amount of financing in Islamic microfinance, which is significantly smaller than in an Islamic bank. In addition, Islamic microfinance may collect the daily instalment from the clients and in many cases the financing does not require physical collateral as it is replaced with a social capital, i.e. a guarantee from other potential clients.

IMFIs may also utilize Islamic charitable funds such as Zakat, Infaq Sadaqah and Waqf to finance the consumption of the poorest of the poor (consumer financing), while funds from savings deposits can be used to finance productive activities of those people. The utilization of these funds is very beneficial since the poorest of the poor are commonly excluded by IMFIs as they are often not in a position to undertake business.

Challenges

There are some issues that challenge the development of IMFIs. One of these is the legal status of the IMFI. In Indonesia for example, there are many cooperatives known as Baitul Maal wa Tamwil (BMT) that are not registered as legal cooperatives. This is because these BMTs were established prior to the government's decision to categorize them as Islamic cooperatives. These BMTs disagree in converting their status to Islamic cooperatives and prefer to be unregulated as their organizational structure does not fit with a cooperative model. Basically, these organizations are more appropriately categorized as micro-banking rather than as cooperatives.

Unfortunately, these institutions are

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not qualified to be considered as banks. As a result these institutions, together with self-help groups, NGOs and other IMFIs, are not under the supervision of the central bank, the ministry of finance, or the ministry of cooperatives. This is a serious regulatory and supervision issue. This situation could result in prudential issues for these institutions and may challenge their acceptability in the market and affect their financial sustainability.

Another key issue is the lack of capital versus excess liquidity. Lack of capital can cause IMFIs to have difficulty in scaling up. Thus, they neither grow out of retained earnings nor can they raise capital in financial markets. Some of the IMFIs that lack capital also find difficulties in meeting the capital requirement set by regulators.

Therefore, there are prudential problems in the operation of IMFIs. In contrast to the IMFIs which lack capital, there are other IMFIs that have successfully accumulated a significant amount of savings from members and communities but have problems in distributing the funds. These IMFIs, therefore, are experiencing excess liquidity. This contradictory situation, however, can be managed by the presence of an apex institution. This institution can channel funds from those have excess liquidity to those that have limited funding.

The nature of a microfinance business that requires IMFIs to collect daily or weekly instalments leads to higher operational costs for IMFIs as compared to Islamic banks. As a result, given the higher cost for supervision and administration, the IMFIs have to charge higher profit rates to their clients. This practice, therefore, gathers much criticism from the communities it is attempting to support.

To some extent this may reduce people's interest in and support for IMFIs. A higher operational cost is an indication of higher risk. In relation to credit risk, a limited market leads IMFIs to have a high concentration of homogeneous clientele. Therefore, IMFIs are prone not only to credit risk but also to systemic risk due to a lack of diversification.

In terms of market risk, IMFIs are also susceptible to both rate of return risk and foreign exchange risk. For rate of return risk, the IMFI has to ensure a higher rate of return to the depositors or they may transfer their funds to the Islamic banks. Foreign exchange risk, on the other hand, is experienced by institutions that acquire funds and provide savings as well as credit facilities in foreign currency.

> ***"Some IMFIs are lacking in innovation in providing services to their clients. Capacity building for IMFIs has become urgent to overcome this problem"***

Another issue is the capability of the microfinance management. Some IMFIs are lacking in innovation in providing services to their clients. Capacity building for IMFIs has become urgent to overcome this problem. However, lack of capacity building has become another problem because IMFIs have limited resources as they rely too much on donors to support training for their staff. To compound this problem qualified staff, when available, often prefer to work in more established and prestigious institutions such as Islamic banks, rather than in IMFIs.

Last but not least the IMFI has difficulties in terms of Shariah consistency. There is inconsistency in Shariah rulings issued by the Shariah supervisory boards of IMFIs which have resulted in the non-standardization of products across IMFIs. This is mainly because members of the Shariah supervisory board of an IMFI lack knowledge in finance and instead rely on their religious knowledge to perform their duties.

The way forward

For further development, IMFIs should consider the trilogy of microfinance in their objectives in addition to compliancy with Shariah.

The first thing that needs to be done by IMFIs is to increase capacity building for their staff in the organization. All IMFI staff must have an understanding of Islamic finance. They also should be equipped with managerial skills in terms of business and management, product development and legal and corporate governance, as well as book-keeping. They also should master how to perform financial analysis at least at a basic level such as to conduct investment analysis, due diligence, and to ensure adequate risk management is in place within the institutions.

Secondly, an IMFI should able to achieve financial soundness. Financial soundness is not only about profitability, but also incorporates the ability to be transparent in all aspects of the organization.

The IMFI should disclose adequate information in its financial report with regards to its financial position. If the infrastructures are available, they should be audited and rated in order to promote the confidence of its existing and prospective investors.

Conclusion

IMFIs are vital institutions established to alleviate property in Muslim countries through Shariah compliant methods. However, in some cases the activities of IMFIs still have not reached the poorest of the poor in the society they serve. They still have a long way to go before they achieve their aims.

This article reflects the personal opinion of the authors and does not necessarily reflect the views of the Islamic Financial Services Board or the University College of Bahrain.

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The requirements of Islamic microfinance

MOINUDDIN MALIM looks at the basic framework for setting up an effective and successful Islamic microfinance model.

Over 500 industry experts, practitioners and stakeholders from 20 countries participated in the international Islamic microfinance conference in June last year in Islamabad, Pakistan. While the participants discussed the challenges facing the industry and presented plausible solutions, they agreed that an Islamic microfinance model can only be successful when institutions are duly supported by a legal framework with a clear policy from state-owned regulatory and financial bodies.

While major researches on commercial microfinance showed that the growth of microfinance has far outstripped its effective alleviation of poverty, the participants agreed that microfinance should be provided at a high financial cost considering that micro businesses are more profitable than other commercial businesses.

While Islamic microfinance is relatively new and there are few models available to study, we need to draw from the success of the conventional microfinance industry.

Microfinance models

There are a handful of successful conventional microfinance models which have different variants and a few of these are also being emulated by Islamic microfinance.

1. **Grameen Bank model**
   This popular model requires careful targeting of poor female groups of five to 10 women in the community through a 'means' tests. This requires intensive fieldwork and supervision by microfinance staff to keep the 'borrowing' groups motivated. The group members guarantee each other's financing. A key feature of the model is group-based and graduated financing that substitute collateral as a tool to mitigate default and delinquency risk.

2. **Village bank model**
   Under this model, individual village banks are established through any agency with about 30-50 members who provide 'external' capital for onward financing to individual members. Individuals are required to repay the loans at weekly intervals over an agreed period, usually three to four months, at which time the village bank returns the principal with interest/profits to the agency. A bank who has repaid in full is eligible for subsequent loans, with loan sizes linked to the performance of village bank members in accumulating savings with the bank. The idea is to make the bank accumulate sufficient capital internally to become an autonomous and self-sustaining institution (in three to four years).

> ***"An Islamic microfinance model can only be successful when institutions are duly supported by a legal framework"***

3. **Credit union model**
   A credit union model is based on the concept of mutuality. Its membership owns and controls the credit union and operates it on a non-profit basis. It brings members together on a common ground that mobilizes savings and provides loans for productive and provident purposes. Credit unions generally have a primary promoter or a regulator that provides guidelines, training and monitors the financial performance.

4. **Self-help group model**
   When a group of people with relatively equivalent income streams come together they can establish a self-help group model where members pool their savings and use them for lending to each other. The group can also seek external funding to supplement internal resources. The terms and conditions of loans differ among groups depending on the democratic decisions of members. Self-help groups are usually established through the direct assistance and promotion of NGOs, who guide them on how to become self-sustaining.

While all of the above models are conventional, there are no limitations to them being developed and used on a Shariah compliant platform. On the contrary, the essentials of the models are very close to Shariah principles and can be easily molded to make them fully Shariah compliant.

Microfinance best practice

The Consultative Group to Assist the Poor has come up with a set of key principles of microfinance that together constitute the essence of 'best-practice' microfinance; and these have been slightly modified in light of Shariah principals.

1. Islamic microfinance can uplift the social fabric of the society. To assist someone with the tools for them to earn their living is much better than giving charity for buying food only.
2. Teaching the poor and assisting them to become self-sufficient requires a support system to ensure that their productivity generates enough for their sustenance.
3. A variety of financial services including loans, savings, insurance and money transfer services should be offered under the microfinance model to the poor.
4. Microfinance builds the financial systems that serve the poor but will reach its full potential only when it is fully integrated into the country's mainstream financial system.
5. Risk participation also means the share of profits which may work out to be a higher rate of return for the Islamic microfinance which is fine so long as it is fair.
6. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into Islamic financing, and provide other financial services.
7. The government should set up policies to encourage Islamic

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microfinance to grow and become institutionalized rather than philanthropic endeavors by a selected few.
8. Microfinance should be able to tap into the deposit market, i.e. private capital that can be also supplemented through donor funds where both must not compete with each other.
9. Performance measurement, disclosure and reporting of microfinance should be mandatory for all the right reasons as well as demonstrating social performance.
10. Zakat and Sadqa may work better for people who are so destitute that they are without income or means of repayment. Hence microfinance may not be for everyone.

Types of microfinance

A successful microfinance industry should be able to cater for different types of financial outlays required by lifecycle events, emergencies and opportunities. The poor not only need credit but they have other financial needs as well. The current offerings are as follows:

1. **Microcredit**
A few Muslim countries offer microcredit through conventional microfinance institutions but this violates the fundamental prohibition of Riba. Microcredit may be offered using a variety of mechanisms that do not violate the Shariah. There are a range of Shariah compliant structures such as Qard Hasan, Murabahah with Bai Bithaman Ajil, Ijarah and Bai Salam, which can be used to create a 'debt obligation' on the participant.

2. **Microequity**
A preferred way of extending microfinance is through investing in a microenterprise through equity types of funding. In an Islamic economy, several partnership-based modes of equity financing exist: such as trustee financing (Mudarabah), joint venture (Musharakah), share-cropping (Mudarah) and distributorship (Wakalah).

3. **Microsavings**
Saving should be inculcated in all segments of the society including the poor. However they may be constrained due to multiple demands on their low income and lack of the appropriate saving instruments which fit their needs. They too want a secure, convenient deposit that allows smaller balances and offers easy access to their funds in addition to deposit and the return being Shariah permissible (Halal) even though they may be using interest rates as a benchmark for comparison.

4. **Microtransfers**
The poor may have relatives living and earning money in distant places. They need services relating to sending and receiving money in addition to borrowing from their relatives at times of urgency. Hence money transfers encompass more than just remittances as they also cover the portion of migrant worker earnings sent to family members or other individuals in their place of origin. Such remittances can include both domestic and international transfers.

5. **Micro-insurance**
The variety of risks and uncertainties, such as death, sickness of the bread-winner, loss of crops, livestock or housing due to natural calamities etc. are faced by poor people more than any other segment of society. Micro-insurance is the protection of low-income individuals against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved. According to most Shariah scholars, insurance in the Islamic framework is ideally not-for-profit and takes the form of mutual guarantee by members in a cooperative venture called Takaful-Tawuni. As with all insurance, risk pooling allows many individuals or groups to share the costs of a risky event.

Requirements for Islamic microfinance

1. To become an effective provider, Islamic microfinance needs to segment its activities based on market subsectors where it should target a specific product, i.e., simple and easy to use and understand.
2. Islamic microfinance providers should always think like pure equity investors who are willing to take on risk in a similar fashion to an angel investor or venture capital firm. This means even getting involved in the business hands-on at any level.
3. Developing an understanding of the market including social and cultural aspects which may affect behavior needs to be thoroughly researched and will help microfinance to better understand the size, segment and opportunity set for it to develop the right product offering.
4. Microfinance, Islamic or otherwise, can only realize its full potential when it has the capacity to tap into the wider geography which requires trained personnel. Hence, developing human capital and training them to think differently is also critical as these types of staff are not typical banking professionals who are used to credit analysis.
5. In addition to the capacity of the Islamic microfinance itself, there is also the need to train the participant to be successful in setting up, organizing, managing and monitoring the business as well as attaining the basic tools of financial acumen.
6. Micro-insurance on an Islamic Takaful basis insures the enterprise assets against basic calamities and incidents. For the participant, their cattle and other livestock, their storage facilities, etc. may be their only assets which need protection and insurance.
7. Islamic financial reporting standards need to be developed for Islamic microfinance and this should be taken up seriously by Islamic standard setters like AAOIFI and IFSB.

Conclusion

Islamic microfinance favors equity-based and cooperative models in contrast to mechanisms that create and perpetuate debt. There are Shariah compliant debt-based modes; however, equity-based modes are clearly preferred. The Islamic approach to poverty alleviation is more inclusive than the conventional one. It provides for the basic conditions of sustainable and successful microfinance, blending wealth creation with empathy for the poorest of the poor.

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Islamic finance: The role of offshore jurisdictions

As the Islamic finance industry strives to drive forward and out of the global financial crisis, the roles of offshore jurisdictions continue to grow exponentially. CAROLINE BARTON analyzes.

Offshore jurisdictions have played a vital role in the development of the Islamic finance markets. The Islamic finance industry is projected to become a US$2 trillion industry very shortly as the usage of these structures has expanded dramatically over the last decade; and offshore jurisdictions have been a key component to this growth.

Investment in the funds market in the Middle East and the re-Takaful market have grown annually, while global markets over the past five years have welcomed ground-breaking Shariah compliant securitizations and have witnessed increased issuance in large-scale, internationally placed Sukuk.

Market professionals anticipate continued growth in all types of Islamic debt financings and funds. Jurisdictions such as the Cayman Islands, Jersey, the British Virgin Islands, Guernsey, the Isle of Man, Mauritius, the Seychelles and Bermuda will continue to be used as bases from which to raise finance and establish funds.

A paper from the International Monetary Fund states that: "More and more countries are climbing aboard the Sukuk issuance bandwagon in order to tap into the massive pools of money in the hands of Muslim individuals and their countries." France, Japan, Thailand and the UK have all begun to establish Sukuk issuance programs. Offshore centers have emerged in the Islamic finance market as key players. They are strategically placed to facilitate this growing finance trend.

Why offshore?

Many offshore centers offer a wide range of features allowing Shariah and legal principles to be upheld while providing sophisticated financial products to sophisticated financiers. The offshore vehicle is a flexible tool often incorporated into many of the well-known Islamic structures such as Sukuk, Murabahah, Ijarah, Wakalah and Musharakah. Offshore companies and trusts have proven to be a useful ingredient to Islamic finance products.

The offshore jurisdictions most frequently are, by no coincidence, already well-established jurisdictions; particularly as banking hubs. Their reputation as financial centers and the presence of highly skilled legal and financial professionals lends well to expanding an already stable finance market into Islamic financing for Middle Eastern investors.

Some of these jurisdictions can offer multiple benefits such as no (or low) income, capital gains, profit or withholding taxes; no restrictions on foreign exchange or foreign ownership; and experienced service providers and operational support.

Cayman Islands

The Cayman Islands have for some time been the jurisdiction of choice for the listing of Islamic finance products and are arguably the most popular offshore jurisdiction; particularly for Sukuk. The jurisdiction's flexibility, particularly with regard to the drafting of issuer constitutional documents and transaction documents while still complying with Shariah requirements, suits the demands of Middle East clients.

A special purpose vehicle (SPV) can be formed in the Cayman Islands as the issuer. This SPV issues Sukuk to investors in exchange for subscription money. The SPV can be owned by a charitable or purpose trust established under Cayman Islands law which holds the shares of the issuer. Of course, the SPV and trust structure is used for more than Sukuk and is also commonly adopted for Ijarah and Mudarabah structures.

The introduction in 2007 of the option for dual language registration in the Cayman Islands increased the competitiveness of the jurisdiction and aimed to trigger business from the Arab region. The ability to register companies in Arabic and English was specifically aimed at the Islamic finance market and means that Arab banks or banks focusing on the Arab world can create structures, documents and bank accounts in Arabic and English.

The Cayman Islands continues to pioneer the development of new trends in the Islamic finance sector through the partnership of the Cayman Islands government and the private sector.

Bermuda

Bermuda has been pursuing efforts to become the first western center for Islamic finance in a favorable tax domicile, with the country seeking to introduce legislation to accommodate a Shariah compliant platform.

In 2010 Bermuda entered into a double taxation avoidance treaty (DTA) with Bahrain which was considered a big step towards positioning itself as the offshore jurisdiction of choice for Islamic finance. The DTA is a reciprocal agreement between Bermuda and Bahrain not to tax the repatriated income that an individual or corporate resident of one country has earned in the other country and which has already been taxed.

Given their high level of experience with shipping and aviation acquisition and financing structures, both Bermuda and the Cayman Islands are attractive to Middle Eastern clients regularly requiring financing for these investment assets.

British Virgin Islands

The British Virgin Islands (BVI) have historically been a popular jurisdiction for Asian clients. In fact, Chinese government statistics reveal that BVI is the second largest investor in China. BVI companies are increasingly being used by Islamic asset managers, financial institutions and managers. In particular, popular BVI joint venture vehicles provide some specific advantages particularly for certain Islamic finance structures such as Musharakah.

continued...

Continued

By providing a neutral jurisdiction for the joint venture vehicle for what is often two shareholders from differing jurisdictions, the BVI joint venture vehicle is unique in that the directors of the BVI joint venture company can act in a manner which is in the best interest of one or all of the shareholders rather than the best interest of the company as a whole. While with this approach one might seem to move away from the duty of directors to act in the best interest of the company, it should be clear that this duty remains however only in addition to the duty that the directors have to consider the interests of the shareholders; and to resolve the situation where directors are nominated by shareholders and are expected to act in their interest.

Jersey

Jersey has been undertaking Islamic finance-related work for a considerable amount of time as a result of its well-established regulatory regime known to protect the interests of investors. The jurisdiction has a strong investment funds market and this is being expanded to accommodate Shariah compliant funds.

The structure of a Shariah compliant fund is not dissimilar from other investment funds in that it can take the form of any of the legal structures which are available: including a limited company, protected cell company, unit trust or limited partnership. The most noteworthy difference is the requirement to appoint a Shariah board to guide the directors and investment manager of the fund on matters of Shariah law.

Jersey provides local professionals who are experienced in the specific requirements of the Shariah board and there are legal, administrative and accounting experts locally who are experienced in the roles and responsibilities of the Shariah board in such funds; and can prepare the structuring of a fund in line with these expectations.

Hong Kong

Hong Kong has started to assume a larger portion of the market and has made tax changes to develop into a global capital formation. The Hong Kong Monetary Authority has detailed its objective to develop Hong Kong an Islamic finance hub. To its advantage, in December 2011 Hong Kong topped the World's Economic Forum's Financial Development Index, coming out above the US and the UK. It is now an even more attractive market for capital raising, product launches and specialized financial services.

The most common form of Islamic finance product in Hong Kong seems to be Sukuk, with many of these being listed on the Hong Kong Exchange. However with the determination of the Hong Kong Monetary Authority, the introduction of the Hang Seng Shariah Compliant China Index Fund and the growth in the number of banks and financial institutions providing Islamic banking and financing services in Hong Kong, the expansion of Islamic finance products seems to be imminent.

Not only is Hong Kong in itself a potential Islamic finance hub; but with the services of many offshore firms such as Appleby being available, many of the SPVs being formed in other jurisdictions can be handled by these service providers in a more time and distance-friendly location.

Where to next? The potential of the African Islamic market

The African region has significant potential as it is home to more than 412 million Muslims and the Islamic finance industry in Africa is virtually untapped as yet. With the introduction in 2011 by the Central Bank of Nigeria of a final set of regulations introducing Islamic banking to the country, Kenya's Islamic finance market growing at a notable pace and South Africa now actively trying to position itself as the Islamic financial hub of the continent; many eyes are on the African Islamic market. As with the MENA and Asian regions as well as the western hemisphere, there are offshore jurisdictions nearby and willing to become a part of this growth.

Mauritius

Shariah compliant investment opportunities in Mauritius are growing and it is setting itself up to be a potential Islamic financial hub. The Mauritius government has already paved the way for Islamic finance by amending tax laws which appeal to global investors wishing to make Shariah compliant investments. Mauritius generally imposes a flat rate of income tax of 15%. However, funds holding a Category One Global Business Licence are effectively taxed at a maximum rate of 3% and can end up paying no income tax depending on the foreign tax credit.

The country has approximately 36 double taxation avoidance treaties and protection agreements with several Islamic financial emerging countries in Africa, Europe, the Middle East and Asia. As Mauritius has already implemented laws to accommodate Islamic financial transactions; and with the African Islamic finance market opening up, it promises to offer an increased opportunity for Shariah compliant investments in this area.

A number of Shariah compliant global funds have already been set up in Mauritius and there is growing interest in Mauritius as a place to structure Sukuk using Shariah compliant trusts as vehicles.

Rundheersing Bheenick, the governor of the Bank of Mauritius, in his speech at the launching ceremony of Century Banking Corporation, the first Islamic bank in Mauritius, on the 30th March 2011, commented: "We need to develop our own niche market and strive to become a regional hub for Islamic finance."

Conclusion

Islamic finance continues to be a significant niche market with the promise of an even larger capture of the global financial market. As more and more first-time Muslim investors become interested in Shariah compliant products there will be an even higher level of demand for suitable vehicles and structures to invest in and more jurisdictions to become involved. As the industry strives to drive forward and out of the global financial crisis, we will hopefully see the roles of offshore jurisdictions continue and grow exponentially as they each actively develop models to satisfy this wealthy industry.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 9 Issue 21

Diamond in the rough

Cover Story

In spite of volatile market conditions and with the future of the Eurozone still uncertain, fund management companies have continued to launch new Islamic funds in the second quarter of the year. In fact in the month of May alone two funds have come out of the European continent. The first was La Francaise's Shariah compliant open-ended real estate fund in France; while the latest development is the SEDCO Capital Global Fund incorporated in the tax haven of Luxembourg.

The specialized investment fund from SEDCO Capital aims to be a fund with multiple sub-funds and has ambitious plans to reach to over US$1 billion within the first year of its launch. The fund comes about following the birth of SEDCO Capital about 10 months earlier. The wealth management firm aims to focus on ultra high net worth individuals, institutional investors and family offices. SEDCO Capital's portfolio includes public equity, private equity, international real estate, commodities, Sukuk and the development of income-generating real estate. All of its business is conducted according to Shariah principles.

Although SEDCO Capital is new its parent company, SEDCO Holding Group (founded in 1976 together with alternative asset management firm Permal), launched its first ever public equity Shariah compliant multi-manager group of funds about 13 years ago. According SEDCO, the Alfanar Group of Funds – a family of mutual funds that are multi-managed and cover various geographic regions as well as sectors – have been one of the top performing Islamic fund groups; with three of the funds having received 'AA' ratings from Standard & Poor's.

Despite being a non-Muslim country with only 2.2% of the population adhering to the faith, Islamic finance is not a new phenomenon to Luxembourg. The industry first launched in the country in 1978 when it hosted an Islamic bank and five years later, the first Shariah compliant insurance company in Europe. It was also the first country in Europe to list a Sukuk on its stock exchange. Sixteen Sukuk issues have since been listed and traded on the Luxembourg Stock Exchange.

> *"Despite being a non-Muslim country with only 2.2% of the population adhering to the faith, Islamic finance is not a new phenomenon to Luxembourg"*

Luxembourg is gaining prominence in the Shariah compliant asset management space and a recent study by Luxembourg for Finance indicated that assets held by Shariah compliant funds surpassed US$2 billion as at the 31st December 2011. About half of total amount is placed in regulated investment funds while unregulated structures and securitized investments form the remainder. According to a data provider, 29 regulated Shariah compliant investment funds and sub-funds have been established in Luxembourg.

Eurekahedge lists 20 funds in the Grand Duchy and since the global financial crisis, funds in the conventional and Islamic space have been moving to Luxembourg due to its robust regulatory structures. The most well-recognized of these is the Undertakings for Collective Investment in Transferable Securities (UCITS) model, initially designed for European regulation to facilitate sales across the European Union. It has now opened out globally to include a range of countries in Latin America and Asia.

The advantage of the UCITS model lies in its clear and straightforward regulatory framework, besides providing a harmonized structure for fund managers in relation to investor protection, transparency and disclosure requirements.

Many market players believe that there are opportunities amidst adversities and this is the perfect timing for prudent fund managers with Islamic or Shariah compliant portfolios to take advantage of the best deals available in the European market. This is also the ideal platform on which to showcase the benefits of Shariah screening, which is low risk of thereby making it a more stable investment proposition. — *RW*

In this issue...

Islamic financial planning for Malaysia

MALAYSIA: Wong Boon Choy, the president of the Financial Planning Association of Malaysia, has said that the financial planning and wealth management sectors play a crucial role in assisting the country progress into a high income nation.

"Islamic financial planning offers Muslims and non-Muslims an alternative financial instrument based on the ethos of profit sharing, risk taking and trust," he said.

HSBC Qatar launches Sukuk platform

QATAR: HSBC Qatar has launched a MENA Sukuk and bond platform allowing retail customers to invest in fixed income debt.

The platform provides access to over 200 Sukuk and conventional bonds issued by governments and corporates in the MENA region.

SCM updates list of Islamic stocks

MALAYSIA: The Securities Commission Malaysia (SCM)has issued an updated list of 825 Shariah compliant securities approved by its Shariah advisory council.

The updated list constitutes 89% of the total securities listed on Bursa Malaysia.

Q3 start for bond trading

MALAYSIA: Bursa Malaysia plans to allow individual investors to start trading bonds on the exchange in the third quarter of this year, according to Tajuddin Atan, its CEO.

Tajuddin added that Bursa and the Securities Commission Malaysia have agreed in principle to start such an offering, which would commence with government-guaranteed or investment-grade bonds.

Interim payout announced

PAKISTAN: UBL Fund Managers, a local asset management company, has announced a payout of PKR1.65 (2 US cents) per unit for its UBL Islamic Savings Fund for the quarter ended the 20th March 2012. The fund has returned 11.47% in the year-to-date.

Bapepam updates Islamic stocks

INDONESIA: The country's capital market supervisor, Bapepam, has issued an updated list of 285 Shariah compliant shares, adding 58 new stocks and excluding nine.

The new stocks include Bakrie Sumatera Plantation, Gajah Tunggal and JasaMarga, XL Axiata.

DIFS opens in Pakistan

PAKISTAN: Diyanah Islamic Financial Services (DIFS), a local Islamic brokerage firm, has launched its services in Pakistan.

The firm is looking to develop basic Islamic products for investors and create awareness onShariah compliant investing in the local stock market.

Eastspring Investment Dana Dinamik

The fund seeks to provide capital appreciation by actively investing in Shariah-approved equity and equity-related securities. For defensive consideration, the fund may invest in Shariah-approved debentures and money market instruments.

What led to this fund being launched?

Eastspring Investments Dana Dinamik (formerly Prudential Dana Dinamik) was launched in 2004 on the heels of the successful launch of Eastspring Dynamic Fund (formerly Prudential Dynamic Fund). The Eastspring Dynamic Fund's 1 billion units was fully taken up within a week and reached its maximum fund size. The company then decided to launch an Islamic version, the Eastspring Dana Dinamik with a fund size of 600 million units, which was fully taken up in three days.

Why has this particular region / asset class been chosen?

This asset class was chosen because during that time, the local equity market was volatile, although generally experiencing a bull run. The fund was designed to take away the investors' dilemma of what to buy, when to buy, and whether to sell or switch their investments. Its active and flexible investment style allowed the fund to be fully invested in any asset class, enabling it to adapt to any changes in market and economic conditions.

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

Generally we adopt a bottom-up approach and focus on stock selection, which has consistently proven to be the source of long-term superior returns.

Our stock selection is based on strong fundamental research and a rigorous valuation approach. Understanding the business of the companies and their potential is critical to understanding of the true underlying drivers of the company's long-term earnings power. Once we understand the earnings power of a company we can identify and exploit potential mis-pricing opportunities. This is complemented by asset allocation, which aims to add value at the margin, without swamping stock selection. Asset allocation can however be more effective at adding value during periods of extreme valuation or sharp swings in investor sentiment towards a particular asset class.

Who are your investors?

Domestic investors.

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

We are positive on the oil and gas sector, the major beneficiary of capital spending by Petronas, Malaysia state-owned oil and gas company, under the nation's Economic Transformation Program (ETP). The fund is also constructed of high-yielding telecommunication stocks due to its defensive nature.

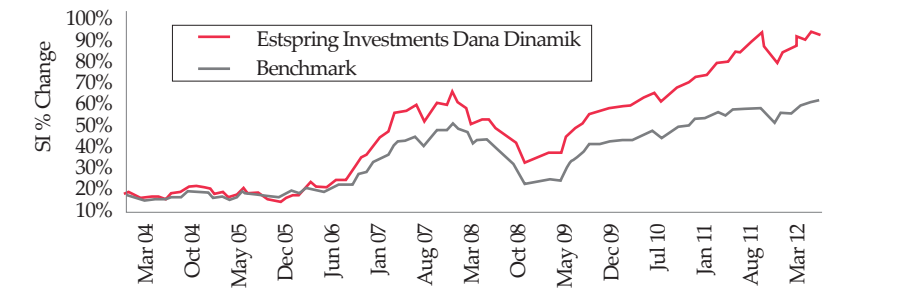
What is the market outlook for this fund?

Although volatility in the stock market is likely to persist, the fund manager is less cautious than before as signs of a stabilizing global economy become apparent and risk appetite has increased. Regional markets started the year on a strong note. In comparison, Malaysia has been a laggard for the year to date; however, we believe that the market will play catch-up. The local market is supported by projects under the ETP as well as resilient corporate earnings. Having said that, we are mindful of potential political uncertainties; as general elections are due to be called. Globally, the unresolved Eurozone debt crisis and a slower-than-expected economic recovery in the US may pose risks to the Malaysian market.

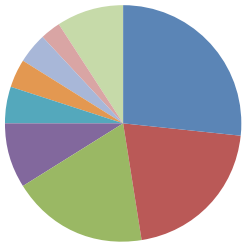
Fact sheet	
Fund Manager	Iqmal Hisham Ahmad Dolek
Trustee	Deutsche Trustees Malaysia
Shariah Advisor(s)	Islamic Banking and Finance Institute Malaysia
Benchmark (Index)	50% FTSE Bursa Malaysia Syariah Emas (FBMS) + 50% 12-month MBB GIA Tier II rate
Domicile	Malaysia
Inception Date	16th March 2004
Fund Characteristics (**As at the 31st March 2012*)	**Fund Type** Open-ended **Fund Size** RM 34.52 million (US$10.93 million) **NAV per share** (*30th April 2012*) RM0.8024 (US$0.2543) **Minimum/ Subsequent Investment** RM1,000/RM100 (US$316.98/ US$31.69) **Annual Management Fee** 1.25% of NAV

*Performance Summary	
YTD Return	0.51%
Cumulative return since inception	87.95%
Annualized return since inception	8.16%

*Fund performance

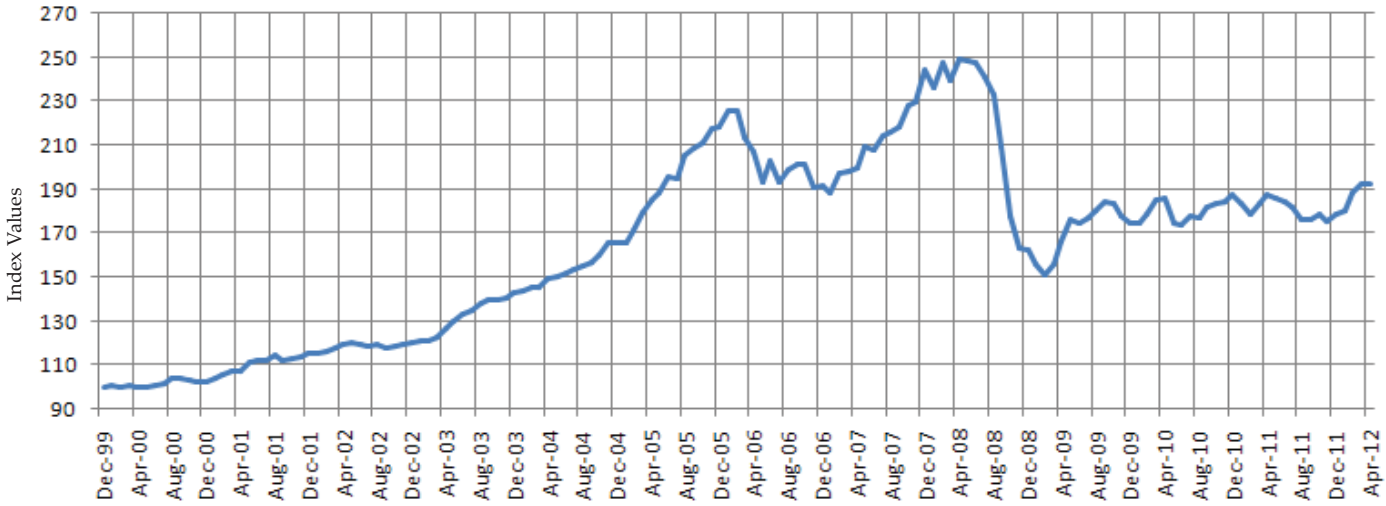


*Industry allocation



Oil & gas	27%
Fixed Income Securities	21%
Telecomunications	19%
Cash & cash equivalents	9%
Conglomerates	5%
Plantation	4%

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly returns for Asia Pacific funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension — Equity Sub	Al Meezan Investment Management	5.13	Pakistan
2	Al Meezan Mutual	Al Meezan Investment Management	4.77	Pakistan
3	Atlas Pension Islamic — Equity Sub	Atlas Asset Management	4.54	Pakistan
4	HWANGDBS AIIMAN A20 China Access	HWANGDBS Investment Management	4.33	Malaysia
5	SI Dana Saham Syariah	Batavia Prosperindo Aset Manajemen	3.90	Indonesia
6	Meezan Islamic	Al Meezan Investment Management	3.80	Pakistan
7	United Composite Islamic	UBL Fund Managers	3.28	Pakistan
8	Atlas Islamic Stock	Atlas Asset Management	3.03	Pakistan
9	Meezan Balanced	Al Meezan Investment Management	2.81	Pakistan
10	CIMB Islamic Small Cap	CIMB-Principal Asset Management	2.77	Malaysia

Based on 97.40% of funds which have reported April 2012 returns as at 29th May 2012

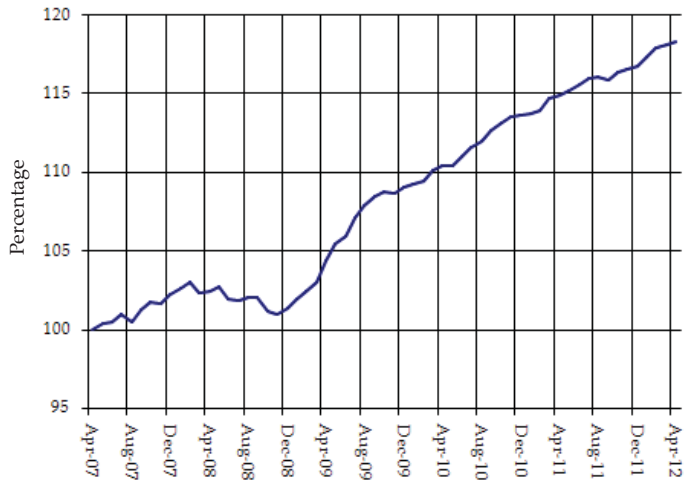
Top 10 Monthly returns for Middle East/Africa funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Tharwa Islamic	Tharwa Investment Company	7.97	Kuwait
2	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	2.85	Saudi Arabia
3	Al Safwa Investment	National Investments Company	2.24	Kuwait
4	Riyad Gulf	Riyad Bank	2.19	Saudi Arabia
5	Al Danah GCC Equity Trading	Banque Saudi Fransi	2.09	Saudi Arabia
6	Amanah GCC Equity	SABB	1.76	Saudi Arabia
7	STANLIB Shari'ah Equity A	STANLIB	1.69	South Africa
8	Old Mutual Albaraka Equity	Futuregrowth Specialist Asset Management	1.56	South Africa
9	Pak Oman Islamic Asset Allocation	Pak Oman Asset Management	1.40	Pakistan
10	AlAhli Saudi Mid Cap Equity	NCB Capital Company	1.39	Saudi Arabia
	Eurekahedge Emerging Markets Islamic Fund Index		**-0.10**	

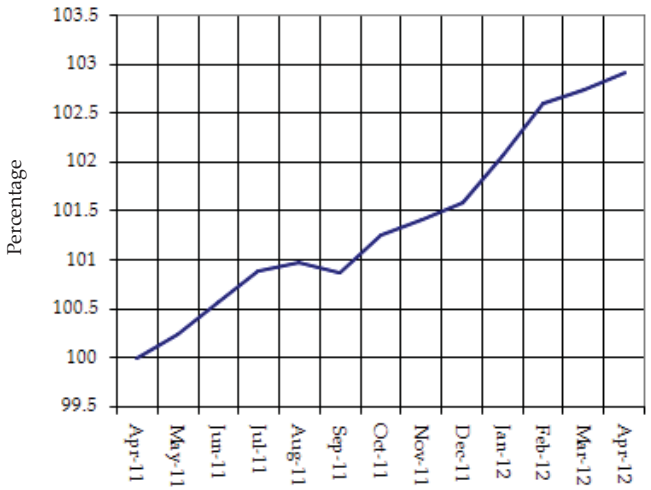
Based on 97.87% of funds which have reported April 2012 returns as at 29th May 2012

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 Fixed Income Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Islamic Fixed Income Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	United Islamic Income	UBL Fund Managers	5.01	Pakistan
2	Meezan Tahaffuz Pension — Debt Sub	Al Meezan Investment Management	2.48	Pakistan
3	Insight I-Hajj Syariah	Insight Investments Management	2.05	Indonesia
4	Atlas Pension Islamic — Debt Sub	Atlas Asset Management Limited	2.01	Pakistan
5	Mega Dana Obligasi Syariah	Mega Capital Indonesia	1.73	Indonesia
6	PB Islamic Bond	Public Mutual	1.24	Malaysia
7	Jadwa Global Sukuk	Jadwa Investment	1.24	Saudi Arabia
8	MAA Takaful Shariah Income	MAA Takaful	1.19	Malaysia
9	CIMB Islamic Sukuk	CIMB-Principal Asset Management	1.13	Malaysia
10	Public Islamic Bond	Public Mutual	1.05	Malaysia
	Eurekahedge Islamic Fund Fixed Income Index		**0.84**	

Based on 96.88% of funds which have reported April 2012 returns as at 29th May 2012

Top 10 Annualized Sortino Ratio for ALL Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension — Debt Sub	Al Meezan Investment Management	13.07	Pakistan
2	Atlas Pension Islamic — Debt Sub	Atlas Asset Management	12.50	Pakistan
3	Commodity Trading — SAR	Riyad Bank	8.53	Saudi Arabia
4	Kagiso Islamic Equity	Kagiso Asset Management	4.90	South Africa
5	Public Islamic Bond	Taurus Asset Management	3.63	India
6	PB Islamic Bond	Public Mutual	3.54	Malaysia
7	Taurus Ethical B	Public Mutual	3.53	Malaysia
8	ING i-Enhanced Cash	ING Funds	3.22	Malaysia
9	Public Islamic Select Enterprises	Public Mutual	2.69	Malaysia
10	Public Islamic Select Bond	Public Mutual	2.57	Malaysia
	Eurekahedge Islamic Fund Index		**0.09**	

Based on 95.27% of funds which have reported April 2012 returns as at 29th May 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®

30th May 2012

Takaful in the GCC: Strong prospects, weak regulations

Cover story

The recently released 'GCC Insurance Barometer' report by the Qatar Financial Center Authority cited regulatory deficits as one of the main challenges in the development of the region's Takaful industry. A mix of political uncertainty, a lack of technical expertise — in terms of underwriting, claims management, risk management and general management — and low retention of risk by domestic insurers were also cited as causes for concern amongst GCC-based Takaful operators, despite an overall positive market outlook.

By the end of 2012, total non-life and life premium volume in the GCC is projected to reach US$16.4 billion, with life insurance dominating the market. Healthy GDP predictions for the region are also considered to be a key factor in the growth of its Takaful industry; based primarily on consistent demand for oil and gas products. Qatar is expected to remain the region's most vibrant economy, with annual GDP growth of 13%.

However, a majority of industry players believe that the overall state of insurance regulation in the region is still underdeveloped compared to other jurisdictions such as Europe. "The most frequently cited shortcomings include solvency regulations, which are considered less sophisticated than the current European Union Solvency 1 regime; a lack of transparency and consultation; and inadequate regulations on insurers' investments," the report stated.

Those involved in the market also revealed that the current regulatory regimes in the GCC do not support the development of strong risk management capabilities in the region, and the issue of inadequate solvency margins needs to be addressed immediately. However, this is not to say that there have not been any efforts made, particularly in jurisdictions such as Saudi Arabia, which currently accounts for 32% of the region's non-life premiums, where there has been a significantly enhanced regulatory regime over the last few years. Fady Shammas, CEO of Arabia Insurance Company, commented: "In most GCC countries, there is a trend towards improving regulatory standards, for example, higher capital requirements and solvency margins."

Standard-setting bodies such as the IFSB and AAOIFI have already brought to light issues with regards to solvency for Takaful operations, governance and risk management; but need to tackle these challenges head-on and as swiftly as possible.

The differing standards across jurisdictions for the Takaful industry have also served as a double-edged sword for Takaful operators; allowing flexibility on home ground but hindering cross-border development and movement of products and investments. Industry-wide clarity is also needed in areas such as risk sharing vis-à-vis risk transfer, particularly at the re-Takaful level, as well as gaps between the theory and practice of Takaful structures.

> *"Current regulatory regimes in the GCC do not support the development of strong risk management capabilities in the region"*

Consolidation is also cited as a key growth driver for Takaful in the GCC, with enhanced regulation ultimately creating less room for smaller market participants, in a bid to create more competition on a domestic and international level; as well as encouraging cross-border growth. Market expectations concerning profitability also remain cautiously optimistic as operators look to reduce administration costs, switch to electronic distribution platforms and enhance risk management standards. — *NH*

In this issue...

AIA highlights Takaful's role

US: The American Insurance Association (AIA) has emphasized the importance of non-traditional products such as Takaful in the growing insurance market.

"Our members not only write traditional insurance but also have the ability to offer non-traditional forms of coverage. For example, some write Takaful… They also provide 'inclusive insurance', formerly called micro-insurance, offering coverage with small payouts and with premiums affordable for the very poor," it said.

GCC Takaful to beat industry growth

GLOBAL: The GCC's Takaful market is expected to grow faster than the overall industry, according to a report by the Qatar Financial Center Authority (QFC Authority).

However, interviewees of the report also noted that the current role and performance of Takaful is "disappointing" and falls "significantly short of expectations"; while the sector also failed to develop compelling business models.

Profitable quarter

MALAYSIA: Syarikat Takaful Malaysia reported RM30.9 million (US$9.8 million) in profit after taxation and Zakat for the first quarter ended the 31st March 2012, a 40.4% increase from the same period last year.

The growth was contributed by higher surplus transfer from Family Takaful funds and higher Wakalah fee income.

Takaful partnership

INDONESIA: Local life insurer Sun Life Financial Indonesia has collaborated with BNI Asset Management to provide life Takaful coverage for investors of BNI AM Dana Terencana.

The Takaful scheme, which is covered by BNI Asset Management, comes with a coverage of five to 10 years.

Negative growth for Takaful

BAHRAIN: The local Takaful market saw a contraction in profits between 2003-2011 despite insurance penetration growing to 2.55% from 1.95% during the period, according to a report by Bahrain's Economic Development Board.

Nonetheless, the re-Takaful sector continued to record extremely high average growth rates in premiums and claims.

Al Rajhi Insurance increases Al Rajhi Takaful stake

SAUDI ARABIA: Al Rajhi Insurance (Bahrain) will acquire Oman Insurance Company's 10% stake in Al Rajhi Company for Cooperative Insurance (Al Rajhi Takaful).

Al Rajhi Insurance (Bahrain) already owns 22.5% of Al Rajhi Takaful.

CMA fines Al Rajhi Takaful

SAUDI ARABIA: The Capital Market Authority (CMA) has imposed a SAR75,000 (US$20,000) fine on Al Rajhi Company for Cooperative Insurance (Al Rajhi Takaful) for violating stock market and listing regulations.

The Takaful operator was late in informing the CMA and the public regarding the expiry of the board membership of Al Rajhi Bank's representative on the 11th March 2012.

Increasing the Takaful market share in Indonesia

TONY HIDAYAT explores the factors that could increase the Takaful industry's market share to 5% in Indonesia in 2012.

The market share of Indonesia's Takaful industry in 2011 only reached 4% for Life Takaful and 3.5% for General Takaful. The gross premium achieved by the Takaful industry until the end of December 2011 amounted to IDR4.97 trillion (US$525.77 million). Although the market share is only 4% of the total insurance industry, the Takaful sector is growing rapidly. Gross premiums in 2011 grew to 10 times higher than in 2006 which amounted to IDR499 billion (US$ 53.54 million). The number of Takaful companies is expected to increase from year to year. Initially there were only 37 Takaful companies in Indonesia and the number has progressed to 44 this year.

The Takaful Association of Indonesia has targeted that the gross premium income will grow by 30% so that the Takaful industry's market share in 2012 could reach 5% of the insurance industry as a whole. With a majority Muslim population, most of whom do not have insurance, and with the insurance regulations in Indonesia being conducive, there are many growth opportunities for Takaful companies in Indonesia.

There are four factors that could help to increase the Takaful industry's market share to 5%. Firstly, to create a synergy with Islamic banking; secondly, micro-Takaful publishing; thirdly, improving the quality of human resources; and fourthly, the establishment of a Takaful Act.

Synergy with Islamic banking

For the Takaful industry, a synergy between Islamic banking and Takaful companies will increase the customer base and expand the marketing network. As of February 2012, the Islamic banking industry consists of 11 Islamic commercial banks, 24 Islamic business units and 144 Islamic rural banks with the number of customers reaching 11.1 million accounts.

An example of this synergy is displayed by a Takaful company, Allianz, and Bank Muamalat. By the end of October 2011 Allianz offered insurance products distributed through the branches of Bank Muamalat.

This cooperation was initiated through a pilot project conducted since July 2011 at 19 locations of Bank Muamalat branches in Jakarta. In the first two months of the scheme Bank Muamalat sold 6,328 of Allianz's Takaful policies with premiums worth IDR830 million (US$89,059). The partnership is also targeting a total premium income of IDR50 billion (US$5.37 million) for 2012.

> ***"There are 77 million people in Indonesia that do not have insurance and savings with banks"***

Micro-Takaful publishing

Micro-Takaful aims to provide Takaful products for the low-cost broad market segment. Micro-Takaful is targeting the middle to lower community such as the low-income, poor and rural communities. The potential of micro-Takaful in Indonesia is huge because there are 77 million people in Indonesia that do not have insurance and savings with banks. This amount is equivalent to one third of the total population of Indonesia, which has already reached 230 million.

Moreover the Insurance Industry Regulator, Capital Market and Financial Institution Supervisory Agency are trying to develop and strengthen the micro-insurance and Takaful sector in 2012.

Micro-Takaful is also intended to complement the microfinance sector in Islamic banking, which aims to cover the microfinance clients and underlying assets in Islamic banks. The potential number of micro enterprises has reached nearly 30 million participants.

Publishing micro-Takaful is also supported by the emergence of many microfinance institutions such as Islamic rural banks, Islamic financial services cooperatives, Baitul Maal Wat Tamwil and Islamic pawnshops.

Human resources

There is a dearth of human resources well-versed in Takaful which is limiting its expansion in a more cohesive manner in Indonesia. There are many insurance agents from conventional financing who also sell Takaful products. Therefore the Takaful Association of Indonesia is planning to issue two guidelines to curb the marketing of insurance products. The policies will include agency certification and guidelines on insurance policies.

Validation of Takaful Act

The absence of an independent legislation governing Takaful in Indonesia has dampened the development of the Takaful business. The Takaful industry is still using conventional insurance laws. The legislative chamber is pushing for the Takaful Act to be published in 2012.

Tony Hidayat is an analyst and financing researcher at Bank BRI Syariah. He can be contacted at tony.hidayat@brisyariah.co.id.

Naoki Ishikawa, partner, Mori Hamada & Matsumoto

Naoki Ishikawa graduated in Law from the University of Tokyo in 1998 and obtained his Masters in Law from the London School of Economics and Political Science. He is the author of 'Legal Practice of Corporate Revitalization' and many other articles that have been published in leading financial periodicals.

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

I embarked on a career in banking and structured finance in 2000 when I joined a leading law firm in Tokyo specializing in real estate finance after qualifying as a lawyer in Japan. From 2005-07 I earned a Masters in Law and thereafter practiced in England where I encountered the concept of Shariah compliant finance arrangements. The global credit crunch in 2008 naturally induced me to seek alternative legal measures to overcome the liquidity shortfall by exploring Islamic finance as a matter of finance practice in Japan.

One of my early explorations into the implementation of Islamic finance in Japanese business was published in 2008 in an international law journal. These theoretical exercises were put into practice when I acted as the issuer's counsel for the first US dollar Sukuk issuance by a Japanese company in 2010. Moreover, the new Japanese legal framework for Sukuk issuance in Japan, which became effective in 2011, has driven me to further my practice of Islamic finance to encourage the proliferation of Sukuk issuances in Japan.

What does your role involve?

As a partner in banking and structured finance, I am involved in various aspects of transactions including advising clients on regulatory issues and transactional matters as well as contentious cases. As an advocate for Islamic finance, I frequently give seminars at conferences and universities in Japan and across Asia.

What is your greatest achievement to date?

The most memorable was the Nomura Sukuk which involved a number of interesting legal and practical issues both in the eyes of conventional aircraft finance as well as Islamic finance.

Our efficient co-ordination of parties and lawyers in more than seven jurisdictions to meet the strict time frame while addressing various challenging issues was truly the product of the seamless and close cooperation demonstrated by our team.

Which of your products/ services deliver the best results?

Our banking and structured finance practice covers general banking, asset finance, infrastructure finance, securitization, leveraged buyout and private finance initiative areas.

We take pride in our innovative thinking that has enabled or assisted the realization of many groundbreaking transactions in Japan and across the border in each of the above-mentioned practice areas.

What are the strengths of your business?

Mori Hamada & Matsumoto is one of the top law firms in Japan, providing comprehensive legal services across a full spectrum of business law areas including corporate, finance, capital markets, asset management, insolvency and litigation.

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

Each lawyer in our firm is encouraged to listen to our clients and understand their business needs in order to provide the best legal advice. Being able to assemble a team of dedicated lawyers from relevant practice areas who share the same goal enables us to work in an efficient and client oriented manner.

What are the obstacles faced in running your business today?

The Fukushima earthquake followed by a nuclear disaster and political turmoil seriously affected the Japanese economy in 2011. However positive steps are being taken regarding Islamic finance by establishing a solid Japanese legal framework for Sukuk issuance in Japan coupled with a favorable tax treatment. From April 2012, a clearing system for J-Sukuk has been implemented to fully accommodate the financial infrastructure necessary for Sukuk issuance in Japan.

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

Strong demand for Shariah compliant financial products indicate that there is a growing opportunity for Islamic finance especially across the Asian jurisdictions.

With the new Japanese legal framework for Sukuk issuance, which demonstrates the willingness of the Japanese government to develop Islamic finance, I expect that the Japanese efforts will lead to wider utilization and development of Islamic finance across the globe.

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

The crystallization of awareness amongst market participants of a need for harmonization, if not standardization, of Islamic finance arrangements; which should permit greater accessibility to Islamic finance for businesses, not only in established Islamic finance markets but also in secular jurisdictions such as Japan.

ISSUER	SIZE	DATE ANNOUNCED
General Authority of Civil Aviation	TBA	24th May 2012
Morocco sovereign	TBA	23rd May 2012
Malaysian Airline System	RM2.5 billion	22nd May 2012
Amer Group Holding	EGP2.7 billion	14th May 2012
Qatar sovereign	TBA	9th May 2012
Emirates NBD	US$500 million	7th May 2012
Malaysian Airline System	TBA	3rd May 2012
Dana Infra	RM2 billion	2nd May 2012
Epmex	RM1.35 billion	25th April 2012
Noor Islamic Bank	US$1 billion	19th April 2012
Encorp	RM1.58 billion	18th April 2012
Banque Saudi Fransi	US$2 billion	18th April 2012
Islamic Development Bank	RM400 million	17th April 2012
Indosat	IDR2.5 trillion	17th April 2012
Johor Corp Group	RM3 billion	13th April 2012
Citra Marga	IDR1.2 trillion	12th April 2012
Nakheel	AED240 million	11th April 2012
State Bank of Pakistan	TBA	2nd April 2012
Saudi Aramco	TBA	2nd April 2012
Development Bank of Kazakhstan	US$500 million	30th March 2012
Ethical Asset Management	TBA	30th March 2012
National Australia Bank	US$500 million	29th March 2012
Jebel Ali Free Zone	AED2.4 billion	21st March 2012
Indonesia sovereign	TBA	20th March 2012
Yemen sovereign	US$232 million	20th March 2012
Saudi Electricity Company	TBA	19th March 2012
Noble Group, Hong Kong	RM3 billion	15th March 2012
Kiler Group	US$100 million	12th March 2012
Dubai Investments	US$200 million	12th March 2012
Kazakhstan sovereign	US$1 million	8th March 2012
First Community Bank	KES2 billion	8th March 2012
Pakistan sovereign	TBA	7th March 2012
Syarikat Prasarana Negara	RM4 billion	6th March 2012
CIMB Singapore	SG$100 million	2nd March 2012
Kingdom Holding	TBA	1st March 2012
Qatar Petroleum	TBA	27th February 2012
Acwa Power	US$800 million	27th February 2012
South Africa sovereign	US$500 million	23rd February 2012
Maybank	RM7 billion	22nd February 2012
Oman Arab Bank	OMR10 million	20th February 2012
Yemen sovereign	TBA	20th February 2012
Kuwait Finance House, Turkey	TBA	18th February 2012
Maxis	RM2.45 billion	17th February 2012
Egypt sovereign	TBA	6th February 2012
Development Bank of Kazakhstan	TBA	6th February 2012
Turkey sovereign	TBA	3rd February 2012
Musteq Hydro	RM80 million	24th January 2012
General Authority for Civil Aviation	TBA	24th January 2012

IFN Correspondents

AFGHANISTAN: Zulfiqar Ali Khan
head of Islamic banking division, financial supervision department, Da Afghanistan Bank

AUSTRALIA: Gerhard Bakker
director, Madina Village

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

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BERMUDA: Belaid A Jheengoor
director of asset management, PwC

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

CANADA: Jeffrey S Graham
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FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

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

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partner, KPMG

INDONESIA: Rizqullah
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Islamic finance expert, SEO

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MAURITIUS: Sameer K Tegally
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NEW ZEALAND: Dr Mustafa Farouk
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OMAN: Anthony Watson
senior associate, Al Busaidy Mansoor Jamal & Co

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

QATAR: Amjad Hussain
partner, K&L Gates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

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partner, Allen & Gledhill

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UAE: Moinuddin Malim
CEO, Mashreq Al Islami

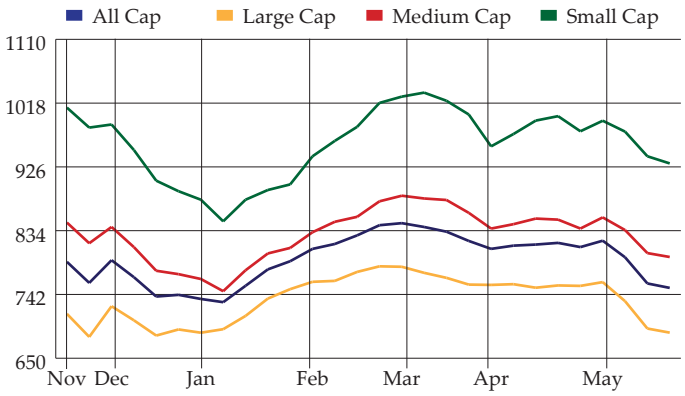
UK: Dr. Natalie Schoon
principal consultant, Formabb

US: Saeid Hamedanchi
CEO, ShariahShares

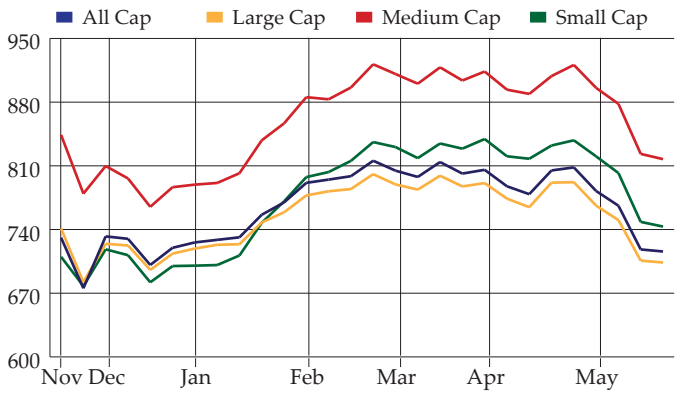
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports.
For more information about becoming an IFN Correspondent please contact sasikala@redmoneygroup.com

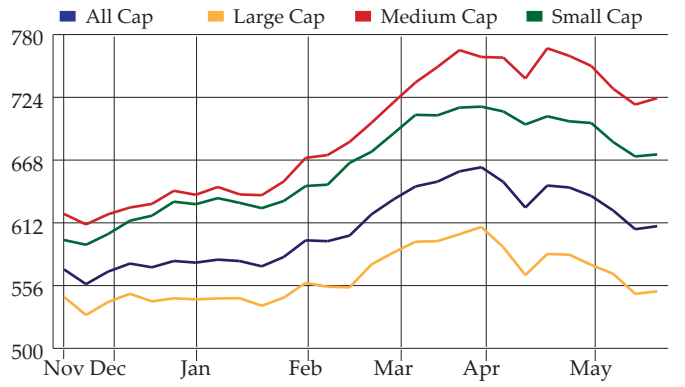
REDmoney Asia ex. Japan *6 Months*



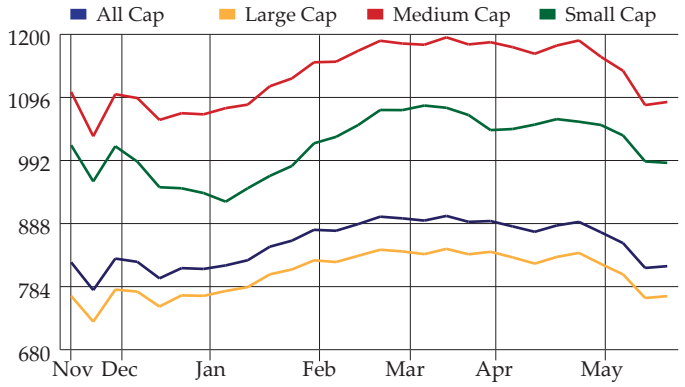
REDmoney Europe *6 Months*



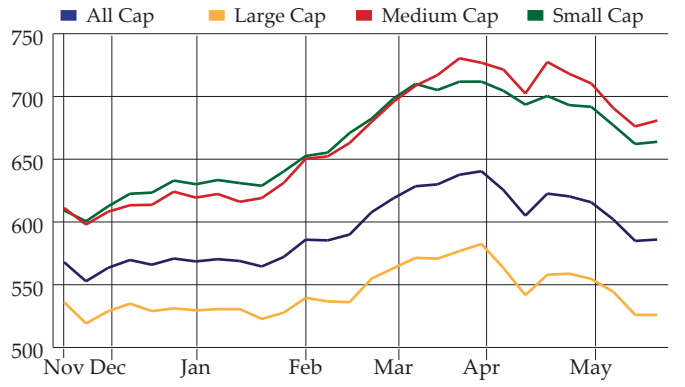
REDmoney GCC *6 Months*



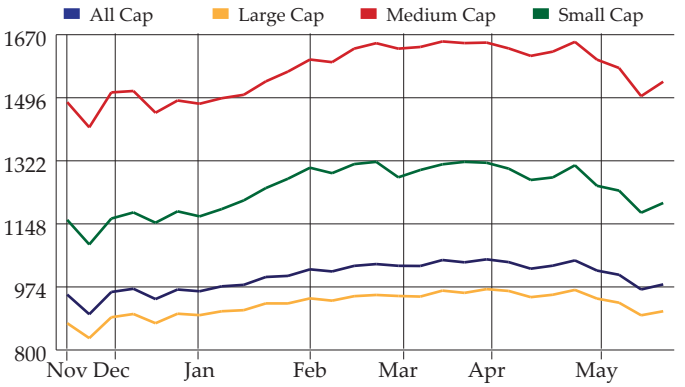
REDmoney Global *6 Months*



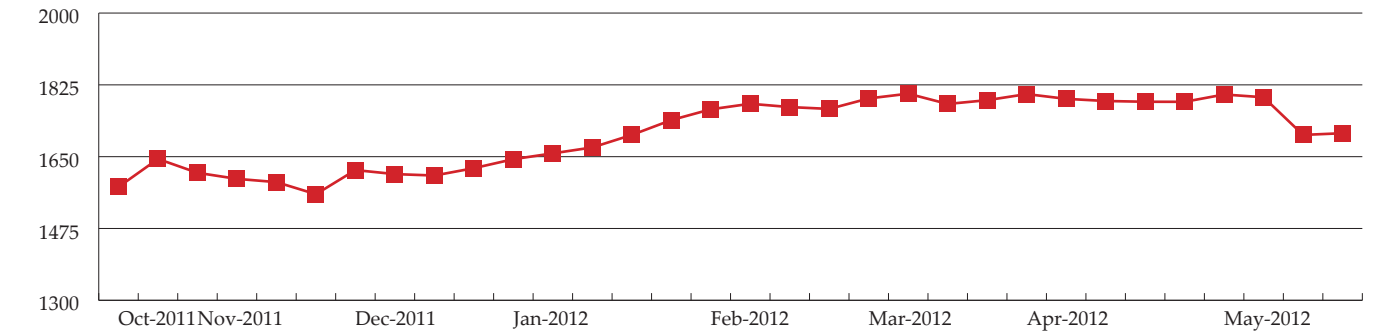
REDmoney MENA *6 Months*



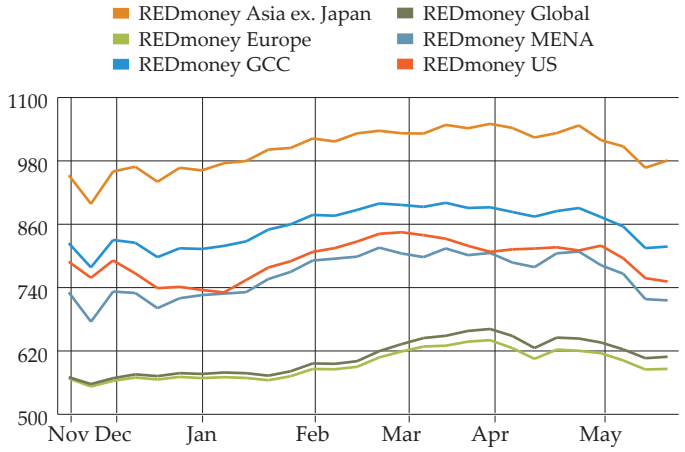
REDmoney US *6 Months*



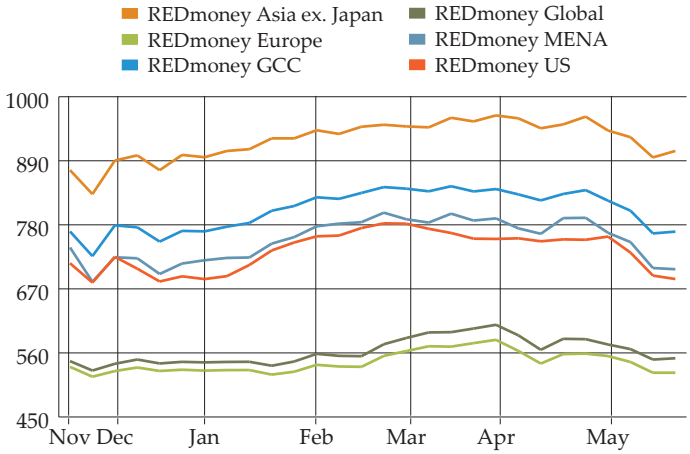
SAMI Halal Food Participation (All Cap) *6 months*



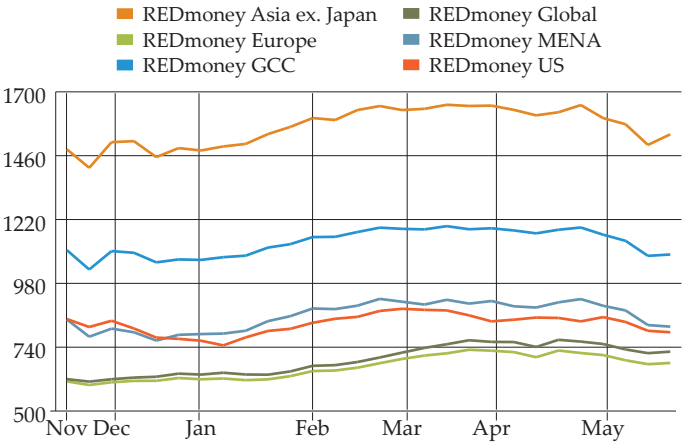
REDmoney Global Shariah Index Series (All Cap) *6 Months*



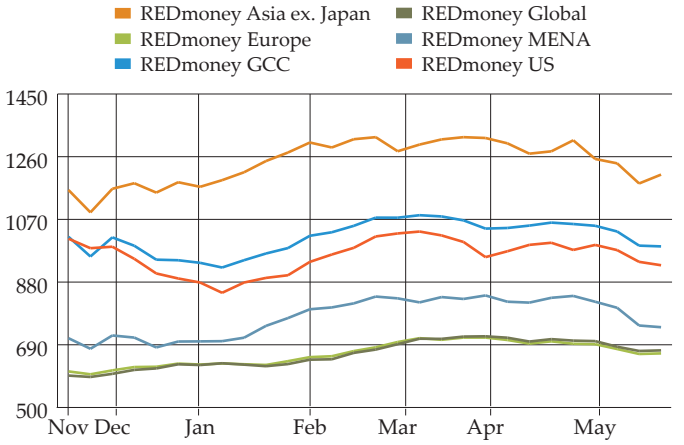
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



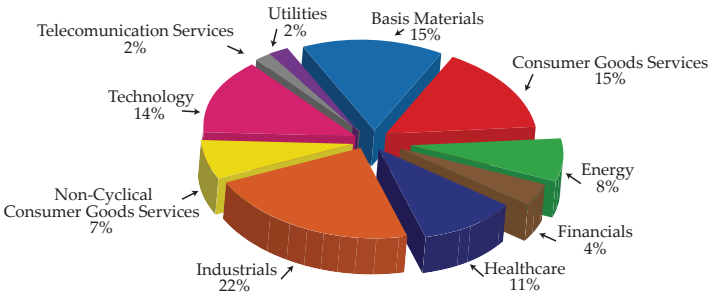
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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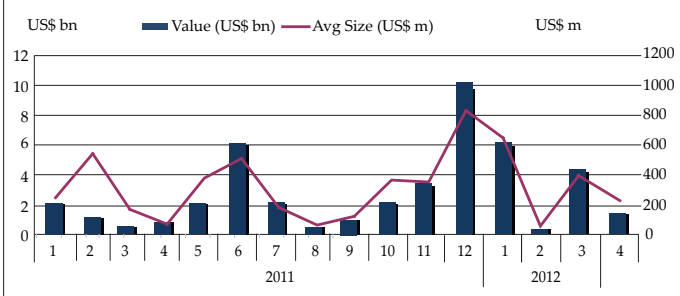
Tel +603 2162 7800

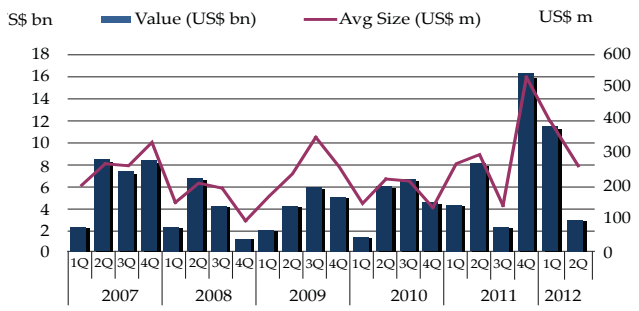
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
22nd May 2012	DIB Sukuk	UAE	Sukuk	Euro market public issue	500	Deutsche Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
15th May 2012	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	Deutsche Bank, Citigroup, Credit Agricole
10th May 2012	Encorp Systembilt	Malaysia	Sukuk	Domestic market public issue	514	Hong Leong Bank, Kenanga Investment Bank, CIMB Group
1st May 2012	TASNEE	Saudi Arabia	Sukuk	Domestic market private placement	533	HSBC
25th Apr 2012	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
28th Mar 2012	SABB	Saudi Arabia	Sukuk	Domestic market private placement	400	HSBC
28th Mar 2012	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	441	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
27th Mar 2012	Saudi Electricity	Saudi Arabia	Sukuk	Euro market public issue	1,750	Deutsche Bank, HSBC
21st Mar 2012	Cagamas	Malaysia	Sukuk	Domestic market public issue	163	RHB Capital, AmInvestment Bank
12th Mar 2012	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	123	Maybank Investment Bank
7th Mar 2012	Almarai	Saudi Arabia	Sukuk	Domestic market private placement	267	HSBC
7th Mar 2012	Tanjung Bin Energy Issuer	Malaysia	Sukuk	Domestic market private placement	1,089	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
22nd Feb 2012	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	232	Maybank Investment Bank
31st Jan 2012	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	Standard Chartered, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
17th Jan 2012	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	HSBC
12th Jan 2012	Tamweel	UAE	Sukuk	Euro market public issue	300	Standard Chartered Bank, Dubai Islamic Bank, Citigroup
11th Jan 2012	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
11th Jan 2012	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
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

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	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	1	HSBC
3	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	2,057	2	CIMB Group, Maybank Investment Bank
4	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
5	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	1,783	2	RHB Capital, AmInvestment Bank, Kenanga Investment Bank
6	Saudi Electricity	Saudi Arabia	Sukuk	Euro market public issue	1,750	1	Deutsche Bank, HSBC
7	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
8	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	1	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
9	Tanjung Bin Energy Issuer	Malaysia	Sukuk	Domestic market private placement	1,089	1	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
10	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	1	Standard Chartered Bank, HSBC, Citigroup
11	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	812	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1	CIMB Group, Maybank Investment Bank
13	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
13	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1	Deutsche Bank, Citigroup, Credit Agricole CIB
15	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
16	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1	Standard Chartered Bank, HSBC, Citigroup
17	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	561	4	Maybank Investment Bank
18	TASNEE	Saudi Arabia	Sukuk	Domestic market private placement	533	1	HSBC
19	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	1	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup
19	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
19	DIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Deutsche Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
19	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered Bank, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
19	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered Bank, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
24	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
25	Encorp Systembilt	Malaysia	Sukuk	Domestic market public issue	470	1	Hong Leong Bank, Kenanga Investment Bank, CIMB Group
26	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	1	Standard Chartered, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
27	Saudi British Bank	Saudi Arabia	Sukuk	Domestic market private placement	400	1	HSBC
28	Cagamas	Malaysia	Sukuk	Domestic market public issue	393	3	CIMB Group, Maybank Investment Bank, RHB Capital, AmInvestment Bank
29	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
30	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	345	4	CIMB Group, AmInvestment Bank, Maybank Investment Bank
	Total				**41,337**	**109**	

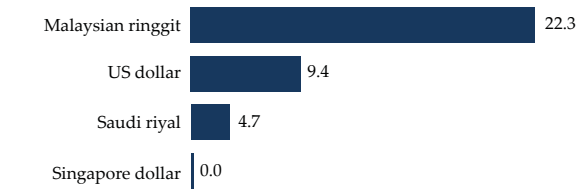
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	8,242	17	19.9
2	Maybank Investment Bank	7,121	33	17.2
3	CIMB Group	7,014	29	17.0
4	AmInvestment Bank	4,750	21	11.5
5	RHB Capital	2,869	24	6.9
6	Citigroup	2,254	10	5.5
7	Standard Chartered	1,487	10	3.6
8	Deutsche Bank	1,465	4	3.5
9	Lembaga Tabung Haji	935	3	2.3
10	National Bank of Abu Dhabi	704	5	1.7
11	Dubai Islamic Bank	613	4	1.5
12	JPMorgan	425	2	1.0
13	Kenanga Investment Bank	422	2	1.0
14	OCBC	303	5	0.7
15	DRB-HICOM	286	6	0.7
16	Hong Leong Bank	265	4	0.6
17	Abu Dhabi Islamic Bank	253	3	0.6
18	Credit Agricole	250	1	0.6
18	BNP Paribas	250	1	0.6
20	Riyad Bank	240	1	0.6
21	Affin Investment Bank	233	3	0.6
22	Emirates NBD	183	2	0.4
23	Bank of America Merrill Lynch	125	1	0.3
23	Abu Dhabi Commercial Bank	125	1	0.3
25	KFH	109	2	0.3
26	Public Bank	98	2	0.2
27	RBS	83	1	0.2
27	Nomura	83	1	0.2
29	Commerzbank Group	70	1	0.2
30	Malaysian Industrial Development Finance	40	1	0.1
	Total	**41,337**	**109**	**100.0**

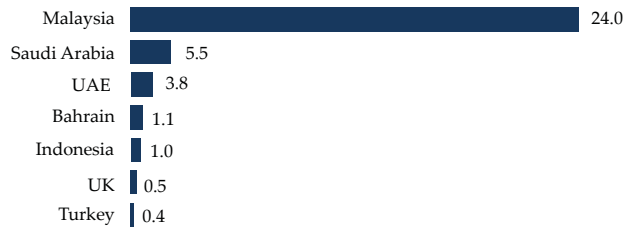
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Samba Financial Group	592	4	6.2
2	Public Investment Fund	463	2	4.9
3	Arab National Bank	463	2	4.9
4	HSBC Holdings	447	3	4.7
5	Sumitomo Mitsui Financial Group	404	2	4.2
6	Banque Saudi Fransi	386	2	4.1
7	KfW Bankengruppe	369	2	3.9
8	Mitsubishi UFJ Financial Group	360	1	3.8
9	Saudi British Bank	324	1	3.4
10	Australia & New Zealand Banking Group	289	1	3.0
10	Mizuho Financial Group	289	1	3.0

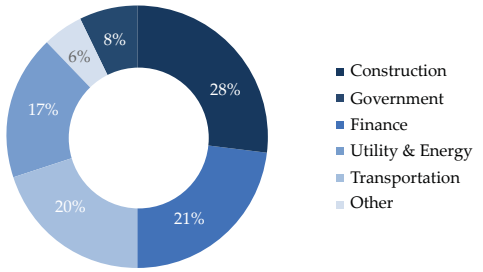
Sukuk Volume by Currency US$ (billion) *12 Months*



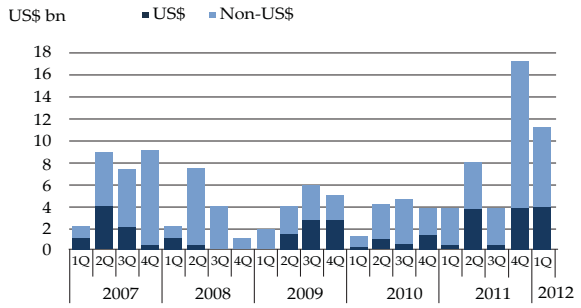
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	Skadden Arps Slate Meagher & Flom	3,281	1	18.7
2	White & Case	3,281	1	18.7
4	Al-Jadaan & Partners Law Firm	1,200	1	6.8
4	Baker & McKenzie	1,200	1	6.8
4	Clifford Chance	1,200	1	6.8
7	Baker Botts	917	1	5.2
7	Chadbourne & Parke	917	1	5.2
9	Afridi & Angell	267	1	1.5
9	Herbert Smith Gleiss Lutz Stibbe	267	1	1.5
9	Latham & Watkins	267	1	1.5

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	924	4	9.8
2	SABB	904	3	9.6
2	Banque Saudi Fransi	904	3	9.6
4	Al-Rajhi Banking & Investment	753	3	8.0
5	Saudi National Commercial Bank	459	2	4.9
6	Saudi Hollandi Bank	444	1	4.7
6	Riyad Bank	444	1	4.7
8	Barwa Bank	266	2	2.8
9	Maybank Investment Bank	264	2	2.8
10	Citigroup	260	6	2.8
11	Noor Islamic Bank	236	2	2.5
12	Arab National Bank	219	1	2.3
13	Abu Dhabi Islamic Bank	219	5	2.3
14	CIMB Group	216	2	2.3
15	Qatar Islamic Bank	213	1	2.3
15	Qatar International Islamic Bank	213	1	2.3
15	Masraf Al Rayan	213	1	2.3
18	Standard Chartered	199	4	2.1
19	RHB Capital	164	1	1.8
19	Lembaga Tabung Haji	164	1	1.8
19	AmInvestment Bank	164	1	1.8
22	Emirates NBD	160	3	1.7
23	HSBC	145	2	1.5
23	Deutsche Bank	145	2	1.5
25	Bank of America Merrill Lynch	126	3	1.3
26	Arab Banking	111	3	1.2
27	Bank of China	93	1	1.0
28	Al Hilal Bank	70	2	0.7
29	Bank Al-Jazira	68	1	0.7
29	Alinma Bank	68	1	0.7

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

	Bookrunner	US$ (mln)	No	%
1	Citigroup	279	5	3.0
2	Abu Dhabi Islamic Bank	267	5	2.8
3	Standard Chartered	165	3	1.8
4	Emirates NBD	122	2	1.3
5	Maybank Investment Bank	100	1	1.1
6	Bank of China	93	1	1.0
7	National Bank of Kuwait	87	1	0.9
8	HSBC	72	1	0.8
8	Dubai Islamic Bank	72	1	0.8
8	Deutsche Bank	72	1	0.8

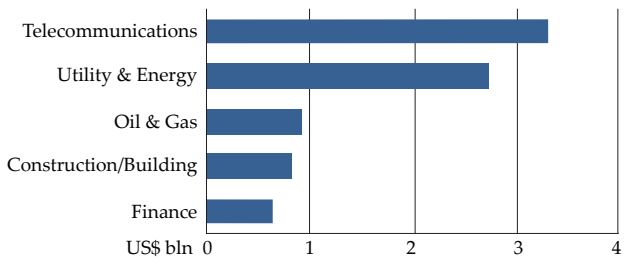
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2011	Barzan Gas	Qatar	5,442
12th Feb 2012	Mobily	Saudi Arabia	2,667
2nd Dec 2011	Hajr for Electricity Production	Saudi Arabia	1,981
14th Feb 2012	Power & Water Utility Co for Jubail & Yabbu - Marafiq	Saudi Arabia	1,200
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
27th Feb 2012	Government of Dubai	UAE	675
22nd Sep 2011	Albaraka Turk	Turkey	344

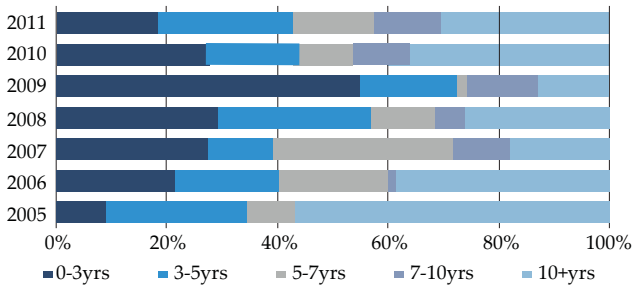
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	5,377	5	57.1
2	UAE	1,272	6	13.5
3	Malaysia	926	2	9.8
4	Qatar	850	1	9.0
5	Turkey	354	2	3.8
6	Pakistan	203	4	2.2
7	Indonesia	151	3	1.6
8	China	93	1	1.0
9	Kuwait	87	1	0.9
10	Russian Federation	60	1	0.6

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: Mandy Leung (Media Relations)
Email: mandy.leung@dealogic.com Tel: +852 2804 1223

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

5th — 6 June 2012
Oman Islamic Banking and Finance Conference 2012
Oman (*OITE*)

6th — 7th June 2012
2012 London Sukuk Summit
London (*ICG-Events*)

7th — 10th June 2012
Moscow Halal Expo 2012
Moscow, Russia (*Russia Muftis Council*)

11th — 12th June 2012
The 3rd Annual World Takaful Conference: Family Takaful Summit
Kuala Lumpur (*MEGA Events*)

13th June 2012
World Takaful Conference: Asia Leader Summit, Kuala Lumpur (*MEGA Events*)

13th — 14th June 2012
The 1st International Forum for Islamic Banks and Financial Institutions
Amman, Jordan (*Strategy for Business Development & CIBAFI*)

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

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

10th — 11th July 2012
The 3rd Annual Asia Islamic Banking Conference
Kuala Lumpur (*Fleming Gulf*)

10th — 12th July 2012
The International Takaful Summit
London (*Afkar Consulting Ltd*)

17th July 2012
The 4th Sri Lanka Islamic Banking & Finance Conference (SLIBFC)
Sri Lanka *(UTO EduConsult)*

27th August 2012
IFN Roadshow Thailand
Bangkok *(REDmoney events)*

4th September 2012
IFN Roadshow Pakistan
Karachi, Pakistan (*REDmoney Events*)

6th September 2012
IFN Roadshow Sri Lanka
Colombo, Sri Lanka (*REDmoney Events*)

1st – 2nd October 2012
IFN Asia Forum 2012
Kuala Lumpur
(REDmoney events)

10th – 11th October 2012
The 2nd Annual International Summit on Islamic Corporate Finance
Abu Dhabi (*MEGA Events*)

14th — 16th October 2012
The International Islamic Finance Conference 2012
Abu Dhabi (*UAE Emerad Group*)

30th – 31st October 2012
IFN Europe Forum 2012
London, UK *(REDmoney events)*

12th – 13th November 2012
IFN Saudi Arabia Forum
Riyadh *(REDmoney events)*

20th — 21st November 2012
International Islamic Accounting and Finance Conference 2012
Kuala Lumpur (*Accounting Research Institute)*

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

3rd December 2012
IFN Roadshow Egypt
Cairo *(REDmoney events)*

6th December 2012
IFN Roadshow Turkey
Istanbul *(REDmoney events)*

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