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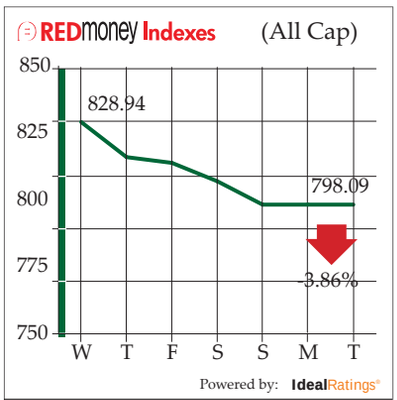

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The New Silk Road

Economic focus is swinging from west to east and as Europe and the US continue to struggle, new investment flows and trade ties develop. The historic trading route from China to Europe, across south and central Asia and the Middle East, is once again growing in importance as trade between these regions grows in volume and significance. As these new economic realities take shape across an ancient road with strong Muslim connections, how can Islamic finance benefit this new movement?

What is the silk route?

The old silk road refers to an ancient network of interlinking trade routes that connected Asia with the Mediterranean and European trading centers. At its peak the route extended over 6,500km, taking its name from the lucrative silk trade which originated in China and used sea and land routes across Asia, Africa and the Middle East to access its key trade markets. With the arrival of Islamic empires and Arab traders the route flourished, building trade ties that spanned the globe.

In recent years, these routes have once again begun to attract interest as a means to access promising new regional markets. Growth in trade between Asia and the Gulf in the form of real estate projects, energy supply, joint ventures and infrastructure investment have revived the old links while new partnerships are also forming.

NSR Forum

Abradat Kamalpour, the head of emerging markets and Islamic finance at UK law firm Ashurst, is the CEO and founder of the New Silk Road Forum (NSR Forum), a medium and meeting place for participants to discuss the possibilities and opportunities of the New Silk Road. He explains that: "If you step back and look at what's happening in the global economy with the growth of the BRIC countries, as a result of that there is also spin off and growth opportunities in neighboring countries as well. China, India, they all have to move their goods around the world in order to be able to trade. So they have to move some of these through these other countries as well. A lot of these countries are also rich in natural resources and are energy rich, so what we have going on is a boom and a lot of potential for countries from China all the way to Turkey. The Middle East is also a criticial component of the trade that is going on there, and of the financing that's going on in that part of the world."

He explains that the new silk route covers a far wider remit than just China, the Middle East and Turkey. "The north/south corridor incorporates India, Iran, Azerbaijan and Turkey; while the east/west corridor includes the new rail links from China, Kyrgyzstan and Khazakhstan to Turkey.

"The countries that will really benefit the most from this are Kyrghyzstan, Turkmenistan, Khazakhstan, Iran, Turkey, Armenia, Azerbaijan, India and Afghanistan. And if you look at a lot of these countries, they are Islamic countries. So Islamic finance can have a big part to play."

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A nod to the supporters

Editor's Note

The growth of Islamic finance has reached a stage where the industry has not only established new, sustainable markets such as the vibrant Sukuk sector; but also a growing number of auxiliary markets that support the industry's further development, such as specialized Shariah compliant legal services and Islamic finance education.

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Yemen approves US$12.5 million **IDB** financing

Emirates still undecided on repayment of US$550 million Sukuk maturing in June

Masraf Al Rayan provides financing to **Qatar Solar Technologies**

Bank Mualamat Indonesia announces indicative yield for US$52.55 million Sukuk Mudarabah

Indosat plans to sell US$52 million Sukuk at the end of June 2012

Saudi Aramco and partner eye US$1.4 billion Sukuk to part-finance joint venture

Dana Infra Nasional to issue up to US$2.51 billion-worth of Sukuk to finance MRT project

AREF Energy Holding Company approves offer by **KFH** subsidiary, **Development Enterprises Holding Company**, to acquire its shares

Bank Muamalat Indonesia considers rights issue following listing on **Indonesia Stock Exchange**

Saudi International Petrochemical Company affiliate signs US$373.17 million Islamic financing agreement with four banks

Zain Saudi hires four banks to refinance US$2.5 billion maturing Sukuk

Al Kifah Holding raises US$159.99 million via syndicated Murabahah facility

Jafza hires seven banks to arrange new Sukuk

Foreign ownership limit in Malaysian banks to be raised soon?

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Islamic banks in Bangladesh get separate money market

Maybank Investment Bank aims for 20% growth in group profit for 2012

Indonesia considers 40% single ownership limit in local banks

More room for growth in Pakistan's Islamic finance market, says expert

Bangladesh calls for more **IDB** aid

Bank Islam Malaysia launches fixed deposit investment product

Growth of Indonesia's Shariah compliant banks averaging at 40.2% over the last five years

Abu Dhabi Islamic Bank opens first London branch

ICD and **Aktif Bank** sign agreement to boost local private sector

Maybank eyes exemption of Indonesia's planned bank ownership rules

Masraf Al Rayan announces plan to acquire **Islamic Bank of Britain**

IDB approves US$260.6 million-worth of financing for projects in member countries and Muslim communities

IDB aims to develop global Islamic microfinance facility

IDB to issue up to US$1 billion-worth of Sukuk in June this year

GCC entities turning to the Malaysian Sukuk market in a bid to diversify funding

GCC financial markets ministerial committee stresses importance of region's financial market integration

GCC Sukuk mart still growing, says **National Commercial Bank**

EFG Hermes-QInvest joint venture plan sees a surprising turn

Alkhair International Islamic Bank explores opportunities in China

Al Baraka Banking Group and **World Bank** in Islamic finance development initiative

StanChart Private Bank announces imminent launch of new Islamic products

Sharjah Islamic Bank ties up with **University Hospital Sharjah** to offer financing for medical fees

ISLAMIC INVESTOR

The First Investor closes Shariah compliant TFI-Hines Brazil Income Real Estate Fund

Noor Islamic Bank launches two structured wealth management investment products

ASEAN trading link to be established soon

Islamic funds should adopt socially responsible model, say industry experts

Barwa Bank offers three-year, Indonesia and Turkey-linked Islamic notes

TA Islamic Fund reports first quarter gross income distribution

Al Ramz Securities and **Gulfmena Investments** partner for research and market analysis

Crescent Wealth launches Islamic cash management trust

TAKAFUL

Thirty one insurance providers do not meet minimum capital requirement, says **Bapepam**

National Insurance Commission to issue guidelines on Takaful in September this year

Takaful Islami Insurance removes six sponsor-directors from its board

United Insurance Company distributes 10.9% in surplus funds to Takaful contributors

Syarikat Takaful Malaysia will focus on its core markets in Malaysia and Indonesia

Prudential Life Assurance posts US$448 million in premium income in Q1

Great Eastern Takaful eyes cross-border opportunities

RATINGS

RAM reaffirms rating on **Tenaga Nasional**'s US$500 million-equivalent Murabahah medium-term notes program

PEFINDO affirms rating on **Bank Muamalat Indonesia**

CI raises financial strength rating of **Saudi Holland Bank**

RAM reaffirms ratings on **Lafarge Malayan Cement**'s US$110.15 million Islamic securities program

MOVES

Josef Ackermann steps down as CEO of **Deutsche Bank**

Dinno Indiano appointed as new president director of **BNI Syariah**

The New Silk Road

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Middle East ties

It comes as no surprise to anyone familiar with the industry that trade between the Middle East and Asia has been growing exponentially. Between 2000 and 2010 trade between the two regions increased by over 700%, according to Farouk Soussa, the chief economist for Citibank in Dubai. Over half the region's trade is now with China, of which the majority is energy links. Oil and natural gas from Saudi Arabia, Qatar and Abu Dhabi are the primary trade ties and in 2010, 55% of Saudi crude exports went to Asia compared with just 16% to the US and 4% to Europe. In February 2012 China imported over 1.4 million barrels of oil per day from Saudi Arabia, or around 15% of total production.

Kamalpour notes that the opportunities lie not only in the physical side, but in financing this movement, building the gas pipelines, and funding the movement of energy to China and the Asian region. "It is about financing these deals — are there going to be new trade and financing hubs opening up along the way? It will play itself out as the silk road develops further."

China-Turkey

As the countries at either end of the trade corridor, China and Turkey are the two most important trade centers for the new silk route. Although there has been friction between them in the past, strong links have developed over recent years with trade volume in 2011 increasing by 24% to US$24.2 billion and expected to reach US$50 billion in 2015 and US$100 billion in 2020 (targets set by Chinese premier Wen Jiabao and Turkish prime minister Recep Erdogan in 2010). China is now the third biggest trade partner of Turkey, with a number of significant projects including a new US$35 billion high-speed rail network connecting the two regions across central Asia and reaching as far as the UK and Spain. There are also talks to revive the pre-WW1 Berlin/Baghdad rail link as well as the old Hejaz rail network connecting Turkey with the holy cities of Islam.

Central Asia

But it's not just the Middle East, Turkey and China that stand to benefit from the new route. While these are all already well-established trade centers, Central Asia could be the region that stands to benefit most from its strategic location in between the two trade hubs.

Khazakhstan is the obvious focus, with its rapidly developing financial status as a regional hub for Islamic finance, its lucrative oil reserves and its developing trade status. Over the last two decades the country has become the leading regional recipient for US investment with over US$16.5 billion from US companies flowing in.

The region has a strong trade history, serving as a hub of interlinking trade routes connecting the continents. As economic growth gathers pace, a number of new initiatives are being promoted to encourage the development of the central Asian region. The US principal deputy assistant secretary of state for south and central Asia, Geoffrey Pyatt, is quoted as saying that: "For all its progress, central Asia remains one of the least integrated areas of the world." The US state department is therefore developing its own New Silk Road initiative running through central and south Asia and based around the economic development of post-war Afghanistan. The network hopes to strengthen regional economic integration by liberalizing trade and promoting energy and infrastructure development including new roads, bridges, energy grids and pipelines.

The initiative was officially introduced in September 2011 at the UN General Assembly by US secretary of state Hillary Clinton and the foreign minister of Afghanistan, Zalmai Rassoul, as "a means of creating new trade routes between Asia and the west, faciliated by the establishment of modern highways, rail links and energy pipelines".

Significant steps have already been taken to remove trade barriers in the region. In September 2011 for example, India and Pakistan agreed a pact to normaliz trade relations for the first time in 35 years. The TAPI pipeline project is set to bring onshore natural gas from Turkmenistan across Afghanistan to markets in Pakistan and India, while other projects are being created to transmit electricity from central Asia to Afghanistan, Pakistan and India. Robert Hormats, the US undersecretary for economic, energy and agricultural affairs, noted in a recent speech that:

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CLOSING BELL

Islamic megabank by year-end?

GLOBAL: Ahmad Mohamed Ali, the president of the IDB, which is spearheading the establishment of a Qatar-based Islamic megabank, has said that the team involved with the set-up of the bank is targeting to finalize its plans by the end of this year. The megabank will issue papers and instruments which will allow Islamic banks to buy or disinvest them," said Ahmad.

Indonesia tackles currency volatility

INDONESIA: The central bank, Bank Indonesia, is considering introducing new measures to ease volatility in the Indonesian rupiah. "In the region, we still suffer from turbulence from the European countries," noted Edi Setiadi, an executive director of the Shariah banking at the central bank. The authority may also announce its new rules on bank ownership by the middle of this month.

The New Silk Road

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"Construction of new projects would create thousands of jobs across the entire panorama of Central Asia, and unlock private enterprises suppressed by the lack of reliable electricity." He notes that the central Asian region has a lot to offer, particularly Afghanistan. "The US Geological Survey has verified that Afghanistan sits on top of at least US$1 trillion in mineral wealth – iron, copper, gold, rare earth elements, and others. Some of these deposits are already under development, and many more will be soon. The Aynak copper and Hajigak iron-ore mines could enter into production as early as 2016, and according to World Bank projections they could each create 90,000 jobs and up to US$500 million in annual revenue when developed."

Islamic finance in the new silk route

The economic opportunities are undeniable. But what role can Islamic finance play in all this? Yes, the majority of the countries along the new silk route are Muslim. But this does not necessarily mean that Islamic finance will benefit from these developments – unless it reaches out and makes a serious effort to get involved.

Kamalpour notes that as far as the NSR Forum is concerned: "There's going to be an Islamic financing working group, because obviously a lot of these countries have big Islamic populations. A lot of deals for these countries are done via the Middle East, and it's going to be of growing importance strategically to these countries, so we will see increasing levels of investment."

It is true that Islamic finance is a natural fit for this kind of development, which is based around real economic assets and infrastructure projects. In addition, many of the countries along the new route, such as Kazakhstan, have expressed an interest in developing the Islamic finance industry and will be looking to the sector for funding and investment. Turkey's Islamic finance sector has seen rapid growth along with its strengthening trade ties with the Middle East, and the country recently saw its first Sukuk issuance. Afghanistan is also looking to Islamic finance to rescue its struggling economy following the planned withdrawal of troops in 2014, and its government recently announced the potential for a sovereign Sukuk (*see IFN Report 'Afghan Sukuk: A band aid on a hemorrhage?' p.13*)

And, points out Kamalpour: "There is also an opportunity for Shariah compliant funds to invest in projects and opportunities along the route. It could offer western banks and big institutions with Islamic windows new opportunities for investment. They already have the structuring capability and they can offer investors the opportunity to invest directly in Shariah compliant opportunities.

"I think it will also work the other way, with Islamic investors from established markets going into silk route countries. That's already happening to an extent – you have Al Hilal bank going into Kazakhstan. It's new territory, but its territory of great interest. Some of the European investments have not gone as well as they'd hoped, given the Eurocrisis, so this is a diversification opportunity."

The new silk route is the fastest growing trade corridor in the world, and its regional position offers Islamic finance a natural advantage. The opportunity is there and ripe for the picking.

Information on the New Silk Route Forum can be found at http://www.nsrforum.com. — *LM*

A nod to the supporters

Editor's Note

The growth of Islamic finance has reached a stage where the industry has not only established new, sustainable markets such as the vibrant Sukuk sector; but also a growing number of auxiliary markets that support the industry's further development, such as specialized Shariah compliant legal services and Islamic finance education.

This development of the industry has helped Islamic finance to develop into a valuable alternative to conventional finance, doing much to spur economic growth at a time when lending does not come as easily it once did. This week, Islamic Finance *news* looks at how the industry is reaching into new markets and sectors to cement its contribution to the global economy, beginning with our cover story on the exciting developments along the new silk route from China to Turkey.

One area of the financial industry in which Islamic finance has helped to drive momentum is offshore centers; and our issue this week looks at the links between Islamic finance and these growing regional bases in a feature by Amjad Hussain and Kathleen Bradley of K&L Gates (Doha).

We also have a contribution by Irfan Butt and Mustafa Kamal of Hogan Lovells, in association with Al Yaqoub Attorneys & Legal Advisors, who write on the future of Saudi Arabia's secondary markets in promoting Islamic liquidity management in the kingdom.

Meanwhile, Rafael A Morales of legal firm SyCip Salazar Hernandez & Gatmaitan writes on Islamic banking in the Philippines; while our IFN Reports cover prospects for the expansion of UK Islamic banks and Afghanistan's planned debut sovereign Sukuk.

Our IFN Correspondents report on the industry's developments in Jordan, Iraq and South Africa; and on Takaful in Tanzania.

Meet the Head talks to Amer Mohamed Al Jabri of Al Jazeera Finance; and our Case Study this week highlights Banque Saudi Fransi's US$750 million Sukuk.

DEALS

IDB funds for Yemen

YEMEN: The government has approved a financing agreement with the IDB which was signed on the 23rd June 2010.

Under the agreement, the IDB will contribute US$12.5 million in financing to support rural development opportunities in the country.

Yet to take off

UAE: Emirates airline has yet to decide on whether to refinance its AED2.02 billion (US$550 million) Sukuk maturing on the 16th June this year or to repay it with cash.

"We are currently considering whether to refinance and [with] what product. Cash flow is good and we have the ability to repay if we decide [to]," said Brian Jeffery, its senior vice-president of corporate treasury.

Jeffery also said that the airline will only refinance the maturing Sukuk with another if the price differential is significant.

Masraf Al Rayan provides financing

QATAR: Masraf Al Rayan has signed a financing agreement with local polysilicon manufacturer, Qatar Solar Technologies (QST).

The financing will be used to fund the construction of QST's US$1 billion polysilicon manufacturing plant.

BMI Sukuk soon

INDONESIA: Bank Muamalat Indonesia (BMI) will issue IDR500 billion (US$52.55 million)-worth of 10-year Sukuk Mudarabah as the first tranche of its IDR1.5 trillion (US$157.65 million) subordinated Sukuk program.

According to Arviyan Arifin, its president director, the indicative yield for the first tranche is between 9.5-10.5%.

The bank began bookbuilding for the Sukuk on the 30th May and will continue through to the 12th June, before offering the papers from the 25-26th June; with allotment scheduled for the 27th June.

Bahana Securities, Danareksa and Indo Premier Securities are underwriting the issuance, while Bank Negara Indonesia is the trustee agent.

Indosat to sell Sukuk

INDONESIA: Local telecommunications firm Indosat is planning to issue a IDR500 billion (US$52 million), seven-year Sukuk Ijarah at the end of June this year, as part of a IDR2.5 trillion (US$269 million) corporate bond issuance.

The company will offer the Islamic bonds to investors from the 20th-22nd June. It also plans to list the Sukuk on the Indonesian Stock Exchange on the 28th June.

DBS Vickers Securities Indonesia, Danareksa Sekuritas, HSBC Securities Indonesia, Mandiri Sekuritas and Standard Chartered Securities Indonesia were appointed to manage the sale.

Saudi Aramco seeks Islamic debt financing

SAUDI ARABIA: Saudi Arabian Oil Company (Saudi Aramco) and US-based chemical company, The Dow Chemical Company, have reportedly sent requests to banks for US$12.4 billion in financing to fund their joint venture, Sadara Chemical Company.

The companies are said to be seeking the funds via a US$1.4 billion Sukuk issuance, US$2.66 billion in bank loans, US$6.5 billion from export credit agency financing, US$1.3 billion from Saudi's Public Investment Fund and US$530 million from the Saudi Industrial Development Fund.

The banks have until the 23rd July to express interest, with the financing expected to be completed by December this year. Saudi Aramco and Dow have reportedly hired Riyad Bank and The Royal Bank of Scotland as financial advisors.

MRT Sukuk confirmed

MALAYSIA: The finance ministry has announced that Dana Infra Nasional, the company set up to fund the country's infrastructure projects, will issue RM8 billion (US$2.51 billion)-worth of government-guaranteed Sukuk to part-finance the Klang Valley Mass Rapid Transit (MRT) Project.

The ministry's announcement follows months of speculation on the size and issuance date of the Sukuk.

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The first issuance of the Sukuk will comprise an Islamic commercial paper and/or Islamic medium-term notes program and/or a syndicated Islamic revolving credit facility up to a combined limit of RM8 billion.

Of the program, the first drawdown is expected to be issued by early June this year. The sale of subsequent tranches is not expected to be required until June 2013.

AmInvestment Bank, CIMB Investment Bank, Maybank Investment Bank and RHB Investment Bank are joint lead arrangers for the program.

KFH unit gets nod to buy AREF

KUWAIT: AREF Energy Holding Company's shareholders have approved an offer by Development Enterprises Holding Company, a subsidiary of Kuwait Finance House (KFH), to wholly acquire the company's shares for 13.4 Kuwait fils (47.72 US cents) per share.

Walid K Al-Hashash, the chairman of AREF, said that the company's consultant, hired to evaluate its shares and assets, has valued it at 12.6 Kuwait fils (44.88 US cents) a share.

Kuwait Clearance Company will oversee the transaction, which is to take place within 30 days from the 3rd June.

BMI studies rights issue

INDONESIA: Bank Muamalat Indonesia (BMI) could launch a rights issue following the listing of its shares on the Indonesia Stock Exchange, potentially by the end of this year, according to Arviyan Arifin, its president director.

The plan is part of BMI and its financial advisors' evaluation of options for capital raising for the bank.

SIPCHEM unit in Islamic financing deal

SAUDI ARABIA: International Polymers Company, an affiliate of Saudi International Petrochemical Company (SIPCHEM), has signed a SAR1.4 billion (US$373.17 million) Islamic financing agreement with four banks to finance the construction of a production plant.

The banks involved are Riyad Bank, National Commercial Bank, Saudi Hollandi Bank and SABB.

The financing is repayable over two-and-a-half years in semi-annual installments.

Zain Saudi in Sukuk refinancing deal

SAUDI ARABIA: Mobile Telecommunications Company Saudi Arabia, better known as Zain Saudi, has reportedly hired four banks to arrange a five-year, US$2.5 billion financing facility to refinance its Sukuk of the same size maturing on the 27th July this year.

The banks are Al Rajhi Bank, Arab National Bank, Banque Saudi Fransi and Standard Chartered.

In January, Zain Saudi received approval to extend the due date of its Sukuk by six months.

Al Kifah in syndicated deal

SAUDI ARABIA: Al Kifah Holding, a local building and construction materials manufacturer, has raised SAR600 million (US$159.99 million) from a syndicated Murabahah financing facility to strengthen its balance sheet and facilitate its planned expansion.

Gulf International Bank (GIB) was the mandated lead arranger, together with National Commercial Bank, Samba Financial Group and Banque Saudi Fransi. GIB Capital, the investment arm of GIB, acted as financial advisor to Al Kifah.

Jafza hires banks for new Sukuk

UAE: Jebel Ali Free Zone (Jafza) has hired Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Citigroup, Dubai Islamic Bank, Emirates NBD, National Bank of Abu Dhabi and Standard Chartered to arrange a new Sukuk issuance.

The offering is expected to be worth at least US$500 million. Proceeds will be used to part-finance an existing AED7.5 billion (US$2.04 billion) Sukuk maturing in November this year.

Roadshows for the new issuance are set to commence on the 5th June in the UAE,

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Malaysia's bank foreign ownership limit to be raised soon?

MALAYSIA: The government has announced further measures to develop its financial and capital markets; with Najib Razak, the prime minister, hinting that the country's foreign ownership cap on local banks could be done away with soon.

However, the administration's willingness to reconsider the current 30% foreign ownership limit comes with the caveat that there is reciprocity from its regional neighbors. "We're willing to look at it… It's possible that we might increase it in the near future. But it's also important within ASEAN to have reciprocity," said Najib.

With ASEAN markets growing more interdependent, increased linkages between the region's banks could help boost Malaysia's financial sector; especially as the country further develops as a global Islamic finance hub. In a report, OSK Research said that the impending entry of Singapore's DBS Bank into Alliance Financial Group (DBS is in talks to buy a 14.2% stake in the group) makes a case for potentially raising Malaysia's foreign shareholding cap based on the principle of reciprocity.

"In return, the Singaporean government could potentially grant the likes of CIMB [Group] a qualifying full bank operating license that will significantly relax the restrictions on its current number of permitted branches and services locations from two to 25," said OSK Research.

The call for reciprocity could also encourage Malaysian banks to venture outside local shores in a bid to expand their Shariah compliant footprint; leveraging their domestic Islamic finance expertise.

Nonetheless, Malaysia's efforts at liberalization could be quickly stonewalled in markets such as Indonesia, which is currently mulling over its own bank ownership limits, with expectations that shareholders will have to pare down their stakes in Indonesia's banks.

Even so, any upward revision of foreign ownership in Malaysia's banks will only be beneficial for the local industry.

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followed by Singapore and Hong Kong on the 7th and 8th June; while Jafza will also meet investors in London on the 11-12th June.

GIS signs into Islamic financing

QATAR: Gulf International Services (GIS) has signed a QAR619 million (US$170 million) Islamic financing agreement with Arab Petroleum Investments Corporation, Barwa Bank, Qatar International Islamic Bank and Qatar Islamic Bank.

The facility will be partly used to complete its acquisition of AMWAJ Catering Services and to participate in a capital increase for its subsidiary, Gulf Drilling International.

Funds to repay Sukuk

UAE: DIFC Investments has secured a AED3.67 billion (US$1 billion) Islamic syndicated financing facility to help repay its US$1.25 billion Sukuk maturing on the 13th June.

Dubai Islamic Bank, Emirates NBD, Noor Islamic Bank and Standard Chartered were lead arrangers for the financing, which is backed by the group's property portfolio.

DEAL TRACKER Full Deal Tracker on page 40

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Gulf International Bank	RM	1.09 billion	31st May 2012
Danainfra	RM	2.49 billion	31st May 2012
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

Central Bank of the UAE to extend lending limit deadline?

UAE: The central bank looks to be relaxing its stance on the deadline for its new rule on limiting lending to UAE governments and their entities.

"We will impose deadlines on banks in accordance with a bank's position and the extent of its exposure and based on the findings and demands it presents to the central bank, but we will absolutely not annul or change any of the recent amendments," Khalil Foulathi, the chairman of the Central Bank of the UAE, is quoted as saying.

Khalil's comments hint that the central bank could be prepared to be more flexible in the timing of its new rules; and come just two weeks after the authority said that it would not extend its September deadline for the rules announced in April this year; capping bank lending to UAE governments and government-linked entities at 100% of a bank's capital; and to individual borrowers at 25%.

However, the emirates' banks will likely not be able to meet the timeframe, given their large exposure to UAE government debt. Data shows that government and government-linked lending at Emirates NBD, which owns Islamic units Dubai Bank and Emirates Islamic Bank, amounted to 192% of its capital; while National Bank of Abu Dhabi's state-linked financing levels stood at 199%. Abu Dhabi Commercial Bank's lending to government and government-owned companies constituted 108% of its capital.

In addition, the banks are constrained with options to offload the debt, with industry players saying that banks will need time to deleverage. Furthermore, it is questionable whether there will be enough demand to take up the financing in the secondary market.

Market watchers also note that securitization of the debt would be a challenge, as the region's market for securitization has yet to fully develop.

While the central bank is making the right move in reducing banks' risk to concentrated exposures, providing banks a little more time to manage their balance sheets may also be a step in the right direction.

AFRICA

ZamZam unsuccessful

ETHIOPIA: ZamZam Bank, which hoped to become Ethiopia's first fully-fledged Islamic bank, has announced its failure to launch interest-free banking in the country.

This follows the September 2011 directive from the central bank, the National Bank of Ethiopia, barring Islamic banking in the country.

In a shareholder meeting, ZamZam Bank's board of directors presented three options to its shareholders: namely to inject the bank's capital into another bank and open an Islamic window; to dissolve the bank and re-disburse its capital; or to invest in another sector.

The bank's shareholders have since decided to invest in other ventures.

AMERICAS

Financing for US students

US: The IDB has partnered with the Islamic Society of North America to offer five scholarships in the form of interest-free financing for local Muslim students.

The financing is open to individuals who are currently enrolled in or have been accepted to an accredited university or college in the US.

ASIA

Financing for street lights

UZBEKISTAN: The IDB will provide US$15 million in financing to Tashkent's municipality fund, to be used to modernize street lighting in the country's capital.

Decrease in Malaysian debt holdings

MALAYSIA: Foreign investment in local sovereign Sukuk decreased by 9% to RM4.7 billion (US$1.46 billion) in April this year, as holdings of Malaysian ringgit-denominated bonds by global funds fell to RM185.6 billion (US$58.3 billion) from an all-time high of RM191.2 billion (US$59.47 billion) in March.

However, according to data from the central bank, foreign investment in conventional government securities advanced by 1.8% to RM112.1 billion (US$34.86 billion) in April..

HLIB to switch to wholesale

MALAYSIA: Yvonne Chia, CEO of Hong Leong Bank (HLB), has announced that the bank, which owns Hong Leong Islamic Bank (HLIB), is aiming to convert its Islamic business from a consumer to a wholesale bank.

The move is part of its efforts to increase transaction income in Islamic wholesale and investment banking, treasury and wealth management.

Meanwhile, HLB is also keen on raising its 20% stake in China's Bank of Chengdu, although its ownership is currently limited due to existing regulations, added Chia.

BNM introduces new instrument

MALAYSIA: The central bank, Bank Negara Malaysia (BNM), has introduced a new Islamic monetary instrument: the collateralized Murabahah.

The instrument is a Shariah compliant financing secured by assets allowing the financier the right to sell the asset should the client fail to repay the financing.

Meezan deploys Temenos T24

PAKISTAN: Meezan Bank has gone live with Swiss-based Temenos Group's Temenos T24 Islamic banking software system.

New money markets for Islamic banks

BANGLADESH: The country has launched a separate money market for its Islamic banks, the Islamic Inter-bank Fund Market, according to Atiur Rahman, the governor of the country's central bank.

The market will provide local Islamic banks with temporary and short-term liquidity.

Striving for 20% growth

MALAYSIA: Maybank Investment Bank is targeting at least 20% growth in group profit for the financial year ending the 31st December 2012, said Tengku Zafrul Tengku Abdul Aziz, its CEO.

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Indonesia considers 40% single ownership limit in local banks

GLOBAL: Bank Indonesia (BI), the central bank, officially announced on the 31st May that it is looking at limiting single shareholding by financial institutions in banks to 40% from 99% currently; in a rule that will only apply to new investments. Additionally, individuals or families can now only own up to 30% in Indonesia's banks, also down from 99%.

The announcement will allow the likes of Malaysia's CIMB Group, present in Indonesia via CIMB Niaga and CIMB Niaga Syariah; as well as Maybank, which owns Bank Internasional Indonesia and Bank Syariah Indonesia, to maintain their respective 97.9% and 99% ownership in their Indonesian units.

Seen as a sleeping giant with massive potential for growth in its banking market, including in the Islamic finance space, investors have been jostling for a place in Indonesia for several years now.

However, plans by new entrants such as Singapore's DBS Group, which proposed to acquire the entire equity stake in Bank Danamon, which also operates Bank Danamon Syariah, will now be held back due to the new rule.

Other foreign interest in Indonesia's banks come from Malaysia's RHB Capital, which has been waiting in the wings to buy Bank Mestika Dharma, a plan that was put on hold due to BI's review of the bank ownership rules; while another Malaysian bank, Affin Bank, also delayed its plan to buy a majority stake in Bank Ina Perdana, which it planned to convert into a fully-fledged Islamic bank.

Nonetheless, Affin remains keen to pursue its interest in the Indonesian bank and is willing to look at its acquisition plan again.

Although Indonesia has been a hotbed for foreign investing in recent years, its regulator's new plan may now upset the balance for greater international interest going forward. With its Islamic finance space also yet to fully develop and further participation from more experienced Islamic financial institutions facing a cap, it remains to be seen whether Indonesia's latest move will prove to be farsighted, or a folly.

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"It is the investment banking business that we want to grow here and in the region, while in the Sukuk and conventional bond market, this is the fastest growing business for us," he said.

Room for growth

PAKISTAN: The country's finance sector, particularly its Islamic market, could grow exponentially with the right policy, said Haroon Sharif, the head of the economic growth group at the Pakistan office of the UK's Department for International Development.

Haroon believes that the country should focus on three key aspects in order to do this: namely reforming its macro-business marketing environment so that it will be more capital-intensive; increasing market research on Islamic finance; and widening Islamic banking's reach to the poor.

More help needed

BANGLADESH: The country has called for more aid from the IDB in areas including infrastructure, agriculture, human resource development and access to Islamic financial products and services; as it seeks to achieve its development plans.

In turn, the bank has pledged its future support for programs focusing on collaborative partnership, capacity building, technical assistance, Islamic finance advisory services and reverse linkages. It is also looking to provide aid for Bangladesh's energy sector, public-private partnership projects, urban development and inclusive rural growth.

The IDB has already channeled US$384 million-worth of financing to Bangladesh, completing 58 projects; while also providing US$11 billion-worth of trade financing to the country for oil imports.

New offering from Bank Islam Malaysia

MALAYSIA: Bank Islam Malaysia has launched its Dual Currency Investment-i offering, a fixed deposit product linked to the performance of a pair of foreign currencies.

"The product is expected to appeal to the bank's existing customers who are already investing in dual currency structured investments or those with foreign currencies commitments or obligations, such as payment for education abroad," said Norashikin Mohd Kassim, its head of treasury.

Good growth

INDONESIA: Growth of Islamic banks in Indonesia has averaged 40.2% over the past five years, according to Edy Setiadi, the director of Shariah banking at Bank Indonesia, the central bank.

Total assets of the country's Shariah compliant banks increased by 50% to IDR158.8 trillion (US$16.99 billion) as at the 31st March 2012, from IDR101.2 trillion (US$10.67 billion) a year earlier.

EUROPE

ADIB opens in London

UK: Abu Dhabi Islamic Bank (ADIB) has opened its London branch in the district of Knightsbridge.

The bank is looking to serve clients from the UAE who use London as their base for business and personal transactions.

ICD in Turkey deal

TURKEY: The Islamic Corporation for the Development of the Private Sector (ICD) has signed an agreement with Aktif Bank to cooperate in areas including the financing of small and medium-sized enterprises and private sector projects and investments.

The partnership also aims to encourage the growth of existing companies and support projects which create employment by channeling investment to the appropriate areas of business.

GLOBAL

Maybank eyes exemption

GLOBAL: Maybank, which owns 97% of Bank Internasional Indonesia, hopes that expected new regulations on shareholding limits in Indonesian banks will not apply to the Malaysian banking group.

"It is our hope that should any percentage be imposed, that percentage should not apply to the banking group," said Abdul Wahid Omar, the CEO of Maybank, adding that the bank is in discussions with Indonesian authorities on the proposed rules.

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Masraf Al Rayan announces plan to acquire Islamic Bank of Britain

GLOBAL: In a surprise announcement on the 4th June 2012, Masraf Al Rayan, one of just four of Qatar's Islamic banks, disclosed that it will acquire 70% of the Islamic Bank of Britain (IBB).

The bank did not disclose further details of its acquisition plan, except that the takeover would be carried out via a capital increase, with the Qatari government to acquire the remaining 30% in IBB.

The move not only marks the growing influence of Qatari funds in the global market; but also the increasing participation of Qatari Islamic banks in cross-border merger and acquisition activities.

IBB, set up by Qatari shareholders including members of its royal family, was taken over by Qatar International Islamic Bank (QIIB) in May last year. QIIB paid around GBP25 million (US$38.49 million) to raise its 80% interest in IBB to 91%.

An entry by Masraf Al Rayan into IBB could prove more beneficial for the UK bank (given that both banks are retail-focused) then for QIIB, which is better known for its investment banking business. In return, IBB could prove to be an important stepping stone for Masraf Al Rayan to gain a foothold into the UK and European markets.

An expansion by Masraf Al Rayan could also prove crucial; with industry observers noting that the Qatar Central Bank's directive to ban Islamic financial services from conventional banks has not provided as much a boost to the country's Islamic banks as initially expected.

With the Qatar bank's plans for IBB still in their early days, only time will tell how this surprise move will play out.

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Meanwhile, he also said that Maybank has applied for a license to open a branch in Laos, in a bid to consolidate its presence in the ASEAN region. The bank is still awaiting approval from the relevant authorities.

IDB approves new financing

GLOBAL: The IDB has approved US$260.6 million-worth of new financing to support development projects in member countries and other Muslim communities.

The approvals comprise: US$81 million for a water supply expansion project in Nigeria, US$33.6 million for a thermal power project in Niger and US$16 million for a road project in Lebanon.

The funding also includes US$118 million for the development of a hospital in Iran and US$10 million for Burkina Faso's national primary healthcare project.

It also granted US$1.36 million under its Waqf Fund for infrastructural educational projects in Muslim communities in Ethiopia (US$480,000), the Philippines (US$280,000), India (US$200,000), Malawi (US$200,000) and Tanzania (US$200,000).

IDB in microfinance push

GLOBAL: Dr Ahmad Mohamed Ali Al Madani, the president of the IDB, said that the bank has commenced discussions with the UK's Department for International Development, the World Bank and the Center for Charitable Giving and Philanthropy to begin pilot projects in various common member countries and eventually develop a global Islamic microfinance facility.

The IDB is also exploring social and financial inclusion opportunities in the UK; including the provision of community-based microfinance, small and medium-sized enterprise financing and technical assistance programs, he said.

US$1 billion Sukuk from IDB

GLOBAL: The IDB is planning to raise between US$500 million-US$1 billion via a Sukuk issuance in June this year to finance its activities.

The bank will also issue regular annual Sukuk tranches ranging from US$500 million-US$1.5 billion under its medium-term notes program going forward, due to rising demand for financing from its member countries, said Dr Ahmad Mohamed Ali Al-Madani, its president.

Turning to Malaysia

GLOBAL: More GCC entities are turning to the Malaysian Sukuk market in a bid to diversify their financing as US dollar funding becomes scarce in the wake of the Eurozone crisis.

Jammaz Abdullah Al-Suhaimi, the chairman of Bahrain-based lender Gulf International Bank, which recently has set up a ringgit-denominated US$1.11 billion Sukuk program, noted that tapping the ringgit market was a strategic move to diversify funding avenues and currencies.

Meanwhile Nick Stadtmiller, the head of fixed income at Emirates NBD, said that: "Malaysian banks are highly liquid, and there is a developed set of other institutional buyers in the market."

Strengthening GCC markets

GLOBAL: Dr Abdulrahman Al-Tuwaijri, the chairman of the ministerial committee of the financial markets of the GCC, has stressed the importance of the integration of the GCC's capital and financial markets as the council eyes stronger ties between the region's markets and the unification of regulations and policies related to the markets.

A collective financial market in the GCC will help protect against financial setbacks or crisis, said Abdulrahman, who is also the chairman of Saudi's Capital Market Authority.

Meanwhile, the GCC ministerial committee has also discussed draft laws on the legal structure of the council's financial markets, disclosure regulations and corporate governance of listed companies.

Impressive progress

GLOBAL: GCC Sukuk markets have made impressive progress as an alternative source of funding at a time of tight bank credit; and are expected to show continued positive momentum going forward, said Dr Jarmo T Kotilaine, the chief economist at National Commercial Bank.

Default situations also appear to have passed, leaving a better understanding of how to manage them and a talent pool qualified to handle such tasks; which, in turn, has led to higher efficiency in managing risk.

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EFG Hermes-QInvest joint venture plan sees a surprising turn

GLOBAL: The shareholders of Egypt's EFG Hermes Holding have approved a plan for the investment bank to set up a joint venture company with Qatar's QInvest, the investment banking arm of Qatar Islamic Bank.

However the proposal, which will see EFG Hermes and QInvest own 40% and 60% respectively in EFG Hermes Qatar, saw a surprising twist when Planet IB, an investment banking firm linked to Egyptian telecommunications tycoon Naguib Sawiris, put in an offer to buy EFG Hermes for EGP13.5 (US$2.24) a share.

Planet IB's offer has not derailed the EFG Hermes Qatar plan, with EFG Hermes to transfer ownership of its brokerage, research, asset management, investment and infrastructure fund subsidiaries to the new entity. The Egypt-based bank's shareholders, which include Abu Dhabi Investment Authority and Dubai Financial Group, have also approved the transfer of 60% of the seed capital held in its asset management business to QInvest.

Mona Zulficar, the chairperson of EFG Hermes, said that the bank received two letters from Planet IB dated the 30th May and the 1st June, offering to acquire EFG Hermes' shares.

"The letters did not provide any legal commitment or guarantee to EFG Hermes, nor its shareholders, to conclude such tender offer. Additionally, no proof to availability of funds has been presented to the company, nor any information about the identity of the investors who will provide the necessary funds for the tender offer," she said, adding that Planet IB should have filed its offer to the Egyptian Financial Supervisory Authority.

Planet IB seems determined to take over EFG Hermes, despite the progress of its deal with QInvest, in a bid to "keep a flagship Egyptian multinational intact," according to Ahmed El Houssieny, CEO of Planet IB. In what sounds more like a political play than anything else, it appears that Planet IB will have to put its money where its mouth is if it intends to put a stop to the EFG Hermes-QInvest deal, which already looks to be all but sealed.

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"As far as concrete issuance prospects for project Sukuk are concerned, we are increasingly moving from the stage of innovation to replication which is much faster and cheaper and should contribute to the positive market momentum," he added.

Crossing to China

GLOBAL: Alkhair International Islamic Bank, the Malaysian unit of Bahrain's Bank Alkhair, is looking at opportunities to expand its business into China.

"We have to look at potential countries which have exposure to non-ringgit currencies. Malaysians also invest offshore. There is an opportunity for us to look at a prospect in Shanghai," said Kamaruddin Taib, its chairman.

Joint initiative for Islamic finance

GLOBAL: Al Baraka Banking Group has tied up with the World Bank under a new initiative for Islamic finance aimed at fostering sustainable development of the industry. The cooperation is also targeting the identification and dissemination of sound practices in the industry; including those relating to the regulatory and supervisory environment, institutional infrastructure, corporate governance, business practices and market development.

It also aims to encourage research and promote awareness of the appropriate risk management framework for Islamic banks.

Islamic offerings from StanChart

GLOBAL: Standard Chartered Private Bank is set to launch a suite of Islamic financial solutions by the middle of this month at its booking centers in Dubai, Geneva, Jersey and London.

The Shariah compliant offerings will range from fiduciary deposits, property financing, equities and discretionary services, mutual funds, Sukuk and third-party structured products.

MIDDLE EAST

Sukuk to fund expansion

SAUDI ARABIA: Local dairy and food producer Almarai Company has announced a SAR15.7 billion (US$ 4.19 billion), five-year investment plan that will draw on financing from conventional bank facilities, funds and its recently launched Sukuk.

The firm raised SAR1 billion (US$266.62 million) through its first Sukuk in March this year. Its investment plan covers the expansion of its operations in farming, manufacturing, distribution and logistics between 2013-2017.

Hospital fees installment plans from SIB

UAE: Sharjah Islamic Bank (SIB) has partnered with University Hospital Sharjah to offer financing to patients, allowing them to pay medical fees in installments.

SIIB under US sanctions

SYRIA: The US Treasury department has imposed sanctions on Syria International Islamic Bank (SIIB) for allegedly acting as a front for other Syrian financial institutions seeking to circumvent their own sanctions.

SIIB is accused of acting for the Commercial Bank of Syria and providing services to its subsidiary, the Syrian Lebanese Commercial Bank; both of which were put under sanctions in August 2011. The treasury also said that SIIB "surreptitiously" facilitated financing worth almost US$150 million on behalf of the Commercial Bank of Syria.

Meanwhile, the Qatar Central Bank (QCB) has directed SIIB's Qatar-based directors to resign from its board following the sanctions. "Qatari investors in SIIB will not seek board representation and will remain passive investors," said QCB.

Qatar International Islamic Bank and other Qatari investors, including members of the royal family, own a combined 49% stake in the Syrian lender. SIIB's board was also chaired by Dr Yousuf Ahmed Al-Namaa, a QIIB representative and also a member of the Qatar bank's board.

IIB reports profits

BAHRAIN: Islamic investment bank International Investment Bank (IIB) reported a net income of US$1.7 million for the first quarter of this year, against a net loss of US$1.3 million in the previous corresponding period.

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RATINGS

Firm foundation

MALAYSIA: RAM has reaffirmed its 'AAA' rating on Tenaga Nasional's US$500 million-equivalent Murabahah medium-term notes program (2005/2025). The long-term rating has a stable outlook.

Stability for 1 Warisan

MALAYSIA: MARC has affirmed its 'AAAIS'(fg) rating on 1 Warisan's RM170 million (US$53.74 million), seven-year Islamic medium-term notes program with a stable outlook.

The rating and outlook are underpinned by an unconditional and irrevocable Kafalah Guarantee provided by financial guarantee insurer, Danajamin Nasional.

Shaky start

UAE: S&P has assigned its 'B' senior unsecured debt ratings to AED7.5 billion (US$2.04 billion) Sukuk Musharakah trust certificates, issued by Jebel Ali Free Zone's special-purpose vehicle, JAFZ Sukuk.

BMI on sturdy standing

INDONESIA: PEFINDO has affirmed its 'idA +' rating on Bank Muamalat Indonesia (BMI) with a stable outlook.

At the same time, PEFINDO also assigned an 'idA' rating to BMI's subordinated Sukuk program amounting to IDR1.5 trillion (US$157 million).

Thumbs up

SAUDI ARABIA: CI has raised its financial strength rating of Saudi Hollandi Bank to 'A-' from 'BBB+', with a stable outlook, supported by improvements in asset quality and capital adequacy.

The bank's long-term foreign currency rating was affirmed at 'A' and its short-term foreign currency rating at 'A2', also with a stable outlook.

Stable outlook

MALAYSIA: RAM has reaffirmed its long- and short-term ratings on Lafarge Malayan Cement's RM350 million (US$110.15 million) Islamic securities program (2010/2017), at 'AA2' and 'P1',respectively, with a stable outlook on the long-term rating.

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The bank's total assets amounted to US$151.4 million, from US$148.5 million at the end of 2011.

IHGS goes into real estate

QATAR: Brokerage firm Islamic Holding Group (IHGS)'s board of directors have approved the establishment of a real estate company, Ajyad Real Estate. The new firm will have a capital of QAR5 million (US$1.37 million).

DIFC in Oz tie-up

GLOBAL: Dubai International Financial Center (DIFC) has entered into a strategic partnership with the Australia Gulf Council to promote and facilitate trade, investment and other opportunities between Dubai and Australia.

Additionally, the agreement will support the promotion of unexplored investment opportunities and conventional and Islamic finance investment between Australia and the GCC.

Global in the red

KUWAIT: Global Investment House reported a net loss of KWD11 million (US$39 million) in the first quarter of this year.

Operating income from its asset management, investment banking and brokerage businesses amounted to KWD2.4 million (US$8.54 million). It also made a US$21 million principal repayment of its bank debt.

Coming up...

Volume 9 Issue 23 — 13th June 2012

Meet the Head
Ian Lancaster, CEO and chief investment officer, Reliance Asset Management

Features
The means and ends in Islamic finance: A look into the past, present and future; By Sherif Ayoub, office of the vice-president — finance, Islamic Development Bank Group.

Development challenges in Yemen; By Moneer Saif, head of Islamic banking sector, CAC Bank.

Update on the Takaful industry in Bahrain; By Shyam Sankar, regional head — Bancassurance, Brokerage and MarCom at Medgulf Allianz Takaful.

MOVES

DEUTSCHE BANK

GERMANY: **Josef Ackermann** has stepped down as CEO of Deutsche Bank.

He has been replaced by the bank's co-chiefs **Anshu Jain** and **Juergen Fitschen**.

BNI SYARIAH

INDONESIA: Islamic Finance *news* has learnt that **Dinno Indiano** has been named as the new president director of BNI Syariah.

He replaces the previous president director, Rizqullah Thohuri.

Slowly but surely

Islamic finance has been present in the UK for the last 30 years and London has been widely recognized as the leading Islamic finance hub of Europe. Numerous companies including those from the Middle East have based their European operations in the UK in a bid to grow their Shariah compliant business.

UK firms are also keen to expand to other regions. In its effort to move towards Asia, an MoU between UK Trade & Investment (UKTI) and Bank Negara Malaysia (BNM) was signed in 2009 in London with the goal of working together for mutual benefit, to identify new opportunities. According to BNM, the MoU will pave the way for the two countries to strengthen cooperation in the development of talent and expertise, business linkages and infrastructure support besides facilitating the exchange of resources in the development of human capital and promoting mutual recognition of commons standards of transactions in the Islamic finance industry.

A more recent development is the establishment of the UK Islamic Finance Secretariat (IFS), which is seed funded by UKTI and has the objective to act as a 'one-stop shop' for the UK sector to work with the government to develop the industry.

> ***"UK Islamic banks are interested in Asia and Malaysia due to the established Islamic finance industry there"***

A cursory view three years after the agreement between the two regulators has not seen any of the UK Islamic banks setting up an office in the country, however. Currently there are five fully-fledged Islamic banks and 17 windows offering Islamic products and services in the UK. Even the prominent UK law firms which have solid standing in the Middle East are absent from the Asian market. Humphrey Percy, CEO of the Bank of London and the Middle East, offers an explanation as to the lack of presence in Malaysia or Asia in general. He points out that Asia has to date mainly focused on providing Islamic finance services and products for their domestic markets.

"However, as the domestic market continues to mature we expect to see an increasingly international offering. UK Islamic banks are interested in Asia and Malaysia due to the established Islamic finance industry there. UK Islamic banks provide their Asian counterparts with knowledge and experience of UK and European Islamic finance, regulations and financial markets," he explains.

Percy is of the view that BLME's offering is further enhanced due to its strong and established links to the GCC. He states that since launching in 2007, BLME has built good relationships with several of the Malaysian Islamic banks, without elaborating further.

Despite the positivity and the initially effort at the regulatory level, it may take a while before UK Islamic banks establish a presence in Asia or Malaysia specifically. However, as Malaysia continues to lead the global Islamic finance industry and Asia still a compelling investment story, the move will be inevitable. — *RW*

Afghan Sukuk: A band aid on a hemorrhage?

The Afghan government has turned its eyes towards Islamic banking and is considering the issuance of a sovereign Sukuk in a bid to breathe new life into its economy; as western funds are set dwindle following the withdrawal of foreign troops expected at the end of 2014.

The local currency-denominated issuance is expected to make its debut sometime next year, pending approval from authorities. While the government has hailed Islamic finance as the savior that could help rescue the country's financial industry, how helpful would the planned issuance be in helping Afghanistan rebuild its war-torn economy over the long-term?

According to Khan Afzal Hadawal, the first deputy governor of Da Afghanistan Bank (DAF), the central bank, the

> ***"The local currency-denominated issuance is expected to make its debut sometime next year, pending approval from authorities"***

planned Sukuk aims to provide the finance ministry with funds to cover its expenses, while developing the country's financial markets which have been reduced to almost complete dependence on foreign aid after over 30 years of political unrest. The country has received more than US$32 billion in international aid since the entrance of US-led military forces into the country in 2001.

Speaking to Islamic finance *news*, Zulfiqar Ali Khan, the head of the Islamic banking division at DAF, said: "We are in the process of structuring Sukuk Musharakah and Murabahah for the first time." However, he declined to comment on the size of the planned issuance, stating only that: "It won't be that big. At this point, we are only testing the market. Upon response from our local market, we will issue larger sizes."

Zulfiqar went on to say that the Sukuk would be benefical towards

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the redevelopment of the country's economy, with its planned construction and mining projects, which in turn are hoped to spur foreign investor interest.

He also said that the Sukuk will either be issued by the central bank or the finance ministry, with the central bank likely to manage the planned sale, which will only be offered domestically.

"The importance is that Sukuk is more acceptable to the local market because Afghanistan is a religious country. There's a lot of trust and confidence in this because it has no interest [rate] and there are no uncertainties. It will be based on Musharakah and people prefer that over conventional," he added.

However Dr Thomas Gouttierre, the director of the Center for Afghanistan Studies at the University of Nebraska at Omaha, cautioned that the expectations being pinned on this planned issuance might be deceptive.

"The Afghanistan government is offering an alternative, indigenous market to the people," he commented on the Sukuk, noting however that Afghanistan's overall banking industry remains underdeveloped. He also believes that while the upside of a Sukuk would be to help build and restore confidence and promote commercial activity, the issuance will not assist in the development of an economy and financial market that offers a potential for the future. "It's more designed to address the cottage industry level of borrowing and investments rather than the kinds of investments that people would put money into. It's too limiting and by having an alternative it will create uncertainties. Both the Islamic and conventional [finance industry] need to create that trust first.

"Having the Sukuk is just a short-term fix for a long-term illness. Much like putting a band aid on a hemorrhage," he noted.

As one of the poorest countries in the world, Afghanistan's economic redevelopment is set for a long, difficult road ahead. While a Sukuk issuance may not be sufficient to spur long-term growth, its planned sale could, at least, help provide a short-term boost. — *LR*

Updates on the Iraqi Islamic Finance Regulation No. 6 of 2011

IRAQ

By Khaled Saqqaf, IFN Correspondent

In addition to creating Islamic banks and providing for the creation of Islamic finance branches of commercial banks, the Islamic Finance Regulation No. 6 of 2011 (the Regulation) provides for the formation of a Shariah board for Islamic banks and Islamic branches of commercial banks.

According to Article 6 of the Regulation, the Shariah board shall be responsible for the following tasks:

1. Create the constituent assembly for every Islamic bank and then create the Shariah Supervisor Authority. The Regulation states that the Shariah Supervisor Authority shall consist of not less than three people and not more than five people, provided that more than half of them shall be Shariah experts while the rest shall be experts in banking, financial, and legal operations.

2. Article 6 further provides that the members of the Shariah board shall hold an administrative position, a senior position, or a member of the bank's board of directors or shareholders.

3. The members of the bank's Shariah board shall stay in position for a period of three years, renewable for the same period pending the approval of the bank's general assembly as well as the approval of the Central Bank of Iraq.

4. The Shariah board shall be in charge of advising and giving Shariah compliant opinions in relation to the transactions to be undertaken by the bank in order to ensure that the same does not go against the Shariah. The Shariah board shall also be responsible for submitting an annual report to the bank's board of directors as well as its general assembly of shareholders.

5. The Shariah board may propose to the bank's general assembly of shareholders as well as its board of directors any ideas or advice it thinks useful for the same to achieve its goals in a Shariah compliant manner.

In addition to the above, Article 6 of the Regulation provides that the decisions of a bank's Shariah board is binding to the executive management of the bank. This is so the same would ensure that the bank prioritizes the Shariah compliant decisions of the Shariah board over its own personal commercial interests.

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The adoption of the ICS BANKS financial systems by the Jordanian Military Fund

JORDAN

By Khaled Saqqaf, IFN Correspondent

The Military Fund has implemented the ICS BANKS Islamic IT solution, created by ICS Financial Systems. ICS, founded in London in 1978, is a systems integrator and solutions provider that focuses on retail banking and finance, healthcare, education and police and security solutions. ICS aims at providing its clients with software that presents the managers with the reliable reports and information they need for quick decision making. Furthermore, it aims to present the same with software that covers the whole business cycle and is fully integrated.

When it comes to the software, clients can add modules that best serve their purpose. According to ICS: "Each of our modules is parameterized to quickly support a client's unique workflow and is designed to 'stand alone' since implementation of any module can be separately accomplished." Furthermore, ICS BANKS aims to constantly update its software and introduce new modules that best serve the client's needs and keeps up with their ever-growing requirements.

> *"ICS BANKS aims to constantly update its software and introduce new modules that best serve the client's needs"*

An example of this is the addition of new modules to the system by ICS. This is because ICS BANKS has recently introduced a number of Islamic modules such as Murabahah, Salam, Tawarruq, Ijarah, Istisnah, Musharakah, Mudarabah, Qard Hasan and profit sharing. When it comes to the Murabahah module, which according to ICS is the most frequently used form of Islamic finance in the world, the system allows the client to buy assets and then sell them to their customers at a profit. Among other things, this system includes car, house, and real estate financing, handling the installments postponements, as well as retail and corporate features.

Further, some of the modules, such as the Mudarabah system, are fully automated and capable of handling investments through a partnership established between the bank and the receiver.

The adoption of the ICS financial systems by non-private entities, including the Military Fund, is to be welcomed as a way forward in organizing such necessary modules, including Islamic funding, within public as well as the private sector.

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All set for a sovereign Sukuk?

SOUTH AFRICA

By Amman Muhammad, IFN Correspondent

South Africa is joining the select band of non-Muslim countries preparing to issue a sovereign Sukuk. South African banks are awaiting the all-important decision by the National Treasury on which bank or consortia of banks have been selected to support the delivery of South Africa's first Sukuk. The invitation to banks, issued in December 2011, invited bids for the service of advising on the structuring and issuance of a government Islamic bond in the local and international markets. Shortlisted banks were informed in January this year and then presented their approach to the National Treasury.

> ***"Much has been said about potential Sukuk offerings from African countries such as Egypt, Kenya, Nigeria, Senegal, and even Tunisia"***

The Sukuk introduction process is in line with the South African National Treasury's intention to diversify its funding and investor base. Commenting on plans to introduce a sovereign Sukuk Lungisa Fuzile, the treasury director general, said: "There is a great interest in the market and this is the first step towards meeting the growing appetite for government-backed Shariah compliant investment."

South Africa is not considered a big borrower by global standards. Its public sector financing requirement for 2011-12 was set at ZAR241.5 billion (US$30 billion), which represents 8% of the country's GDP. Almost all were raised locally with about US$1-1.5 billion coming from abroad.

Pravin Gordhan, the finance minister, a proactive supporter of Islamic finance, said: "This instrument effectively offers a yield that is comparable to a risk-free government bond. It is hoped that the development of this form of financing could encourage new forms of foreign investment beyond traditional western funding."

The chase for the first benchmark Sukuk issuance — sovereign or corporate — out of Africa clearly is on. It seems that South Africa is in pole position given that no other potential issuer has published a request for proposal for a Sukuk issuance and invited interested financial institutions to submit proposals. Much has been said about potential Sukuk offerings from African countries such as Egypt, Kenya, Nigeria, Senegal, and even Tunisia.

In Kenya, the Central Bank of Kenya has been discussing the possibility of issuing a Sukuk with local Islamic banks such as the First Community Bank. But as far as guidelines, regulatory issues and the enabling legal framework complete with tax neutrality measures are concerned, these have not yet been contemplated, or acted upon through the establishment of a relevant technical committee. Similar such discussions have been held regarding Egypt and Nigeria.

In line with this excitement about South Africa's pending Sukuk, innovation and product development are undoubtedly the strongest themes in the South African Islamic banking market. Extension of the product range is critical for the development of a compelling customer proposition.

Takaful in South Africa was bought by the Absa Group to expand the offering of its financial services division and the integration work following on from this acquisition is well underway. Focus is also being placed on the development of life and capital products in response to strong Takaful demands following the success of Islamic banking.

Amman Muhammad is the managing director at Absa Islamic Banking. He can be contacted at amman.muhammad@absa.co.za.

Takaful in Tanzania: Is there a future?

TANZANIA

By Khalfan Abdallah, IFN Correspondent

According to the Ernst &Young World Takaful report, Takaful opportunities in core markets suggested a US$12 billion industry by the end of 2011 and are predicted to remain an important feature of Muslim emerging markets for many indigenous and global insurance players.

The East African region has yet to witness robust Takaful providers and thus is considered to be one of more profitable opportunity centers. The region is comprised of more than 30 million Muslims and has no local or regional Takaful providers despite the strong market potential for Takaful products.

However, new developments suggest that this will not long remain unexplored territory for Takaful business in the coming decade, following the launch of Takaful Insurance of Africa in Kenya in January 2011.

These external developments as well internal demands for Takaful products will be the main motive for Tanzania to explore this opportunity.

In early January 2012, the Tanzania Insurance Regulatory Authority undertook a study on the viability of introducing Takaful operations and associated regulatory framework in the country.

The findings are expected to be completed by the end of May 2012.

The main question asked by practitioners and potential customers is whether the country will eventually allow Takaful companies to operate in the country and provide them with a conducive regulatory framework to conduct the business successfully.

While this question remains, there is hope that the study shall gather enough evidence on the potential of Takaful in Tanzania as well as devising a suitable model for the country.

This hope is supported by the fact that Muslims in the country constitute almost half of the population of 42 million and probably the largest seekers and users of insurance products.

Tanzania currently has a total of 27 insurance companies with total assets of TZS355.7 billion (US$220 million) in 2010. All of these companies offer conventional life assurance and general insurance products.

The insurance market grew by 24% in gross premiums in 2010.

This market growth was higher than the growth of the national nominal GDP and higher than the growth of the nominal financial intermediation sector GDP for the year.

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Banque Saudi Fransi US$750 million Sukuk

Banque Saudi Fransi (BSF) launched a US$750 million Sukuk on the 15th May, in an offering that formed part of its recently set up US$2 billion trust certificate issuance program. The sale also marked the first time BSF has tapped the US dollar-denominated Sukuk market.

The papers were issued via BSF Sukuk, the bank's Cayman Islands-incorporated special purpose vehicle.

Pricing

The Sukuk was launched at a spread of 185 basis points (bps) over midswaps, equivalent to profit rate of 2.95%. The offering attracted orders worth US$4 billion, allowing its final pricing to fall on the tighter end of initial guidance of 200 bps over midswaps.

Participating banks and law firms

In addition to the lead managers, which also acted as dealers, the transaction saw the involvement of Saudi Fransi Capital as co-arranger and dealer, while offshore law firm Maples & Calder also advised the issuer.

In an announcement, Baker & McKenzie noted that: "This is the first Sukuk to be issued by a Saudi bank and listed on the London Stock Exchange. [US] dollar-denominated Islamic bonds are rare and attract significant demand when they come in to the market – the pricing and size of the BSF Sukuk reflect this."

Ian Siddell, a partner and head of the Gulf banking and finance practice at Baker & McKenzie, also said that the issuance's oversubscription shows a demand for quality corporate credit in the international market. "We expect to see a number of banks and corporations following with similar transactions," he added.

Shariah compliance

According to its base prospectus, the Sukuk's structure was approved by BSF's Shariah committee, the Shariah supervisory boards of Citi Islamic Investment Bank and Credit Agricole; and scholar Dr Hussein Hamed Sayed Hassan. — *EB*

Banque Saudi Fransi Sukuk

US$750 million

15th May 2012

Issuer	BSF Sukuk
Obligor	Banque Saudi Fransi (BSF)
Tenor	Five years
Currency	US dollars
Profit rate	2.95%
Joint lead managers	Citibank, Deutsche Bank and Credit Agricole
Legal advisors	Baker & McKenzie (for BSF) and Allen & Overy (for mandated banks)
Orderbook	US$4 billion

Islamic banking in the Philippines

RAFAEL MORALES discusses whether the expansion of Shariah compliant instruments might help in integrating the Filipino Muslim community into the mainstream of Philippine economic life.

Although Islamic banks are expressly recognized by the general banking law, there is currently only one in the country: namely, the Al-Amanah Islamic Investment Bank of the Philippines, which has a legislative charter (Republic Act No. 6848) passed in 1990. It is the successor-in-interest of the Philippine Amanah Bank, which was established in 1973 "based on the Islamic concept of banking, following the non-interest and partnership principles".

The Al-Amanah Islamic Bank's primary purpose is "to promote and accelerate the socio-economic development of the [Muslim] autonomous region" in the Philippines and "to participate in agricultural, commercial and industrial ventures based on the Islamic concept of banking".

> ***"In the absence of a special tax regime for Islamic banking and financing transactions, the applicable law is the National Internal Revenue Code"***

The bank is authorized by its charter to, among others: (a) invest in transactions that "will not permit the Haram (forbidden) nor forbid the Halal (permissible);" (b) issue "Muquaradah (non-interest-bearing bonds)," and (c) "carry out financing and joint investment operations by way of Mudarabah purchasing for others on a cost-plus financing arrangement, and to invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the Islamic bank on a joint Mudarabah basis." The bank is also authorized to issue "universally accepted Islamic financial instruments," which conceivably include Sukuk. Deposit-taking can be undertaken by the bank but on a non-interest basis, considering that Riba is prohibited.

Shariah Advisory Council

In addition to its board of directors, the bank has a Shariah Advisory Council composed of not more than five members who are Islamic scholars or jurists of comparative law. The council offers advice and reviews the application of Shariah principles and rulings to the bank's transactions. However, the council is not directly involved in the operations of the bank. It is the board of directors that conducts the operations of the bank.

Operations of Al-Amanah Islamic Bank

Under its charter, the bank's "assets, profits, distributions and all contracts, deeds, documents and transactions related to the conduct of [its] business" are exempted from all taxes under the National Internal Revenue Code to the extent of 100% for the first five years of its operations and 75% for the sixth through the eighth years. In view of this time limitation, it is doubtful whether that tax exemption still exists. In any case, the exemption benefits only the bank as it does not extend to the bank's counterparties. The bank was exempted from customs duties during the first five years of its operations. However, without any time limitation, an investor's profit from his participation in the bank's profit-and-loss sharing scheme is exempt from all taxes under the National Internal Revenue Code, except income tax.

In the absence of a special tax regime for Islamic banking and financing transactions, the applicable law is the National Internal Revenue Code. Fortunately, under this code, there is no documentary stamp tax for transfers or conveyances of personal property other than shares of stock, such as commodities. Accordingly, the initial acquisition and then eventual disposition by a bank to its customer of a specified commodity on a cost-plus-profit basis (such as in Murabahah) will not be subject to that tax. Further, just like in conventional financing, the profit margin of a bank from the transaction will be subject to gross receipts tax and will form part of its gross income, the net taxable portion of which will be subject to the regular corporate income tax. In this context, Islamic banking is on an equal footing with its conventional counterpart.

Riba

The prohibition against Riba is possible in the Philippines, considering that, under Article 1306 of the Civil Code, parties to a contract are granted autonomy in that they "may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy." In fact, Article 1956 of the Civil Code states that "no interest shall be due unless it has been expressly stipulated in writing". As a practical matter and for the avoidance of doubt, all that a bank and its customer must do is to stipulate that no interest is payable under their contract. It is as well to underscore, in this regard, that the freedom in contract-making accorded to the parties by Article 1306 should enable Islamic banking to flourish in the Philippines.

Role of the central bank

To promote Islamic banking and financing transactions in the Philippines, it is imperative for the Bangko Sentral ng Pilipinas (BSP), the central bank, to issue guidelines for the establishment of Islamic banking units within local banks, consistent with the general banking law's recognition of Islamic banks as a distinct category of banking institutions. The BSP is the regulator of all banks operating in the Philippines, but it recognizes the Islamic concept of banking. In fact, Section 43 of Republic Act No. 6848 mandates the BSP to supervise the operations of the Al-Amanah Islamic Investment Bank "in accordance with the universal principle of Shariah." This mandate would also apply to other Islamic banks or banking units that will be established in the Philippines.

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The future of secondary markets in Saudi Arabia

IRFAN BUTT and MUSTAFA KAMAL explore the several steps that could be taken to stimulate the secondary markets and further develop opportunities for Shariah compliant liquidity management in Saudi Arabia.

Ever since the accession of Saudi Arabia to the World Trade Organization (WTO) at the end of 2005, the slow winds of change have meant an ever increasing market expectation that the region's biggest economy will be liberalized to include direct foreign investment in its financial markets. With the primary market moving towards direct foreign investment with the new Qualified Foreign Investors Law expected to take effect at some point in 2012, financial experts are already beginning to focus on whether the secondary markets will follow suit.

For years many financial analysts have predicted that Saudi Arabia would eventually overtake the UAE as the largest issuer of Sukuk in the region. With a Shariah-based legal system, sky high oil prices and liquidity levels that the west could only dream of it was only a matter of time before the pace of change extended into the secondary markets. In 2012, the predictions became a reality and Saudi Arabia now stands as the largest Sukuk issuer in the Middle East and globally only second to Malaysia in the volume of Sukuk issuances.

For the Saudi Sukuk market to now move forward, several steps could be taken to stimulate the secondary markets and further develop opportunities for Shariah compliant liquidity management in Saudi Arabia.

Tadawul, the Saudi stock exchange, made encouraging efforts to launch an automated order-driven secondary market trading platform in 2009. Secondary trading of debt instruments no longer have to be executed through bank treasuries and settled by Tadawul. Qualified investors are now able to trade in debt instruments directly through brokers. There are a number of measures that should encourage the Saudi Sukuk market:

1. More issuances

This year has been a brilliant year for the Saudi Sukuk market. Sukuk worth billions of US dollars have been issued. However, the number of public issuances is very low compared to the demand – there are only a few Sukuk issuances listed on Tadawul and subscriptions for recent Sukuk issuances have exceeded what was on offer. Increasing the volume of issued Sukuk is critical to the vitality of the secondary market – a healthy supply of Sukuk with varied currencies, risk profiles and maturities is critical to encouraging greater participation.

2. Issuance of a Sovereign Sukuk

The issuance of groundbreaking Sukuk by government entities such as the General Authority of Civil Aviation was an important milestone for the development of Islamic finance in the kingdom. This could be followed up with the issuance of a sovereign Sukuk which would further assist in price benchmarking and boost secondary market trading in the same way that the Malaysian government and central bank Sukuk issuances have helped turn the Malaysian Sukuk market into the most vibrant in the world.

3. Product development & diversification of instruments

Secondary market trading must diversify beyond stocks and bonds to cover trading of Shariah compliant derivatives and other innovative products developed under the supervision of Shariah scholars. This will require the concerted effort of industry experts guided by Shariah scholars and active encouragement of the regulators.

4. Greater standardization

On the one hand the standardization debate in Islamic finance is often a controversial one, but others point to the very rich jurisprudential tradition that prides itself in the flexibility arising from the multiplicity of opinions expounded by Shariah scholars. This must, however, be balanced with the need to develop standards for a sophisticated industry. A certain degree of standardization will be necessary to increase investor confidence in the secondary Sukuk market. Standardization covers not only documentation for oft-repeated structures but more importantly, standardization of scholarly opinions in relation to agreed structures for them helps gain legitimacy in Saudi Arabia. The kingdom is already one of the most active members of international Islamic standards setting bodies. Perhaps one way towards greater standardization is for the rules, standards and efforts of the Islamic Financial Services Board, the International Islamic Financial Markets, the Islamic Financial Institutions Rating Agency and AAOIFI Shariah standards to be formally adopted in Saudi Arabia – this will also create greater harmony between the powerhouse of the Middle East, Saudi Arabia, and the other key Islamic finance economy, Malaysia.

5. Opening the secondary market to foreigners

The Saudi secondary Sukuk market is currently closed to foreigners. In order for the market to fully realize its potential, the foreign investment regulations should take the next logical step of enabling foreign investors to buy and sell Shariah compliant instruments on the secondary market and for foreign issuers to be able to list their Shariah compliant instruments on Tadawul. If the secondary Sukuk market cannot be opened to non-GCC investors immediately, perhaps a start can be made with GCC issuers listing on Tadawul or GCC persons trading on the secondary Sukuk market.

Conclusion

With the imminent opening of the primary market in Saudi Arabia to direct foreign investment, many are of the view that it is only a matter of time before the secondary market follows suit. Although great strides have been made post accession to the WTO, the challenge remains to fully transition from the protectionism of the past in an orderly manner in line with the aspirations of a vibrant contemporary market fully integrated with the global economy. The slow winds of change are gathering pace which bodes well for investors of all types across the region and beyond.

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Offshore centers: Accommodating Islamic finance transactions

AMJAD HUSSAIN and KATHLEEN BRADLEY look at how some offshore financial centers have adapted to attract the Islamic finance industry and accommodate Shariah compliant transactions.

The growth of the Islamic finance industry has been remarkable in the last decade and, in certain parts of the world, Islamic finance is now the mode of choice for corporates looking to raise funds.

As with conventional finance, borrowers (or the recipients of funds) look to raise funds in the most efficient and expedient manner. This involves looking at structures that, amongst other things, minimize tax liability, provide ease of executing business transactions and give comfort to contracting parties in terms of enforcing their rights.

There are a number of offshore financial centers (OFCs) that have come into existence over the last 30 years or so. One of the main catalysts behind the growth of OFCs has been the growth in financial engineering (especially securitization) to structure products that facilitate easy and quick flow of funds to a global investor and borrower base.

OFCs

An OFC is usually characterised as a low-tax and regulation-light jurisdiction that provides financial services to individuals and corporate who are non-resident.

Historically, OFCs were often found in geographical locations that were away from the usual major financial hubs and, as such, they focused upon providing competitive services which would attract investors away from the more traditional financial centers.

However, this is not the case now. A number of OFCs have been created alongside on-shore trading hubs to encourage foreign investments. Two Gulf-based examples of this are the Qatar Financial Center and the Dubai International Financial Center.

These have been established alongside the existing regimes but aim to provide a regulatory framework that is akin to the leading global financial centers and offer incentives (such as no restriction on foreign ownership and repatriation of profits) aimed at attracting investors.

Clearly a major factor in selecting an OFC is the tax benefits that would be achieved by using a structure which involves that OFC. As such, many of the successful OFCs have a network of international tax treaties which will provide investors with significant tax savings as well as relief from other fees and charges that may be payable onshore to authorities.

Another key feature of OFCs has been the secrecy and anonymity they have provided.

> ***"As the Islamic finance industry has continued to grow exponentially and make the headlines, OFCs have looked to see how they can capitalize on this emerging and fast-growing market"***

However this aspect is not as robust as it used to be due to the tightening up of anti-money laundering regulations, greater collaboration imposed upon OFCs by cross-border bodies such as the Organization of Economic Cooperation and Development and the existence of Tax Information Exchange Agreements.

The existence of a light but yet clear regulatory framework has continued to be a key consideration that influences investors in deciding which OFC to select. Many of the OFCs have laws that are based upon the legal framework of established and tested legal jurisdictions. These laws are often supplemented by additional specific laws to clarify any ambiguity so as to provide a greatest amount of clarity to potential investors. There are also international rules concerning money laundering which are usually adopted by OFCs and these help provide additional comfort to investors.

In terms of enforcement of rights, many of the popular OFCs are former colonies of the UK and, as such, their laws are based upon English common law. Also, a number of OFCs still refer to the Privy Council of the House of Lords for final decisions on areas of law where their own statutes and court decisions are silent. This adds to investor comfort.

In the context of Islamic finance, English law is seen by many as the law of choice for many of the core transaction documents.

Therefore, using a structure which involves an OFC that is based loosely on English law makes sense and allows for advisors and investors to appreciate the wider legal issues for a transaction more readily.

All of the above considerations apply as much to transactions that comply with Shariah law as those that do not. So, what are the favourite OFCs for the Islamic finance industry?

Islamic finance OFCs?

As the Islamic finance industry has continued to grow exponentially and make the headlines, OFCs have looked to see how they can capitalize on this emerging and fast-growing market.

Most OFCs claim that they provide the best platform for Shariah compliant investors. However, in reality there are a relatively few OFCs that have succeeded in attracting bulk of the Islamic finance business. These include the British Virgin Islands (BVI), Cayman Islands,

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Bermuda and Labuan (mainly for Asian transactions).

These OFCs have proven to provide the best environment and vehicles that allow Shariah compliant investors to structure products that are globally accepted and are also flexible enough to accommodate Islamic principles. Indeed, each of these OFCs has taken specific steps to introduce laws and regulations which are directed towards encouraging the Islamic finance industry to transact business there.

Cayman Islands
The Cayman Islands are seen as the OFC of choice for many Gulf-led Islamic finance transactions. Some of the largest Sukuk transactions have been structured through the Cayman Islands: including the US$1.45 billion TDIC Sukuk of 2009 (for which the Government of Abu Dhabi used a Cayman Island SPV) and the AED7.5 billion (US$2.04 billion) JAFZ sukuk of 2007.

More recently, HSBC's US$5 billion Sukuk program was put into place using a Cayman Islands structure as was the controversial Goldman Sachs US$2 billion Sukuk issuance program.

In March 2007 the General Registry of the Cayman Islands introduced the Arabic language facility to allow companies to receive their incorporation documents with Arabic language as well as English. This was seen as a move to welcome Middle Eastern investors and make it clear that the Cayman Islands were keen to develop further links with the Arabic speaking world.

The regulatory authorities in Cayman Islands were also quick to address concerns regarding treatment of Islamic finance structures by passing legislative amendments in 2008 clarifying that, for example, Sukuk would not fall within the remit of the Mutual Funds Law and the Banks and Trust Companies Law.

The Cayman Islands have been popular with Islamic fund managers and Gulf-based sovereign wealth funds for a number of years. This stems from the popularity of the Cayman Islands in structuring and managing the wealth of a number of high net worth families and individuals from the Gulf. This has meant that there is a now a level familiarity with the Cayman Islands and a view that they are a safe and trusted OFC.

> ***"Bermuda is seen as one of the leading OFCs for Islamic finance and has made considerable efforts to attract Islamic finance business"***

British Virgin Islands
The BVI Business Companies Act 2004 is seen by many practitioners as a good example of a law that has been enacted with a view to ensuring the flexibility required to accommodate future innovation and development of Shariah compliant structures. In particular the rules concerning the ability of a director to act in the best interests of shareholders (as opposed to just the SPV) are particularly useful in the context of Musharakah-based instruments.

In 2008 the Saudi Binladin Group (through Purple Island Corporation) issued a US$267 million Mudarabah Sukuk using a BVI SPV. Although the BVI have not been as popular as Cayman Islands or Bermuda for Sukuk issuances, the mutual funds regulatory framework has been popular with Islamic asset managers and for other Shariah compliant transactions.

Bermuda
Bermuda is seen as one of the leading OFCs for Islamic finance and has made considerable efforts to attract Islamic finance business. The Bermuda Monetary Authority, which was established in 1969, has been careful to ensure that the regulatory regime in Bermuda is sufficiently accommodating to a number of asset classes and investors, including Islamic investors.

A number of changes were made to the corporate laws in 2009 to attract foreign investors. These included permitting delivery of official documents through the internet and allowing companies the ability to select wider range of corporate objectives.

The US$500 million Sukuk issued by GE Capital in 2009 was seen as an endorsement of the jurisdiction in the eyes of many commentators. Bermuda has been favoured as a jurisdiction by Islamic fund managers for a number of years. The regulatory environment is seen as flexible and allows for specific reference to Shariah standards into the constitution and offering documents.

Although Bermuda is not unique in this, many commentators have suggested that the Bermudan authorities have been more proactive than others in accommodating non-conventional structures. The Bermuda Monetary Authority has issued a number of guidance notes directed at giving further comfort to the Islamic finance industry.

The long tested experience of Bermuda in insurance and re-insurance fields has meant that it has been able to take a key role in attracting Takaful and re-Takaful providers targeting the US and European markets.

Bermuda has commonly been used for the structuring of complicated asset finance deals, especially in the aviation and shipping sectors. This therefore makes it a popular choice of law for Shariah compliant transactions.

Labuan
Another OFC that has grown in prominence in recent years for is the Labuan International Offshore Financial Center (LIOFC), which is based on a small island located off the coast of Borneo.

With the lead that Malaysia has taken in the growth of the Islamic finance industry, it is not surprising that the LIOFC has grown in prominence.

The Labuan Financial Services Authority has been active in putting into place a regulatory environment that is aimed at the attracting the Islamic finance industry. In 2004 it signed an MoU with the Islamic International Financial

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Market in Bahrain to encourage Gulf business. In 2010 it introduced the Labuan Islamic Financial Services and Securities Act which, amongst other things, has strengthened the supervisory role of the Shariah board and allows for the board to be referred to for dispute resolution. The LIOFC has been successful in attracting a number of Islamic banks and Islamic banking windows. In 2010, the total deposits with these institutions grew by 63% to US$1.3 billion.

Conclusion

It is clear that investors who choose to invest using Shariah compliant instruments share many of the same concerns that conventional investors have. These include ensuring that the structures used provide tax efficiency, privacy and clarity around the legal and regulatory frameworks; and allow for effective enforcement of rights. Additionally, Islamic investors look at issues around neutrality of treatment of investments (to ensure that they are not at any disadvantage) and also the flexibility to structure instruments in a manner consistent with their religious beliefs.

Most OFCs have welcomed the Islamic finance industry through tacit approval and issuing guidance to clarify the suitability of their framework for Shariah compliant investors. Some OFCs have taken specific steps to encourage and invite Islamic investors to use their services and jurisdiction for investments. However, there does not seem to be any OFC jurisdiction which is head and shoulders ahead of another in terms of its attractiveness to the Islamic finance industry and for that reason Islamic investors will have to look at a number of issues to decide which OFC is most suitable for their specific transaction and product.

Disclaimer: The above article is for general information purposes only and should not be relied upon as (or as a substitute to) tailored legal advice.

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Islamic Investor

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Outperformance amidst adversity

Cover Story

In a recent poll on the most important factors in a retail fund, almost half the votes leaned towards performance. Whether Islamic or conventional, investors will always be more attracted to funds that provide good returns. Two other key factors were also identified as branding and distribution.

According to data provider Eurekahedge, six of the top 10 funds in terms of monthly returns for the month of May were domiciled in Pakistan; with four of those funds being managed by Atlas Asset Management. The asset management company, incorporated on the 20th August 2002, manages open-ended and closed-end funds as well voluntary pension funds.

In its monthly report, Atlas stated that its Atlas Islamic Stock Fund was the top performer in its category for the second year running, with a yield-to-date (YTD) of 26.64% as opposed to its benchmark KMI-30 which posted a YTD return of 15.71%. Atlas Islamic funds have bagged the top two spots in Eurekahedge's Top 10 YTD returns table as well as the top spot in the Top 10 annualized returns.

But the strong performance of these funds does not truly reflect the investment environment in Pakistan, which may not be as healthy as it seems. In fact, a recent report stated that the country's overall investor base in capital markets is significantly lower than other countries within the region, thereby exposing mutual funds to elevated levels of market volatility.

It further stated that a large number of retail investors were still not participating in investment schemes and asset classes that provided real positive returns (with inflation factored in) over the last 20 years, but instead are choosing traditional asset classes such as the country's National Saving Schemes, 10-year government bonds and bank deposits that have posted very low or even negative real returns. The report cites insufficient attention to marketing and investor awareness generated by the capital market institutions as reasons for low level retail interest. However, regulators and market players are set to commence a nationwide investor awareness program in the second half of the year.

Top 10 Monthly Returns for ALL Islamic Funds

	Domicile	Performance Measure
Affin Islamic Equity	Malaysia	1.51
Atlas Pension Islamic - Equity Sub	Pakistan	1.44
Dana Islamiah Affin	Malaysia	1.15
AmIslamic Balanced	Malaysia	0.97
Emirates Global Sukuk Fund Limited USD Institution Share Class	Jersey	0.80
Atlas Islamic Income	Pakistan	0.76
Atlas Pension Islamic - Money Market Sub	Pakistan	0.69
Atlas Pension Islamic - Debt Sub	Pakistan	0.68
AmIslamic Growth	Malaysia	0.67
Atlas Islamic Stock	Pakistan	0.51

Source: Eurekahedge (data as at the 4th June 2012)

With the lack of investment products available in the market, institutions form the biggest investors, at least in the case of Atlas. In a response to Islamic Finance *news*, the asset management company confirms that currently 80% of investments in its Islamic funds are from institutional investors. Despite this substantial figure , it feels that the exposure by institutional investors to these funds industry wide is still modest. However, the firm believes that with the increasing growth of Islamic fund investment levels, further improvement can be expected.

"The industry, as well as Atlas, is constantly striving to tap new markets and opportunities and expanding its exposure in Islamic funds by consistently attracting institutional investors. The returns offered are comparatively higher, simultaneously catering to the Shariah compliant needs of corporate institutions. Discretionary portfolio management services regarding Islamic funds are being offered by various firms to attract customers, as well as several value added services such as text alerts and banking services."

Fund managers with Islamic funds globally should take a leaf out of Atlas' book as despite the adverse economic conditions in the country, the firm has managed to maintain a leading position in terms of performance of its funds. — *RW*

In this issue...

Islamic fund closed

BRAZIL: The First Investor (TFI), the investment banking arm of Qatar's Barwa Bank Group, has announced the closing of its TFI-Hines Brazil Income Real Estate Fund.

The fund, which recently closed its first seed acquisition with an investment in Sao Paulo's World Trade Center, has a target size of US$500 million and is expected to achieve a net leveraged internal rate of return of 10-12.5% for investors.

The fund is a joint venture between TFI and US-based Hines International Real Estate Holdings.

New investment products from NIB

UAE: Noor Islamic Bank has launched two structured wealth management investment products which allow clients to invest in precious metals, currencies, equities, energy and agricultural commodities, with 100% capital protection.

Its Hybrid Pick and Drop Structure product will invest in Shariah compliant equities, precious metals, agricultural and energy commodities and the Brazilian and Chinese currencies, while its GCC Volatility Cap product offers GCC market access to a diversified portfolio of underlying stocks.

ASEAN trading link soon

GLOBAL: Tajuddin Atan, CEO of the Malaysian stock exchange, Bursa Malaysia, said that a soon-to-be-established ASEAN trading link will create an integrated ASEAN capital market that will raise the profile of the region's securities to the global investment community.

According to Tajuddin, the trading link will start with Bursa Malaysia and the Singapore Exchange in June, with the Stock Exchange of Thailand joining in August.

Socially responsible Islamic funds

GLOBAL: The Islamic investment sector can widen its customer base by adopting a socially responsible model but distribution channels, a sophisticated investor base and incentive schemes must be strengthened before it can achieve its full potential, according to industry experts.

"The common synergy between the two investor classes [Islamic investing and socially responsible investing] should be exploited," said Lynette D'Souza, the head of investment strategies group at NCB Capital. She also noted that by doing so, greater economies scale can be achieved.

Sohail Jaffer, the deputy chief executive of FWU Global Takaful Solutions, also said that assets in Islamic funds, estimated at US$58 billion, can growth further by going cross-border.

Barwa Bank offers equity-linked notes

QATAR: Barwa Bank has launched its three-year Turkey Indonesia Equity Capital Protected Notes, an investment offering linked to Indonesia and Turkey's equity markets.

The notes will be issued by Morgan Stanley Islamic Finance until the 21st June. However, the offering may be closed earlier if the notes are oversubscribed.

TA Islamic Fund reports payout

MALAYSIA: TA Investment Management has reported a gross income distribution of 3.5 Malaysia sen (1.09 US cent) per unit for its TA Islamic Fund, for registered unitholders as of the 31st May 2012.

The fund has achieved constant returns since its launch on the 21st April 2001, reporting a total gain of 200.45% as at the 30th April this year.

Expanding reach

UAE: Al Ramz Securities has entered into an agreement with Gulfmena Investments to cooperate on research and market analysis.

The partnership will allow Al Ramz to expand its business across the MENA region.

Debut offering from Crescent

AUSTRALIA: Crescent Wealth is hoping to attract AU$100 million (US$96.86 million) to its newly launched Islamic cash management trust over the next few years.

According to Talal Yassine, its managing director, the trust is expected to attract funds from Australian mosques. The funds will be passed to HSBC Amanah Malaysia, which will invest the funds in Australian-dollar denominated Islamic term deposits.

Market Commentary

Commodities fell broadly in May with diversified indices having their worst month since September 2011 - all falling about 10%. The FTSE Physical Industrial Metals Index declined more than 8%. Now a wide range of commodities are negative for the year.

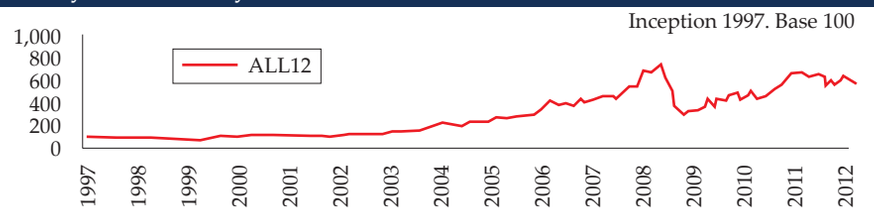
Doubts about Europe's economic and political future weighed on investor confidence causing a flight to government bonds.

In addition to the European malaise, economic figures indicated a sharp contraction of private sector output and declining demand in various global economies, including lower growth rates in China.

Crude oil dropped by more than 15% due to this weaker economic data, easing tensions with Iran and lowering geopolitical risk premiums. Against this trend, wheat temporarily showed an increase of nearly 20% as a result of dry weather in the US and Russia but fell back at month-end to finish unchanged.

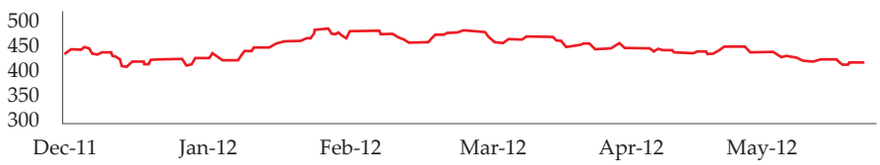
Gold continued its downward trend which started in March, now resting around the support level of $1,530 per ounce.

The Physical Commodity Index (ALL12)*



*The Physical Commodity Index includes gold, silver, platinum, zinc, nickel, copper, aluminium, wheat, soybeans, corn, palm oil and brent crude oil.

Physical Commodity Metals Index* - 6 Months



*The Physical Commodity Metals Index includes zinc, copper and aluminium.

HSBC estimates that industrial production in China shrank for the seventh consecutive month. As a result, Chinese warehouse inventories of industrial metals are high whilst prices are trading some 30% below the highs seen last year. Copper, often taken as leading indicator for the world economic prospects, fell below $8,000/t. Warehouses in Shanghai were said to hold high stocks and copper is being re-exported, to profit from higher prices in London. Chinese authorities are expected to put forward a new stimulus package and to continue to ease monetary policies to boost growth.

Merit Commodity Partners. For more information or a daily update, contact info@mcpag.com or info@ftse.com.

Krung Thai Shariah Long-Term Equity Fund

Krung Thai Shariah Long-Term Equity Fund (KSLTF)'s objective is to invest medium to long-term mainly in growth or good fundamental companies. The fund will maintain on average at least 65% of net asset value in equity-related securities while the rest will be invested in debt securities, deposits or other financial assets as specified or approved by the office of SEC and qualified in terms of Islamic principles.

What led to this fund being launched?
The lack of availability and options of Shariah compliant investment funds in Thailand.

Why has this particular region / asset class been chosen?
There has been increasing interest in Shariah compliant investment vehicles.

What are the key factors that drive the fund's performance?
Asset allocation and stock selection

Who are your investors?
Domestic Muslim and conventional investors.

What specific risks does the fund take into consideration? And why?
Just like any other investment, the fund carries specific risks. However, the main potential risk is the volatility of the stock market. Since KSLTF is an equity fund, the market volatility in different periods will have an impact on the returns the investors receive.

How often do you review this fund?
KSLTF is constantly monitored closely. The fund is also reviewed by an investment committee on a weekly basis. Moreover, the stock universe will be reviewed and approved by Shariah advisor on an annual basis.

What are the sectors you are heavily invested in and why?
Since the second quarter of 2012, the fund has increased its weighting in information and communications technology (ICT) as it benefits from domestic consumption growth and the change in cost structure.

What are the sectors you have recently exited and why?
We reduced our weighting in the petrochemical sector because the ability to make profits of these companies has been lower.

How has this change affected your portfolio of this fund?
The change has contributed to the fund's better performance compared to the benchmark.

What is the rate of return of this fund?
Current yield-to-date return is around 10% and since inception the fund has seen an annual compounded return of 13% per annum.

What is the market outlook for this fund?
Thai economic fundamentals remain strong, but the situation in the European Union, especially Greece, still needs to be closely monitored as the extent of the damage to the global markets remains unclear.

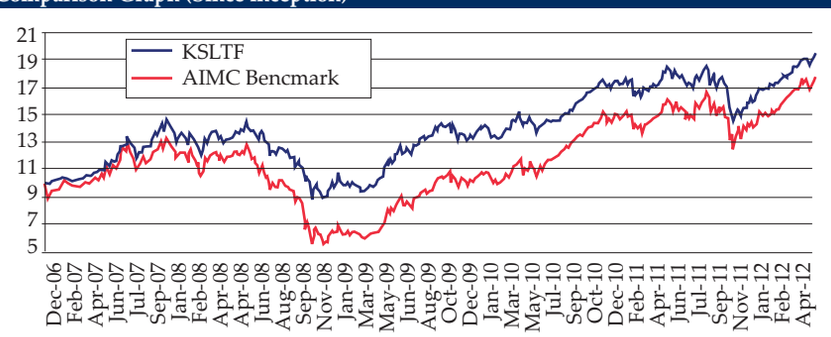
How has this fund performed compared to your initial expectations?
Even though the equity market has been volatile, the fund has been outperforming its benchmark.

Has your strategy for this fund changed since inception, and if so how?
The fund strategy has not changed and there is no plan to make changes in the near-term.

Fact sheet	
Fund Manager	Nattapong Sittikul
Trustee	Krung Thai Asset Management
Shariah Advisor(s)	1) Werachote Hayeehma 2) Vitaya Visesrut 3) Prinya Waiyasilp
Benchmark (Index)	FTSE SET Shariah Index
Domicile	Thailand
Inception Date	27th December 2006
Fund Characteristics (*As of the 15th May 2012*)	**Fund Type** Open **Fund Size** THB108 million (US$3.42 million) as of the 30th April 2012 **NAV per share** THB18.9623 (US$0.60) **Minimum / Subsequent Investment** THB500 (US$15.82) **Management Fee** 1.48% p.a. **Dividend policy** N/A

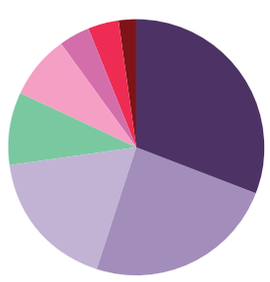
*Performance Summary	
1 Year	7.7%
3 Years	85.22%
Year to date	15.7%
Since inception	95.85%

*Comparison Graph (Since inception)



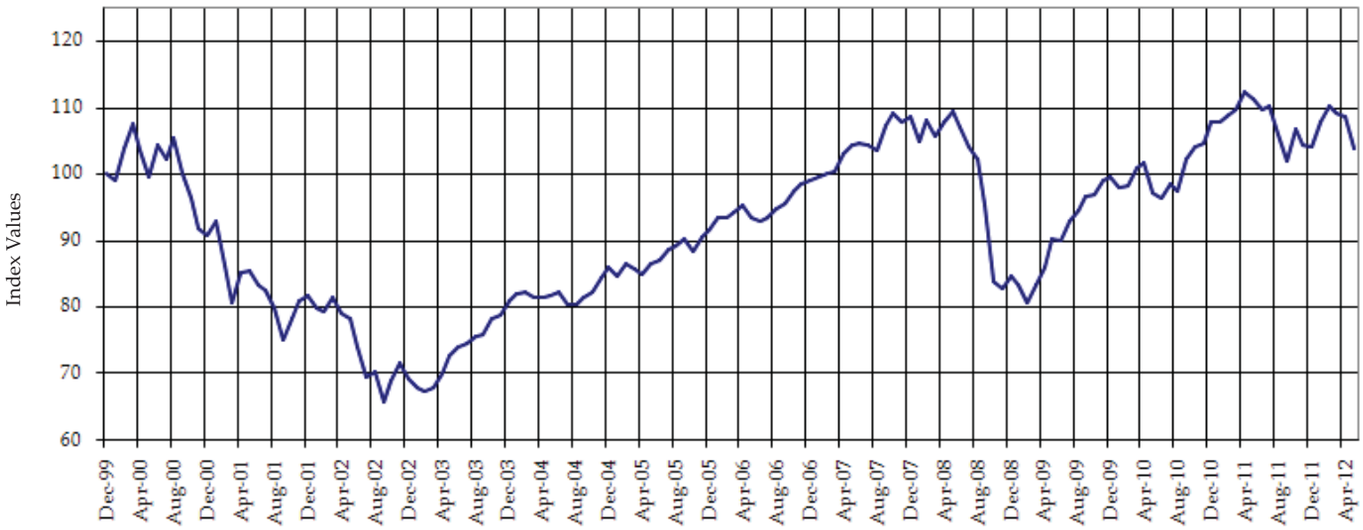
Source: KTAM as of 30th April 2012

*Fund portfolio composition



Energy	31%
ICT	24%
Commerce	18%
Property Development	9%
Healthcare	8%
Petrochemicals	4%
Construction Material	4%
Agribusiness	2%

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly returns for All Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Affin Islamic Equity	Affin Fund Management	1.51	Malaysia
2	Atlas Pension Islamic — Equity Sub	Atlas Asset Management	1.44	Pakistan
3	Dana Islamiah Affin	Affin Fund Management	1.15	Malaysia
4	AmIslamic Balanced	AmInvestment Management	0.97	Malaysia
5	Meezan Tahaffuz Pension — Debt Sub	Al Meezan Investment Management	0.81	Pakistan
6	Emirates Global Sukuk USD Institutional Share Class (Acc)	Emirates NBD Asset Management	0.80	Jersey
7	Meezan Tahaffuz Pension — Money Market Sub	Al Meezan Investment Management	0.78	Pakistan
8	Atlas Islamic Income	Atlas Asset Management	0.76	Pakistan
9	Atlas Pension Islamic Money Market Sub	Atlas Asset Management	0.69	Pakistan
10	Atlas Pension Islamic — Debt Sub	Atlas Asset Management	0.68	Pakistan
	Eurekahedge All Islamic Funds		**-2.49**	

Based on 29.66% of funds which have reported May 2012 returns as at 5th June 2012

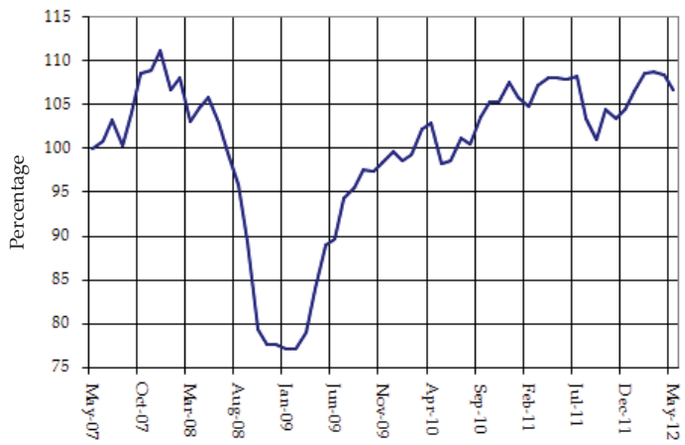
Top 10 Monthly returns for Global Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Jadwa Global Sukuk	Jadwa Investment	0.46	Saudi Arabia
2	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	0.37	Malaysia
3	Global Sukuk Plus	QIB (UK)	0.30	Luxembourg
4	Jadwa Saudi Riyal Murabahah	Jadwa Investment	0.02	Saudi Arabia
5	SWIP Islamic Global Equity — Class A	Scottish Widows Investment Partnership	-1.34	UK
6	AmOasis Global Islamic Equity	AmInvestment Management	-1.81	Malaysia
7	AlManarah Conservative Growth Portfolio	The National Commercial Bank	-1.86	Saudi Arabia
8	AlManarah Medium Growth Portfolio	The National Commercial Bank	-3.15	Saudi Arabia
9	AlAhli Healthcare Trading Equity	The National Commercial Bank	-3.29	Saudi Arabia
10	Reliance Global Shariah Growth — USD I	Reliance Asset Management (Malaysia)	-3.61	Guernsey
	Eurekahedge Emerging Markets Islamic Fund Index		**-4.30**	

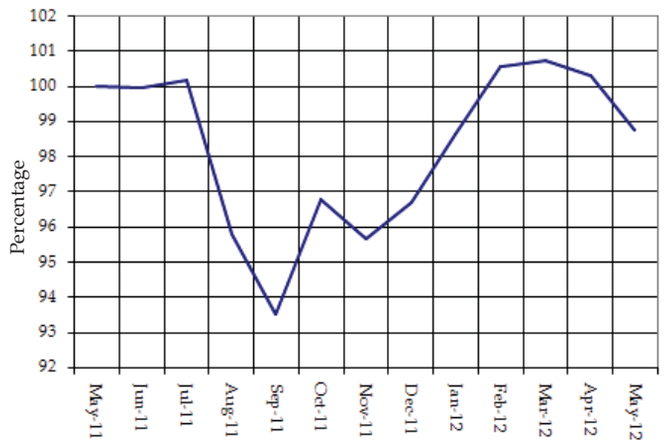
Based on 30.30% of funds which have reported May 2012 returns as at 5th Jun 2012

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 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	8.03	Saudi Arabia
2	Al Rajhi Multi Asset Growth	Al Rajhi Bank	5.84	Saudi Arabia
3	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	4.04	Saudi Arabia
4	AlManarah High Growth Portfolio	The National Commercial Bank	3.42	Saudi Arabia
5	AlManarah Medium Growth Portfolio	The National Commercial Bank	2.48	Saudi Arabia
6	Al Dar Fund of Funds	ADAM	2.26	Kuwait
7	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	2.17	Saudi Arabia
8	Al-Mubarak Balanced	Arab National Bank	1.66	Saudi Arabia
9	AlManarah Conservative Growth Portfolio	The National Commercial Bank	1.42	Saudi Arabia
10	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	1.25	Saudi Arabia
	Eurekahedge Fund Index		**3.26**	

Based on 100.00% of funds which have reported April 2012 returns as at 5th June 2012

Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	21.34	Saudi Arabia
2	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	6.13	Ireland
3	Al Dar Real Estate	ADAM	4.58	Kuwait
4	Markaz Real Estate	Kuwait Financial Centre	3.77	Kuwait
5	Al-'Aqar KPJ REIT	AmMerchant Bank	2.54	Malaysia
	Eurekahedge Real Estate Fund Index		**4.77**	

Based on 100.00% of funds which have reported April 2012 returns as at 5th June 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

6th June 2012

Risk Management: The missing link?

Cover story

Perhaps the biggest misconception in the realm of Takaful and Islamic finance in general is an almost complete aversion to risk amongst its investors. As an inherent part of business and essentially everyday life, with the right management the impact of risk could most definitely be minimized, and could potentially yield more attractive returns.

The four generic risks for financial institutions, both Islamic and conventional, include credit risk, market risk, liquidity risk and operational risk (under which Shariah non-compliance risk falls for Islamic financial institutions). The risks of financing with underlying assets in Murabahah, Salam, Istisnah and Ijarah contracts is interchangeable between credit risk and market risk at different stages of the contract.

In addition to the four generic risk areas, Islamic financial institutions are also exposed to Shariah non-compliance risk, rate of return risk, displaced commercial risk and equity investment risk.

From a Takaful perspective, the most prevalent form of risk is that which is linked to the regulatory environment. And due to the fact that the strength of regulations varies significantly across jurisdictions, the protection to policyholders is still relatively muddled.

Although there has been significant improvement in the regulation of Takaful companies over the years, there is still a glaring lack of transparency in some jurisdictions, particularly concerning the liabilities involved in winding up a Takaful company. A report by ratings company AM Best published earlier this year suggested: "Where regulation is deemed to be weak or unclear, benefit can be given for additional commitments to the Takaful fund from shareholders in favor of policyholders, such as the ring-fenced assets which will be made explicit in the analysis of a company.

> *"From a Takaful perspective, the most prevalent form of risk is that which is linked to the regulatory environment"*

The role of the Shariah board within the organization and any potential differences with regulators on winding up a company is also taken into account."

A robust regulatory regime is also crucial in the development of a risk management culture amongst Takaful companies, and given the current constraints, particularly in the form of limited investments, Takaful companies need to develop and demonstrate the application of an adequate risk-based approach to investment management, capital adequacy and reserving; due to the need to build up surplus in the long-term, especially for family and life businesses, as well as pricing selection control.

The objectives set by the Shariah boards of the Takaful companies must also be high on the priority list, and these need to be consistent with key performance indicators based on conventional sound financial and risk management. This includes establishing processes to address all material risks, concentration risks and the limited geographic diversity of the current Takaful market.

The protracted credit crisis has also highlighted the need for regulatory bodies to strengthen their supervisory roles to ensure that stakeholders in the Takaful industry chain are protected and buffered from another crisis should it occur.

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 there is urgent need to tackle these challenges head-on and as quickly as possible in order to allow for the sound and stable development of the Takaful industry. — *NH*

In this issue...

Minimum capital requirement not met

INDONESIA: Bapepam has said that as many as local 31 insurance providers have not met the minimum capital requirement of IDR70 billion (US$7.36 million) or IDR95 billion (US$9.98 million) for Takaful companies.

The regulator has urged the companies to fulfill the requirements to avoid punitive action.

Takaful guidelines for Nigeria

NIGERIA: Local insurance regulator, the National Insurance Commission (NAICOM), will issue its guidelines on Takaful in September this year, said Fola Daniel, the commissioner for insurance at NAICOM.

The guidelines will enable insurance companies to offer Takaful services in the country.

Six booted off

BANGLADESH: Takaful Islami Insurance has removed six sponsor-directors from its board as they failed to follow the country's Securities and Exchange Commission (SEC) directive to hold a minimum 2% stake in the company as individual directors, according to Abul Kalam Azad, its company secretary.

The SEC issued a circular on the 22nd November 2011 mandating a 30% shareholding for sponsor-directors, together with 2% as individual directors. Companies were given six months to comply with the rule.

Takaful distribution

YEMEN: Local insurer United Insurance Company has distributed 10.9% of its Takaful contributions net surplus to its Takaful clients, except for those whose claims exceeded their contribution size.

The surplus in 2009 and 2010 were 5% and 7.9%, respectively.

Focusing in Malaysia and Indonesia

MALAYSIA: Syarikat Takaful Malaysia will focus on its core markets in Malaysia and Indonesia but does not rule out the possibility of mergers and acquisitions in a bid to have a stronger foothold and a bigger market share of the Takaful industry.

"Any merger and acquisition activities will be deliberated at our holding company level. Our main focus is to grow the business in Malaysia and Indonesia while continuously working hard to gain the top position and increase our market share," said Mohamed Hassan Kamil, its managing director.

Higher income growth

INDONESIA: Prudential Life Assurance reported IDR4.3 trillion (US$448 million) in premium income for the first quarter of 2012, a 38% increase from the same quarter last year.

New business premium from its Shariah business reached IDR245 billion (US$25.5 million), growing 29%.

Great Eastern Takaful to cross borders

MALAYSIA: Great Eastern Takaful is eyeing cross-border opportunities and will jump at the chance to do so once the time is right, according to Kamaruddin Taib, its chairman.

"We will settle here locally, and then the goal is to be regional — Indonesia, Brunei, Singapore — even China," he said.

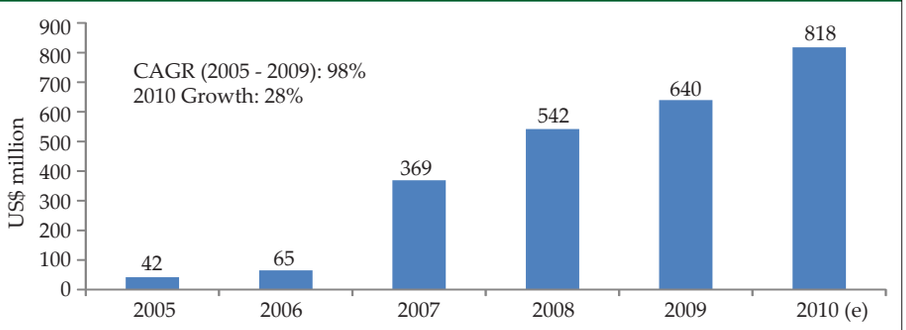
Takaful: Enhancing the UAE's insurance industry

Takaful operators in the UAE must understand the challenges that the UAE Takaful industry faces, and proactively adapt to market needs. MUHAMMAD OWAIS ANSARI explores.

The Takaful and insurance industry in the UAE currently comprises 33 national companies and 26 foreign companies. The UAE is the second largest Takaful market (by gross Takaful contributions) across the GCC, with eight Takaful operators competing for Takaful business.

The Takaful industry in the UAE has witnessed strong growth over past years with a compound annual growth rate of gross Takaful contributions of 98% per annum between 2005-09.

UAE Gross Takaful Contributions



Source: EY World Takaful Report 2012

Growth potential

High disposable income levels and low market penetration in the UAE provide significant growth opportunities for Takaful. It is interesting to note that the share of Islamic finance in the UAE is around 25% (and growing fast), whereas the Takaful market share is 15%.

This lower level of Takaful share primarily arises from a lack of customer awareness about Takaful. It is therefore imperative that the Takaful operators and distributors play an active role in creating awareness and clearing misconceptions about the principles of Takaful.

The improved awareness of Takaful would not only assist in tapping into the Shariah inclined customers who are currently staying away from Takaful but would also contribute to the overall growth in Islamic finance.

With 20% of the UAE population being nationals, and 70% of the expatriate population being Muslims, the growth in Takaful is a bottom-up phenomenon that is purely demand-driven. In addition, the UAE with its diverse religious and cultural mix of non-Muslim expatriates can also benefit from the experience of the Takaful industry in Malaysia where the Takaful operators have been quite successful in attracting non-Muslim customers to Takaful.

The key to their success and the appeal for non-Muslims is due to the fact that Takaful is perceived not only as a better financial proposition but also as a product based on ethical principles. This is analogous to the appeal and growth of socially responsible investments within the non-Muslim countries.

> ***"The IA is also in the process of finalizing regulations covering technical provisions, solvency and investments"***

The key opportunity for the Takaful industry remains establishing and growing effective distribution channels. Over the last few years bancassurance has contributed significantly to the growth of the Takaful industry, especially Family Takaful.

It has been a growing distribution channel where the productivity and quality of sales are greatly dependent on the training and support provided to the banks distribution staff.

Owing to the growth factors mentioned above, gross Takaful contributions for the UAE are forecasted to cross AED1.4 billion (US$381.06 million) by the end of 2012.

The UAE regulatory landscape

The Insurance Authority (IA) has been quite active in developing the regulatory framework around insurance and Takaful in the UAE.

With the Takaful insurance regulations, issued in June 2010, the IA is targeting to have improved governance and standardization within the Takaful industry.

These Takaful regulations allow for a supreme committee for Fatwa and ,Shariah supervision to be established whose opinions and directions would be binding on all Takaful operators. The regulation also promotes corporate governance through promoting standards aligned with the AAOIFI.

Having recognized the growing role of bancassurance in the UAE, the IA issued a circular in second half of 2011 which defined the requirements for marketing relationship between banks and Takaful operators/insurers.

Banks are now prohibited from acting as an insurance agent, broker or consultant and their activities are limited to only marketing Takaful and insurance policies.

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The circular is a step in the right direction. However moving forward the IA might strengthen the regulations by controlling the maximum remuneration paid by Takaful operators/insurers to the banks (similar to the regulations in Saudi Arabia/Malaysia/Pakistan).

Such a move generally contributes towards Takaful operators/insurers focusing more on their quality of service level and product proposition for the customers than focusing on bank's remuneration only.

The IA is also in the process of finalizing regulations covering technical provisions, solvency and investments. These regulations would improve customer security and confidence.

Global initiatives impacting the Takaful landscape

The Islamic Financial Services Board (IFSB) has issued solvency standards which specify a balance sheet view of solvency, using a risk-based model. Additionally the IFSB is also currently working on the standard for risk management for Takaful undertakings.

These standards of IFSB, while not compulsory, are adopted by a number of Takaful operators globally and could be the much-needed driver for standardizing the practices within the Takaful industry.

Takaful operators are also following the Solvency II implementation in Europe and the proposed changes in the International Financial Reporting Standards. It is imperative for Takaful operators to understand how these developments would impact the Takaful model and what lessons can be learned by the measures adopted by the conventional insurers to prepare for these changes.

Moving forward

The Family Takaful industry in the UAE has also witnessed positive growth over past years and is poised to continue growing over the coming years.

The key challenges faced by the industry are the lack of standardization on key Takaful issues and practices and the lack of awareness of Takaful.

The IA has been supportive with their regulatory amendments; and other bodies, such as the IFSB, are taking initiatives to facilitate the strengthening of the Takaful industry.

The onus lies on the Takaful operators to understand the challenges that the UAE Takaful industry faces and to proactively adapt to market needs and the developments within the local and the global Takaful and insurance industry.

Muhammad Owais Ansari is the chief actuary at FWU Global Takaful Solutions. He can be contacted at m.ansari@fwugroup.com.

Q "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?"

A Due to the continuing Eurozone crisis investment conditions continue to be challenging in both the mature and emerging markets. Prices for Shariah compliant equity have been falling in line with shares more generally, resulting in a reluctance to invest. Although 2012 will be a record year for Sukuk issuances, yields are low and barely compensate for the much greater default risk than was the case for the period prior to 2008 when there were no defaults. Real estate markets, significant for long-term investment, also remain weak, with much uncertainty over future prices.

In these circumstances it is not surprising that Islamic financial institutions are holding on to their liquidity and are reluctant to invest. Arguably it may be an appropriate time to invest in the emerging markets of Muslim countries, as although these are risky, the risks are no greater than in mature markets. Following its presidential elections, Egypt is an obvious destination for Islamic investment. The country has a young, well-educated population anxious to find employment. Investors who get involved in the Egyptian economy could be participating in a market with exciting prospects while at the same time supporting socially worthwhile endeavors.

RODNEY WILSON
Emeritus Professor, Durham University, UK

A Banks are required to operate within the confines of the local laws and regulations, and product innovation is often a long and cumbersome process. In addition, many Islamic banks appear to have a tendency to invest in the same type of transactions and sectors over and over again. As long as the banks keep on placing money with each other using commodity Murabahah or invest in real estate, product innovation is unlikely to happen quickly. One of the opportunities that is often overlooked is to invest in, and lend to, local enterprises. It may not be as glamorous as being able to show a global reach, but it would benefit the local economy, allow for diversification, and has a strong potential to reduce risks.

DR NATALIE SCHOON
Principal consultant, Formabb

A The question of finding a home for excess liquidity is one that has been doing the rounds for a good number of years now. Over the last five years, great strides have been made by the market to structure products that are suitable for investment such that I now question whether there is truly a lack of avenues to invest.

I believe that with the advent of Sukuk funds, Ijarah funds, trade finance funds and so on, there are now plenty of avenues to choose from. What I have found is that risk management techniques and the detailed knowledge of how these products operate are still lacking in some areas. It is normally said that if a message is not being understood, it is the problem of the deliverer not the recipient. I think that the task that lies ahead for the industry is one of education, both of the markets and of the products that give access to those markets.

MARK WATTS
Head of fixed income, Asset Management Group, National Bank of Abu Dhabi

A Islamic institutions that have liquidity, yet feel there are no suitable instruments or platforms to invest in, face a peculiar dilemma.

For conventional banks, the natural home for such liquidity is the fixed income markets, whether it is the money market for shorter tenor liquidity, or the bonds market for longer tenors. Islamic banks do have access to a reasonable Islamic money market platform (which is of course priced at interest) yet have more restricted access to a liquid Sukuk market (again priced at interest).

By its very nature, liquidity needs to be invested in a manner that provides strong security for the protection of the capital, along with some parameters for assessing the returns. Debt products (interbank and bond markets) were designed for this very purpose, and that is one reason why Islamic banks have only considered Islamic versions of these debt products to manage their liquidity. It is clear that this is a short-sighted solution, because we are still relying on debt and interest at all stages in this scenario. Steps taken to deepen this market, to introduce some level of transparency, do not take us away from the fact that these are still debt and interest instruments that we are transacting and relying on.

In the short-term the industry, due to a proven lack of vision that we all have demonstrated over the years, may well focus on attempts to reduce transactional costs and improve the liquidity of money markets (e.g. the introduction of certificates of deposit) and Sukuk markets, but that has little to no impact on the deeper problem that we still interact in a very significant manner with interest and debt.

What is needed - and the sooner the industry grasps this, the sooner we can look to make positive developments — is an attempt to transform investments and aspects of the real economy into what is needed by the banks. For certainty of capital, the banks (investors in this case) should look to markets with long-term fundamentals and resilience. It is unlikely that countries where the Islamic banks are located (in meaningful

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numbers) can deliver these markets in the medium-term. So we have to look abroad to markets that can deliver these instruments.

Secondly, investments would need to be separated into three elements — one would be for investors who desire capital protection above all else (i.e. the banks and Takaful firms), one would be for investors who wish to take some reasonable amount of risk, and a third would be for investors wishing to take more risk. It is not that difficult to break down an investment into these kinds of tranches. What is key here is that these investments must be real investments delivering real returns from real markets, not the tranching of credit default swap, credit risk, and debt that we have seen for too long in the conventional markets. These create risk and are de-linked from the real economy.

In short, banks do need to transform from entities that have liabilities (deposits, capital market issuance etc) they fund with interest — which means their assets must also deliver interest, just more of it — to entities that truly manage money and risk of the real economy.

Without making this step, Islamic banks will continue to have available to them solutions that are spin-offs of the conventional markets, which will naturally be based on debt and interest. This is a voluntary decision. Any developments along these lines are not really developments at all, but further steps that take us away from the real solutions our Islamic banks require.

SAFDAR ALAM
CEO, Siyam Capital

A This is an interesting question, and in the course of my research at the University College London's Institute for Security & Resilience Studies (ISRS), I have come to the conclusion that Islamic finance is a contradiction in terms insofar as it is based upon a dollar monetary system which is backed by debt.

There is in fact a Shariah compliant financing mechanism which pre-dates the dawn of the modern banking system in 1694 when the (then private) Bank of England first began to privatize sovereign credit.

This is 'stock', which is not to be confused with shares in 'joint stock companies'. Stock consists simply of undated credit issued at a discount and redeemable in payment for value provided. In fact the origin of the phrase 'rate of return' has nothing whatever to do with a fixed interest rate and is simply the variable rate over time at which 'stock' may be returned to the issuer against value received.

Interestingly such 'stock' is — in effect — now re-emerging in the form of exchange traded funds redeemable in payment for (in this case) gold bullion. My research and development has been focused upon such instruments based upon the use value of productive assets, such as energy and land rentals.

CHRIS COOK
Managing partner, Wimpole International

A For Indonesia, there is a high demand for infrastructure project funding and long-term Islamic instruments (i.e. Sukuk) are perfect for such projects. The issue is to engage the legislators and the tax office to create a conducive requirement for infra Sukuk. A Sukuk law akin to the sovereign Sukuk law would greatly help achieve this.

Hanim Hamzah
Partner, Roosdiono & Partners

A The challenges faced by Islamic financial institutions are fundamentally the same as those faced by conventional financial institutions, whether they be banks, insurance companies (Takaful operators) or asset managers. All of them need to find investible assets which have the right characteristics in terms of yield and risk.

There are two factors which increase the challenge for Islamic financial institutions compared with conventional financial institutions:

1. Islamic financial institutions are often smaller than their conventional counterparts. This matters for Islamic banks and Takaful operators, and means that they have lower equity which in turn means that they are less able to take on financial risk.

   As a concrete illustration, the only stand-alone retail Islamic bank in the UK has been 'deposit rich' for many years, but unable to provide much customer finance, for example house purchase finance, due to its low level of shareholders' equity.

2. Islamic financial institutions are unable for religious reasons to invest in many assets which are available to their conventional counterparts. At its simplest, interest-paying assets are excluded, but also the equity of many quoted companies is also excluded, either because they carry on prohibited businesses or because they earn or pay unacceptable levels of interest.

To address the first issue, Islamic banks and Takaful operators need to increase in size, for example by merger. The Islamic banking industry contains too many banks for its overall size, and regulators should encourage mergers.

To address the second issue, Islamic financial institutions need to become more innovative at structuring investible financial assets which can be issued by companies regardless of whether the issuing companies are owned by Muslims or by non-Muslims. Provided they can offer finance at attractive terms, they will find people willing to issue the investible assets required.

MOHAMMED AMIN
Islamic finance consultant and former UK head of Islamic finance at PwC

A The economic cycle has not favored Islamic product development. The discipline is a costly one to fund, often requiring legal, marketing, and personnel costs that are hard for even the largest institutions to champion in a poor earnings environment. Once we enter a more stable economic growth trajectory and there is a higher degree of financial intermediation taking place, institutions may be more willing to put their carefully crafted budgets at risk.

The Arab Spring itself, however constructive from a political point of view in some geographies, has further caused both issuers and investors to

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turn inward. The biggest frontier in the realm of Islamic product development is the economic hinterlands of the US, Europe, and East Asia; at least from a GCC or Southeast Asia perspective. Ultimately, the amount of capital chasing local opportunities in these core Islamic geographies will cause local returns to compress, making a case for greater international diversification and asset allocation policies.

The near-term challenge may be simply putting liquidity to work in routine products, given the difficult economic environment at hand. Poor economic prospects in the OECD countries, falling growth in Brazil, China, India, and Russia and the weak oil prices are a difficult combination for risk managers to look beyond.

DOUGLAS CLARK JOHNSON
CEO, Codexa Capital

A The simplest approach is to break the answer down by asset class:

Equities — there are plenty of Islamic equity funds available, and it is worth noting that the Islamic indexes have outperformed their conventional equivalents over the last few years as they do not include conventional banks and insurance companies.

Property — favored asset class for middle eastern investors, both in terms of direct investments and Shariah compliant property funds (For example, Bank of London and the Middle East (BLME)'s Light Industrial Building Fund). Good yields are available, though the investor has to be prepared to stay invested for five years, and so forego liquidity.

The criticism of shortage of products can only really be leveled at the fixed income space, and this is therefore an area where BLME has focused its asset management product development.

Although the Sukuk market is much smaller than the conventional bond market, by combining Sukuk with Islamic money market (commodity Murabahah) and leasing products (Ijarah) BLME has been able to develop funds that perform at least as well as their conventional equivalents — e.g. BLME's US dollar Income Fund , which last year was ranked number three out of more than 800 money market funds by Lipper, and now the BLME High Yield Fund which according to a data provider is one of the best performing Sukuk funds available.

HUMPHREY PERCY
CEO, Bank of London and The Middle East

A The short and medium-term strategy to develop more Islamic products cannot be developed without a clear vision of what Islamic finance should look like in the long-term. Today that vision is clouded by too many 'new' products that are just conventional remakes in questionable garb.

In the long-term, I perceive an Islamic financial industry that no longer defines itself by comparing its products to those of conventional finance. It is successful and commercially viable because it is true to its Shariah precepts and serves the needs of its clients: it has a strong ethical basis with a secure foundation in real commercial transactions rather than artificial derivative constructs. It is therefore also attractive to both Muslims and non-Muslims alike.

The short and medium-term strategy is for the leadership of Islamic finance to set an example today, to be a model of what the industry could become and thus inspire the new generation of participants in this industry. Islamic finance today is attracting more and more of the best and the brightest. These new participants will find a way to take advantage of short and medium-term opportunities if someone holds up to them an inspiring and attractive long-term vision and if our industry can give them the tools to innovate and progress.

In the long-term, people will look back at the current era and recognize huge changes in world finance, ones that have already occurred and more importantly, the big ones yet to come. It is a time and opportunity for extraordinary structural change. If we give our industry the support it needs for long-term development, if our leaders can set an example of where that long-term leads, the new generation of Islamic financiers will find a way to get there. More than anything we need leadership.

JOHN COMRIE
Of counsel, Agha & Co

A Exchange traded funds (ETFs) are an ideal way for Islamic investors to gain exposure to a wide range of Shariah compliant products in a straightforward transaction. The London Stock Exchange (LSE) has a suite of Islamic ETFs, based on indices covering the US, Europe, Asia and emerging market economies. The products give investors access to a diverse selection of companies and markets, while offering the peace of mind that any investment does not conflict with their religious commitments. LSE's ETFs see the most trading activity of any exchange in Europe. They are subject to continuous, intraday trading and are supported by dedicated market makers. The flexibility this creates means they are suited to long or short-term investment.

JONNY BLOSTONE
Press officer, London Stock Exchange Group

Next Forum Question:

"What industry standardization would assist in promoting Shariah compliant cross-border financing, and why?"

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 15th June 2012.

Liquidity management: Why is it relevant to Islamic financial institutions?

Contrary to popular belief, since Islamic financial institutions follow the same structure and characteristics as conventional banks' balance sheets, they are not immune to liquidity risk. ARIFF SULTAN outlines the importance of liquidity management in the Shariah compliant industry.

Liquidity management is a key component of confidence in the banking system. Customers deposit their money with the bank and have confidence that when they want to withdraw their money, the bank will provide them with the money. In general terms, liquidity refers to broadly to the ability to trade instruments quickly at prices that are reasonable in light of the underlying demand/supply conditions through the depth, breadth and resilience of the market at the lowest possible execution cost.

> *"The shortage of liquidity management tools is cited by survey participants as one of the key challenges to the Islamic finance industry"*

A perfectly liquid asset is defined as one whose power over goods and services, immediately. Cash is liquid: similarly, demand deposits, deposits to third parties over cheque or electronically and investments are short-term liquid government securities. The importance of liquidity transcends the individual institution, since a liquidity shortfall at a single institution may invoke systemic repercussion causing harm to the whole financial stability of a country. Therefore it is important for banks to have adequate liquidity potential where they can obtain sufficient funds promptly and at a reasonable cost.

The concern over liquidity management is also relevant to an Islamic bank that holds illiquid assets while its liabilities are liquid, and holds assets unpredictable in value and guaranteeing the value of its liabilities. Thus, since Islamic financial institutions follow the same structure and characteristics as a commercial bank's balance sheet, they are not immune to liquidity risk. The potential mismatch between deposits and investment financing exposes Islamic banks to liquidity problems. On the other hand, if banks maintain too much liquidity this may in turn hurt their profitability. Therefore creating the right balance between the two objectives of safety and profitability is the crux of the liquidity management issue.

How did Malaysia address the issues related to liquidity management for Islamic financial institutions in the Malaysian market?

In Malaysia, the establishment of the first Islamic Inter-bank Money Market (IIMM) in 1994 was designed to provide the Islamic banks with the facility for funding and adjusting portfolios over the short-term and hence maintaining the funding and liquidity mechanism necessary to promote stability in the system. More importantly the IIMM provides an avenue for Islamic banks to manage liquidity more efficiently without undermining the principles of Shariah.

The country's central bank, Bank Negara Malaysia (BNM), issued the guidelines on the IIMM in December 1993 to facilitate the proper implementation of the IIMM. The IIMM covers the following aspects: (i) inter-bank trading of Islamic financial instruments and (ii) Mudarabah interbank investments. Islamic banks, commercial banks, merchant banks, eligible finance companies and discount houses are allowed to participate in the IIMM.

Mudarabah interbank investment

Mudarabah interbank investment (MII) refers to a mechanism whereby a deficit Islamic 'investee bank' can obtain investment from a surplus Islamic 'investor bank' based on Mudarabah principles. The period of investment is from overnight to 12 months, while the rate of return is based on the rate of gross profit before distribution for investments of a year of the investee bank. The profit-sharing ratio is negotiable between both parties. The investor bank, at the time of the negotiation, does not know what the return will be, as the actual return will be crystallized towards the end of the investment period. The principal invested is repaid at the end of the period, together with a share of the profit arising from the use of the fund by the investee bank.

In 1996, BNM introduced the minimum benchmark rate for the MII, i.e. the prevailing rate of the government investment issues plus a spread of 0.5%. The purpose of the benchmark rate is to ensure that only banks with reasonable rates of return participate in the MII.

In recent years, Ijarah-based negotiable Islamic money market instruments have also been developed. Islamic banks can engage in trading of these instruments for liquidity management subject to observance of the Shariah rules involved in the relevant modes.

The development of a vibrant, efficient and effective IIMM requires the creation of a broad spectrum of innovative Islamic financial instruments and the infrastructure to promote active trading so as to enhance the breadth and depth of the market. Consequently, part of BNM's initiative is to support the Islamic banking and finance development in Malaysia. The commodity Murabahah program (CMP) was introduced to facilitate deposit products which are based on a principle of Tawarruq. It is designed to be the first commodity-based transaction that utilizes crude palm oil-based contracts as the underlying asset. The CMP transaction with BNM was first auctioned competitively in the IIMM on the 14th March 2007 and marked an extensive effort by the country to become

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a significant player in Islamic financial market globally.

Liquidity instruments

There are various short-term liquidity instruments in the conventional money market, offering different returns. These instruments include treasury bills, certificates of deposits, repurchase agreements, banker's acceptance, commercial papers and inter-bank money deposits.

All these instruments have different characteristics pertaining to maturity periods ranging from over night to one year. In a nutshell, the IIMM allows surplus banks to channel funds to deficit banks using various instruments, thereby maintaining the funding and liquidity mechanism necessary to promote stability in the system. However, most of these instruments used in the IIMM are essentially interest-based instruments. Therefore, the establishment of a viable Islamic money market with Shariah compliant instruments has become a necessity for the smooth growth of the industry.

Initial efforts to overcome the problem of liquidity management have focused on creating short-term and long-term debt instruments that are in line with Shariah principles. This was evident, in some jurisdictions, through the issuance of diverse Islamic financial instruments ranging from short-term to long-term bonds to meet the liquidity and investment needs of Islamic banking institutions. Malaysia seems to be the pioneer country in such initiatives with the establishment of the first IIMM in the world.

The IIMM was originally introduced as a short-term intermediary to provide a ready source of short-term investment outlets and avenue for banks to manage their potential asset and liability mismatch based on Shariah principles. Through the IIMM, Islamic banks participating in the Islamic banking scheme (IBS) would be able to match funding requirements effectively and efficiently. Since its inception, there have been a number of instruments developed and introduced to the market, which suit diverse investors' requirements and needs. These instruments include MII, Wadiah acceptance, government investment issue, Bank Negara monetary notes-i, sell and buy back agreement, Cagamas Mudarabah bonds, Islamic accepted bills, Islamic negotiable instruments, Islamic private debt securities, Ar-Rahnu agreement-I and Sukuk BNM Ijarah.

Even though some of these instruments are Shariah compatible, others seem to be controversial. The controversies surrounding these instruments are mainly due to the overemphasis on the use of the Bai al Inah contract in devising most IIMM instruments. For example, the government investment issue (GII) which was initially issued by the government of Malaysia based on the Qard Hasan (benevolent loan) principle, is now released by Bai al Inah allowing it to be traded in the secondary market via the concept Bay Al Dayn (debt trading). As a result of this, Gulf-based Islamic financial institutions have turned away from participating and investing in Bai al Inah-based instruments which has resulted in a further reduction of the availability of products for Gulf-based Islamic financial institutions.

Regional observations on the development of liquidity management products

Based on survey results from countries such as Bahrain, Egypt, Hong Kong, Malaysia, Singapore, Pakistan, the UAE, the UK and Turkey, it is common for IFIs to have an internal liquidity management framework, with the level of availability of Shariah compliant liquidity management instruments ranging from low to high. The shortage of liquidity management tools has been cited by survey participants as one of the key challenges to the Islamic finance industry.

Some of the regional issues relating to this subject are:

1. Excess liquidity. This is the current norm with IFIs contributing to a trade off between profitability and liquidity.
2. Shortage of Shariah compliant liquid instruments. Despite efforts by central banks authorities to provide a range of liquid instruments in which IFIs can place their surplus cash, there is still a great shortage of Shariah compliant liquid instruments.
3. Short-term Murabahah comes at a cost. The cost is versus conventional money instruments as it is necessary for commodity brokers to be involved.
4. Shariah compliant assets are highly illiquid. Profitable Shariah compliant assets such as credit exposures and Sukuk are highly illiquid assets (most Sukuk tend to have maturities of more than three years and secondary market trading for Sukuk is not active).

To respond to the above challenges, central banks have concentrated their efforts in product development for Islamic banks to better manage liquidity surplus:

- The Saudi Arabia Monetary Authority has developed an ad-hoc instrument called Mutajarah, which behaves like a repurchase agreement (repo).
- Sovereign Sukuk issuances will also contribute to enhancing the overall liquidity of the market.
- Short-term Sukuk programs are being developed where long-term instruments are repackaged into short-term monthly maturity certificates.

In 2011, various Islamic financial institutions developed the Islamic interbank benchmark rate (IIBR) which provides a reliable and objective indicator of the average expected return on Shariah compliant short-term interbank market funding for the Islamic finance industry.

Although benchmark rates based on borrowing costs of conventional financial institutions are used as benchmarks in Islamic finance transactions, the creation of a new rate indicative of the cost of Shariah compliant financing is argued as being a more accurate reflection of the industry's financing costs and a fairer reflection of benchmarking rates for Shariah compliant transactions and for use in Islamic financing facilities, particularly between Islamic banks.

Conclusion

The use of the IIBR will enhance the development of products for liquidity management that can be used globally in order to have global reach and acceptance, which will facilitate cross-border transactions, thus paving the way for Islamic financing to be truly global.

Ariff Sultan is the regional director (Asia) at IdealRatings. He can be contacted at asultan@idealratings.com.

Amer Mohamed Al Jabri, CEO, Al Jazeera Finance

The appointment of Amer Mohamed Al Jabri as CEO confirms the company's strategy of hiring talented Qatari candidates, and is aimed at using his experience and knowledge to achieve the expansion plans of the company in the retail and SME sectors.

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

I started my career more than 15 years ago, and moved from one post to another in Qatar Islamic Bank (QIB) until I became the assistant general manager of retail and small and medium enterprise banking services.

That period provided me with substantial experience and knowledge in the field of Islamic banking, especially as QIB was the first Islamic bank to operate in Qatar.

There is a strong relationship between QIB and Al Jazeera Finance Company (AJF) and my move from QIB to AJF was appropriate as QIB used to own a high percentage of shares in AJF and it owns now almost 30% of the company.

What does your role involve?

My role involves formulating the general strategy and development plan to achieve the general objectives of the company in order to provide the customers with the highest quality services, realize good profits for the company and shareholders and ensuring the implementation of the company's expansion plans.

We work in a highly competitive service sector where clients have wide ranging alternatives.

Currently, my priorities are to enhance the company's points of strength: the most important of which are high quality customer service and quick delivery of finance operations.

What is your greatest achievement to date?

I think that my most outstanding achievement is helping my new and old colleagues at AJF develop their skills, and creating a new generation of Islamic banking staff which are able to develop the company in the future and maintain the top position in the Qatari banking market.

Which of your products/ services deliver the best results?

AJF has a vast collection of products and services, and a rich history of 20 years in the local market; and this makes us fully aware of the requirements and expectations of our esteemed customers.

The products and services of the company cover all the sectors of consumer commodities, real estate, and SME finance services.

The latter two sectors, real estate and SME finance, are among the most successful products of our company.

What are the strengths of your business?

Islamic financial services are easy for the customers to understand. They are clear, explicit and do not involve those fine print terms and conditions that put a lot of future obligations on customers.

Shariah specialized supervision which is available at the company is considered one of the most valuable points of strength of the Islamic banking industry.

This supervision enhances the trust of customers and makes them sure that their dealings are far from suspicion.

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

There are many factors that contribute to the success of the company, such as:

1) The company has a well-established Shariah supervision panel which ensures the supremacy of the Islamic culture in the company.

2) Many of the company's staff have wide-ranging experience of over 15 years; and this ensures the passage of this experience to new employees and the creation of a new generation of well-trained talent at the company.

What are the obstacles faced in running your business today?

Finance businesses need to be more independent from the banks in applying the standards and conditions in such a way as to safeguard the rights of the shareholders.

In addition, finance businesses lack the required specialized finance technology.

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

The Islamic finance industry has been growing rapidly and it will have a big share in the market.

It will also surpass the traditional banking industry in terms of strength and size.

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

The one thing I would like to see change in the field of Islamic banking is the software used in implementing and following up the discharge of the customers' transactions and in keeping pace with the accelerating development in this field.

ISSUER	SIZE	DATE ANNOUNCED
Gulf International Bank	RM3.5 billion	31st May 2012
Danainfra	RM8 billion	31st May 2012
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
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
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

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

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

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

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

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

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LEBANON: Joëlle El Gemayel
research assistant to the first vice-governor, Banque du Liban

LUXEMBOURG: Marc Theisen
partner, Theisen Law

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

MALDIVES: Aishath Muneeza
head of Islamic finance, Capital Market Development Authority

MALTA: Reuben Buttigieg
president, Malta Institute of Management

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

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

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

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

PHILIPPINES: Rafael A Morales
managing partner, SyCip Salazar Hernandez & Gatmaitan

QATAR: Amjad Hussain
partner, K&L Gates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

SOUTH AFRICA: Amman Muhammad
managing director, Absa Islamic Bank

SINGAPORE: Yeo Wico,
partner, Allen & Gledhill

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

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

TANZANIA: Khalfan Abdallah
head of product development and Sharia compliance, Amana Bank

TURKEY: Ali Ceylan
partner, Baspinar & Partners

UAE: Moinuddin Malim
CEO, Mashreq Al Islami

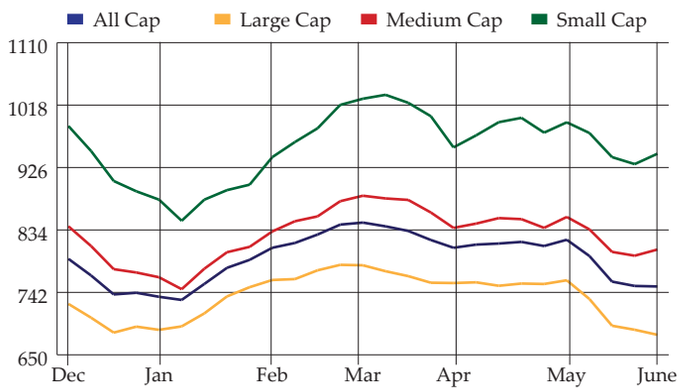
UK: Dr. Natalie Schoon
principal consultant, Formabb

US: Saeid Hamedanchi
CEO, ShariahShares

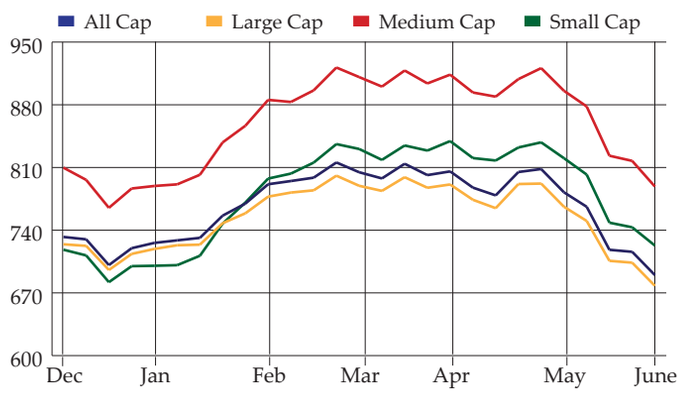
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

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

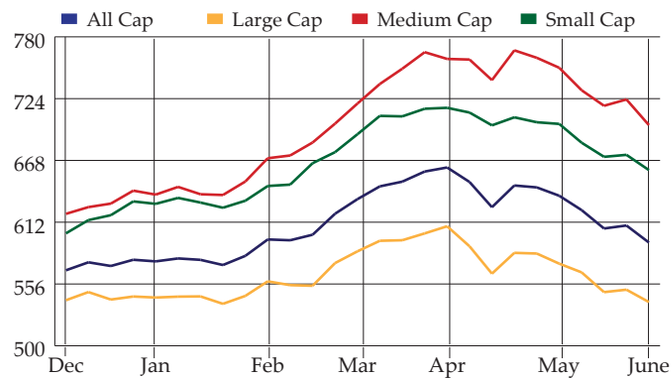
REDmoney Asia ex. Japan *6 Months*



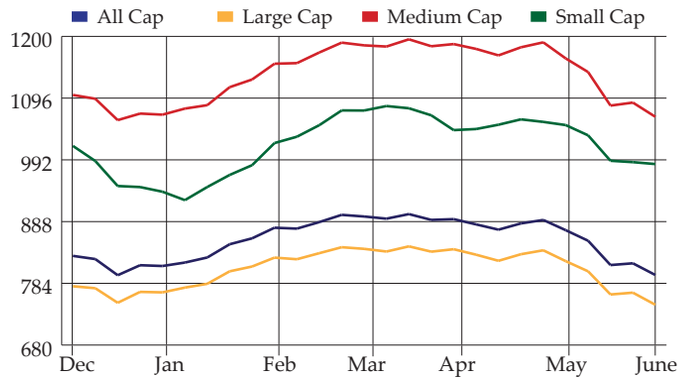
REDmoney Europe *6 Months*



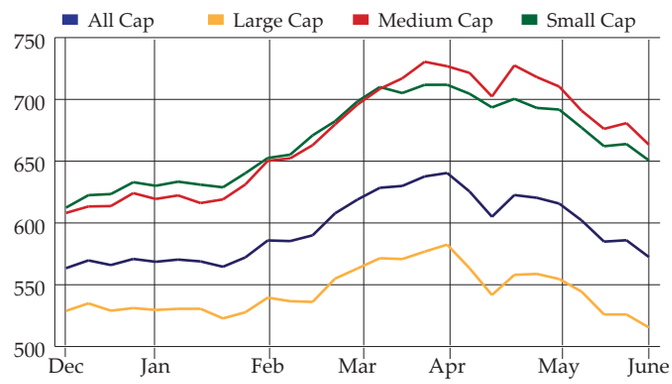
REDmoney GCC *6 Months*



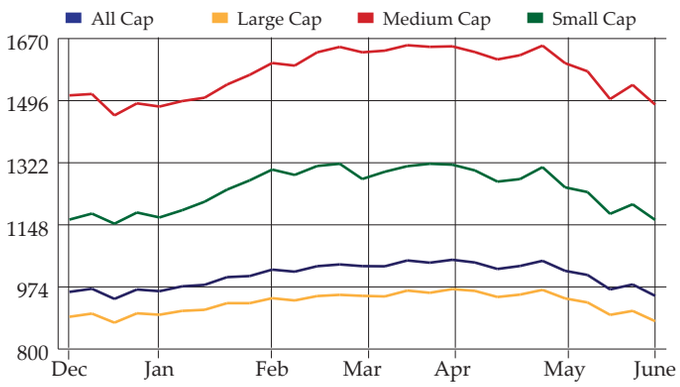
REDmoney Global *6 Months*



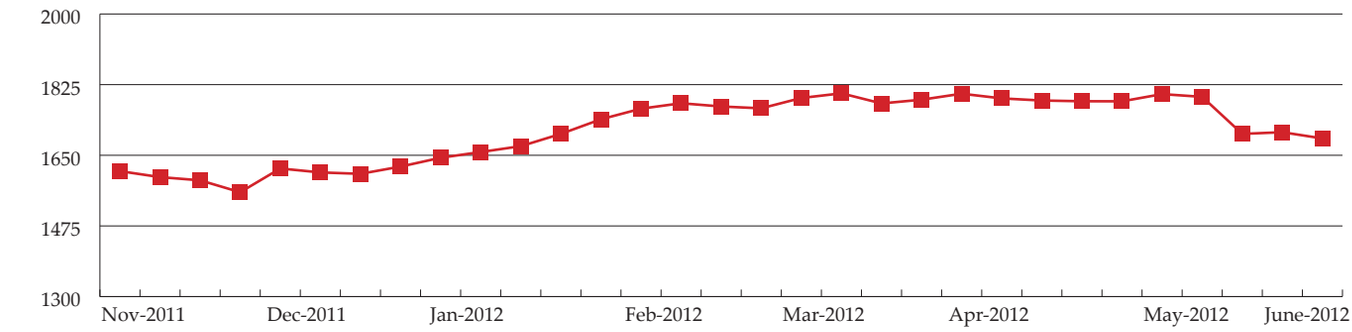
REDmoney MENA *6 Months*



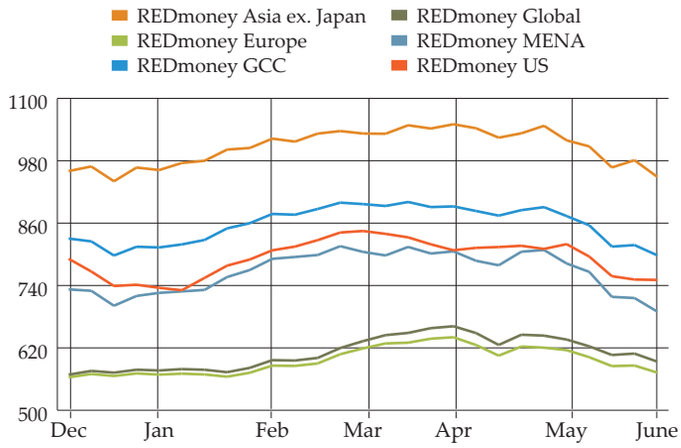
REDmoney US *6 Months*



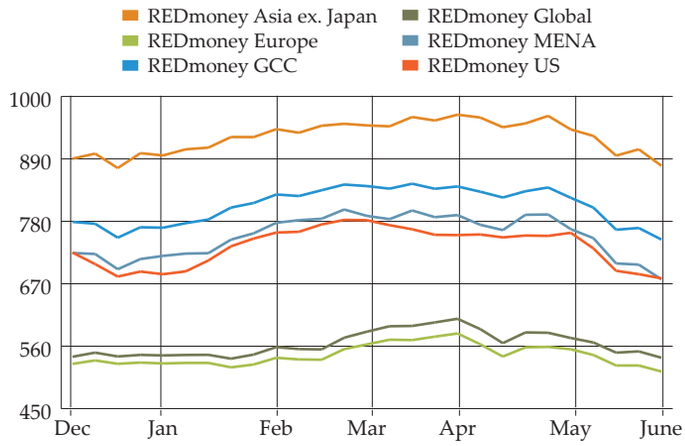
SAMI Halal Food Participation (All Cap) *6 months*



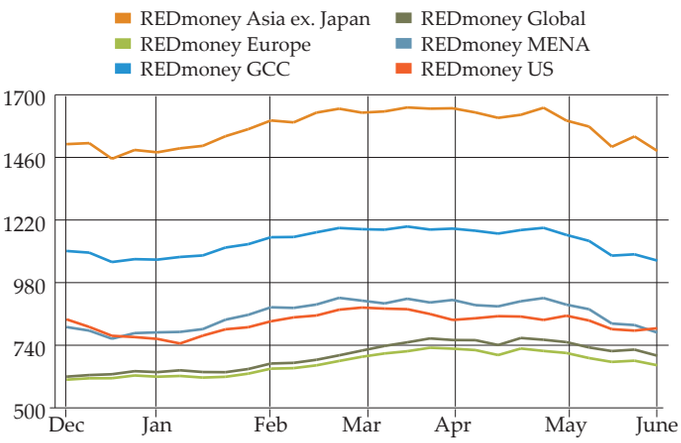
REDmoney Global Shariah Index Series (All Cap) *6 Months*



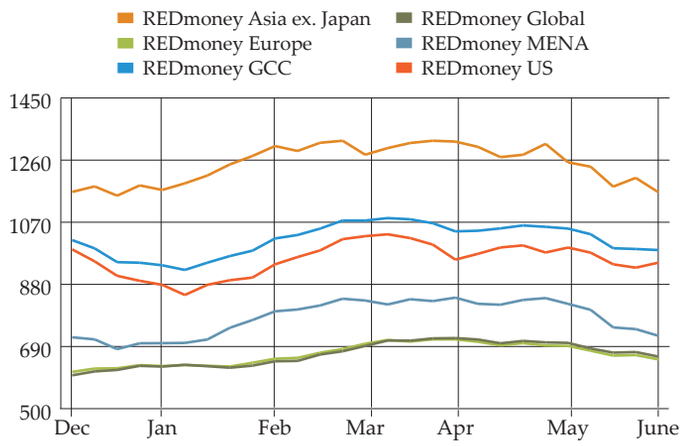
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



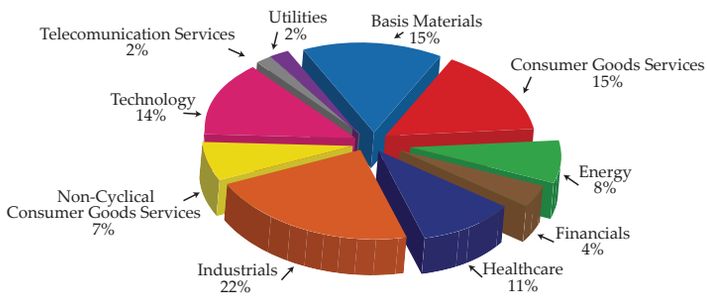
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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.

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REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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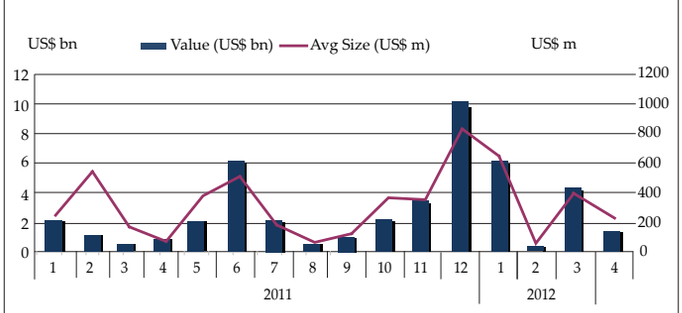
Tel +603 2162 7800

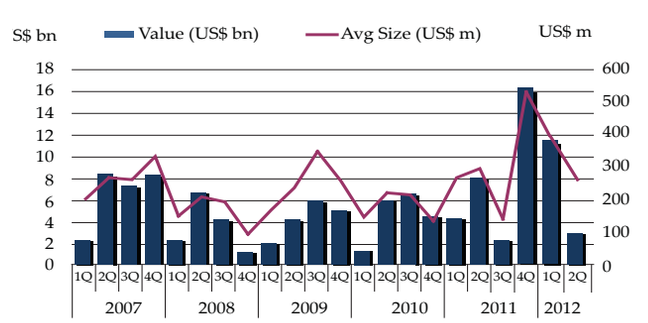
Most Recent Global Sukuk

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 Bank, 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 Bank, HSBC, National Bank of Abu Dhabi, PJSC, 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 Bank, 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 Bank, BNP Paribas, Citigroup
13	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1	Deutsche Bank, Citigroup, Credit Agricole
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 Bank, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates
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 Bank, 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 Bank, 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				**41,071**	**108**	

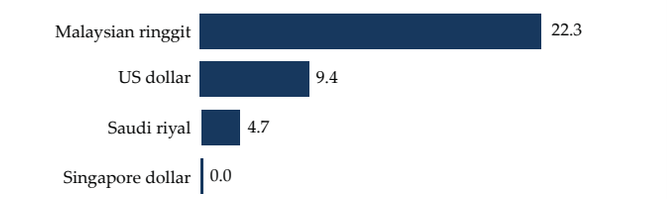
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	8,242	17	20.1
2	CIMB Group	7,014	29	17.1
3	Maybank Investment Bank	6,855	32	16.7
4	AmInvestment Bank	4,750	21	11.6
5	RHB Capital	2,869	24	7.0
6	Citigroup	2,254	10	5.5
7	Standard Chartered Bank	1,487	10	3.6
8	Deutsche Bank	1,465	4	3.6
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	Abu Dhabi Islamic Bank	253	3	0.6
17	Hong Leong Bank	252	2	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	0.5
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	**41,071**	**108**	**100.0**

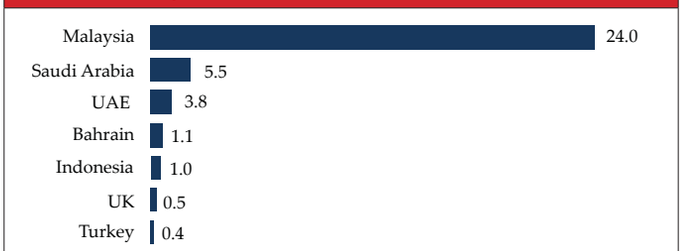
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	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

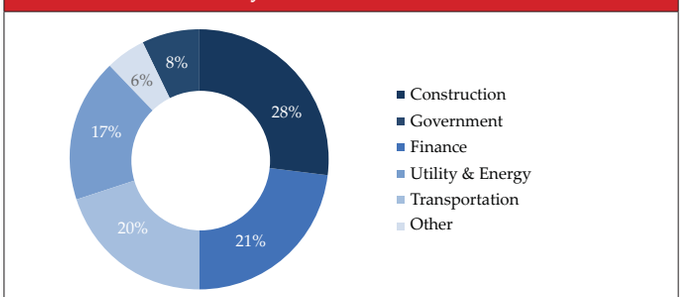
Sukuk Volume by Currency US$ (billion) *12 Months*



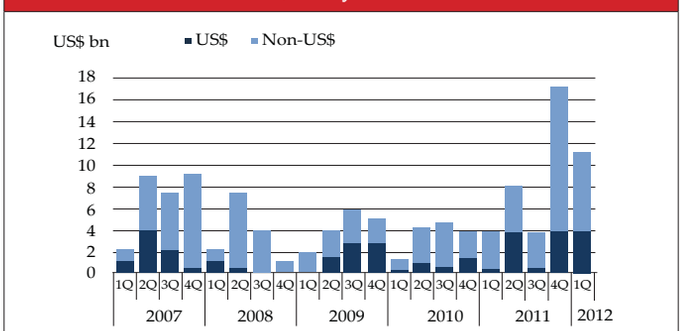
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	9.4
2	SABB	904	3	9.2
2	Banque Saudi Fransi	904	3	9.2
4	Al-Rajhi Banking & Investment	753	3	7.7
5	Saudi National Commercial Bank	459	2	4.7
6	Saudi Hollandi Bank	444	1	4.5
6	Riyad Bank	444	1	4.5
8	Citigroup	335	7	3.4
9	Noor Islamic Bank	324	3	3.3
10	Standard Chartered Bank	287	5	2.9
11	Maybank Investment Bank	279	3	2.8
12	Barwa Bank	266	2	2.7
13	HSBC	233	3	2.4
14	Arab National Bank	219	1	2.2
15	Abu Dhabi Islamic Bank	219	5	2.2
16	CIMB Group	216	2	2.2
17	Qatar Islamic Bank	213	1	2.2
17	Qatar International Islamic Bank	213	1	2.2
17	Masraf Al Rayan	213	1	2.2
20	Arab Banking	184	3	1.9
21	RHB Capital	164	1	1.7
21	Lembaga Tabung Haji	164	1	1.7
21	AmInvestment Bank	164	1	1.7
24	Deutsche Bank	160	3	1.6
25	Emirates NBD	160	3	1.6
26	Bank of America Merrill Lynch	126	3	1.3
27	Bank of China	93	1	0.9
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	354	6	3.6
2	Abu Dhabi Islamic Bank	267	5	2.7
3	Standard Chartered Bank	253	4	2.6
4	HSBC	160	2	1.6
5	Emirates NBD	122	2	1.2
6	Maybank Investment Bank	115	2	1.2
7	Bank of China	93	1	0.9
8	Noor Islamic Bank	88	1	0.9
8	Arab Banking	88	1	0.9
10	National Bank of Kuwait	87	1	0.9

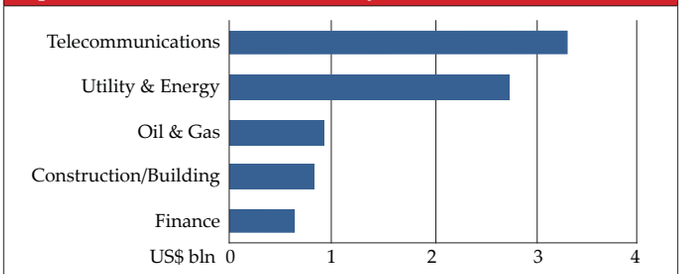
Top Islamic Finance Related Loans Deal List *12 Months*

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 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
15th Mar 2012	Turkiye Finans Katilim Bankasi	Turkey	351

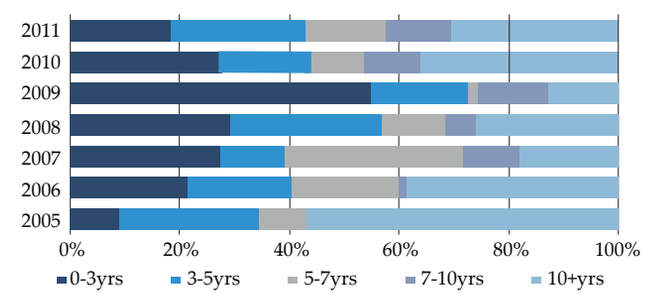
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	5,377	5	54.7
2	UAE	1,272	6	12.9
3	Malaysia	926	2	9.4
4	Qatar	850	1	8.7
5	Turkey	780	4	7.9
6	Pakistan	203	4	2.1
7	Indonesia	181	4	1.8
8	China	93	1	0.9
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)
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EVENTS DIARY

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*)

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

27th — 28th June 201
The 1st International Forum for Islamic Banks and Financial Institutions
Amman, Jordan (*Strategy for Business Development & CIBAFI*)

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*)

17th — 18th September 2012
3rd Middle East SME Forum 2012
Abu Dhabi, UAR (*Fleming Gulf*)

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*)

17th — 18th October 2012
The SME Africa 2012
Johannesburg, South Africa (*Fleming Gulf*)

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)*

3rd December 2012
IFN Roadshow Brunei
Brunei *(REDmoney events)*

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