Islamic Finance news

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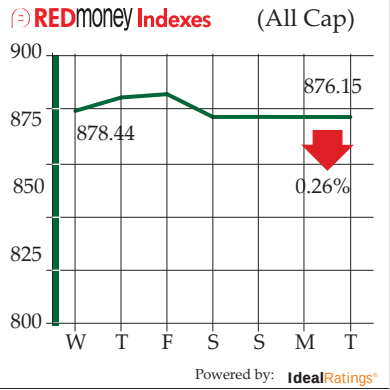

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Kuwait: State of play

Cover Story

Kuwait is home to some of the largest Islamic financial institutions in the world, and with its 85% Muslim population and strong demand for Shariah compliant financial services, the country should be one of the strongest players in the industry. However, a weak regulatory climate and a lack of governmental support have hindered the sector from developing to its full potential, and the country seems to have lost its driving force. Currently trailing at the back of the GCC pack, has the country lost interest in Islamic finance, or will the new elections bring a much-needed impetus to the industry?

Booming economy

Kuwait's overall economy has been going from strength to strength, recovering well from a slew of high level defaults due to the financial crisis in 2009. In its latest report, National Bank of Kuwait (NBK) forecast that real GDP will advance 3.8% in 2012, while KFH Research is even more optimistic, projecting a 5.4% growth rate compared to 4.4% in 2011. Although the Kuwaiti dinar is the only currency in the Gulf not pegged to the dollar, it is the world's highest-valued currency unit. Economic performance has remained steady and the government posted a budget surplus of US$47 billion in 2011: almost double that of 2010.

Kuwait is the 10th biggest oil producing nation in the world, and oil revenues account for over 90% of government income and up to 60% of GDP, with production increasing by 8.7% in 2011 and expected to grow further in 2012. Despite this dependence, Kuwait is widely acknowledged to have the financial strength to ride short-term oil price fluctuations, with its breakeven oil price at around US$80: significantly lower than current market prices which are hovering around US$100.

Kuwait has also benefited from a limited exposure to the Eurozone crisis, with negligible direct exposure to European sovereigns and banks. In January 2012 the then-governor of the central bank, Sheikh Salem Abdel Aziz Al-Sabah, confirmed that the banking sector in Kuwait had not been affected by the debt crisis.

Kuwait Development Plan

In addition, the government is striving to transform Kuwait into a regional trade and financial center with a diversification away from oil and an expansion of the private sector. Kuwait's non-oil GDP is projected to grow by 6% in 2012, stimulated by expansionary government spending through the US$104 billion 2010-2014 Kuwait Development Plan (KDP).

The plan calls for considerable expenditure on new cities, services, infrastructure, a 25km causeway, a major container harbor, and a new railway and metro system. In

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Better to get things right the first time...

Editor's Note

The current events plaguing Europe have stressed, more than ever, the importance of getting things right from the outset: especially for an industry still very much in its infancy like Islamic finance.

This week, our issue looks at how the industry handles some of the more complex aspects of its inner workings; including an article by expert Sukuk structurer Mohammed Khnifer...

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NEWS

Nigeria applies for US$600 million-worth of financing from the **IDB** to fund development

Egyptian Financial Supervisory Authority releases draft amendments for Sukuk regulation

Encorp Systembilt proposes to issue up to US$524.48 million Sukuk Murabahah

Bank Indonesia to introduce real sector index as reference for Islamic banking

Securities and Exchange Commission of Pakistan introduces Shariah compliance and audit mechanism for Mudarabah companies

Indonesia's Islamic finance industry attracts investments from Middle East and European banks

Musical chairs at **Emirates NBD**

American Business Forum expresses concern over scheduled banks' investments in government papers

Islamic banking products need to have Shariah economic substance, says **Bank Indonesia**

Islamic Bank of Thailand seeks top three Asian Islamic bank spot

Bank Negara Indonesia open to tie-up for **BNI Syariah**

KFH-related **Medini** development project under fire

Securities Commission Malaysia to be jointly led after Zarinah Anwar leaves?

IDB Group's financing portfolio in Azerbaijan surpasses US$1 billion mark

Bank Islam Malaysia still has overseas ambitions

Shariah hire-purchase act to be introduced in Malaysia

The **State Bank of Pakistan** working on a three-pronged strategy for the promotion of Islamic banking

First Islamic Modaraba in default of listing requirements

Doors still open for foreign banks in Malaysia

Bank BNI Syariah 2011 profit doubles to US$8.1 million

Bank Islam Malaysia in collaboration with **KOPSYA** to provide banking solutions

Bank Asya aims for 15% asset growth in 2012

Bank Asya in discussions to sell general insurance unit, **Işık Sigorta**

Ireland reveals Islamic finance tax regime enhancement in Finance Bill 2012

Global Sukuk issuances reach US$20.2 billion as of January, according to **KFH Research**

Banks in the GCC are heading back into real-estate financing as economy recovers

Time to reconsider real estate investing?

Gulf begins 2012 with record level of Sukuk issuances

AAOIFI invites feedback for exposure draft on proposed new accounting standard on investment in real estate

IDB and the **European Investment Bank** sign MoU to cooperate in four countries

Abu Dhabi Islamic Bank to provide US$75 million financing to specialist manufacturer **JBF RAK**

Union National Bank posts 11% growth in net profit for 2011

Ahli United Bank posts 15% increase in net profit for 2011

Absence of Dubai government's support in **Dubai Group**'s debt restructuring is credit positive, says **Bank of America Merrill Lynch**

Al khaliji achieves net profit of US$133.6 million in 2011

Emirates Airline said to hire three local Islamic banks to arrange US$517.43 million Ijarah financing

INVESTOR

IDB Fund to sell 23.3% stake in Amman East power plant to **Qatar Electricity & Water Company**

Assets under management for **SEI Islamic Investments Fund** up more than 25% in 2011

Abraaj Capital looks at more Turkish acquisitions in 2012

AmIslamic offers Islamic bond fund to risk-averse investors

Rohatyn Group to acquire 60% of **CapAsia**

Capital Management House distributes quarterly dividend

TAKAFUL

Qatar Islamic Insurance Company announces net profit of US$12.3 million for 2011

Steady growth for medical, healthcare and Takaful markets in the Middle East

Tremendous growth opportunities for GCC Takaful

Tanzania could have Takaful services, says **Tanzania Insurance Regulatory Authority Insurers**

High hopes for Takaful to drive Oman insurance industry expansion

The Mediterranean & Gulf Cooperative Insurance & Re-insurance reports 1.5% growth in net profit

Asuransi Staco Mandiri seeks net profit of US$249,639 from Islamic business units in 2012

Takaful International Company reports US$45.3 million in 2011 total insurance contributions

Central Bank of Bahrain to introduce training and competency requirement for insurance licensees

Permodalan Nasional Berhad could divest **MNRB Holdings**

Indonesia to get another Takaful player this year, says **Asosiasi Asuransi Syariah Indonesia**

RATINGS

RAM reaffirms **Hong Leong Islamic Bank**'s long- and short-term financial institution ratings at respective 'AA1' and 'P1'

Fitch assigns **Türkiye Finans Katılım Bankası** a national long-term rating of 'AAA(tur)'

S&P downgrades Egypt's sovereign credit rating to 'B'

MARC downgrades **Sistem Penyuraian Trafik KL Barat**'s US$169 million BaIDS to 'A+ID' from 'AA-ID'

MOVES

Bank of New York Mellon appoints **Bill Williams** as chairman of Middle East & Africa

Qatar Financial Center Authority names **Bob Wigley** as non-executive director

Paul Koster to step down as CEO of **Dubai Financial Services Authority** in September 2012

Emirates NBD's general manager of global markets and treasury, **John Eldredge** to leave

ING Insurance names **Bruce Hodges** as deputy CEO

Kuwait: State of play

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addition, the KDP allows for US$76 billion in oil and gas investments, US$22 billion on utilities, US$9 billion on real estate and development, US$9 billion on services, and US$10 billion on contracting. This should provide considerable opportunities for the banking sector in terms of financing and credit lines. Increased participation of the private sector will also occur through the establishment of public shareholding companies, which it is hoped will reduce economic dependence on the public sector.

> ***"Total assets of Islamic banks in Kuwait account for 42.8% of total banking assets — one of the highest levels in the region"***

Political power-play

Despite relative stability compared to some of its neighbors, Kuwait has suffered from some political unrest with the government forced to resign in November 2011 following major street demonstrations. Following the elections on the 2nd February the Islamic-led opposition made significant gains, winning 34 of 50 seats, including 14 to ultra-conservative Salafist candidates.

While it is hoped that the new Islamist-led government will push through reforms and encourage the further development of the Islamic finance industry, the change has already shaken up the country's power structure. This week the central bank governor, Al-Sabah, resigned after 25 years in the position, citing high government spending and a failure to push through economic reforms, claiming that imbalances in the economy could become serious if oil prices fell.

Strong conventional sector

However, the country is currently in a strong fiscal position with ample capacity to support the economy. Kuwait benefits from a strong and stable banking sector which has recovered well from a spate of defaults in 2008 and 2009. According to the IMF, profits of local banks increased by 70% in 2010, with bank share prices increasing by 40% (compared to a slight decline in the overall index).

Moody's expects net profits to have increased further in 2011, with revenues picking up in line with accelerating credit expansion. Total deposits grew by 5.3% last year, with loans growing 2.06%. In August 2011 Moody's upgraded the outlook on the Kuwaiti banking sector to stable from negative, reflecting an expectation that fundamentals will continue to improve.

Firm ground for Islamic finance

The banking sector is supported by a fertile Islamic banking sector, which has thrived despite a lack of government support. In 2012 the sector is looking promising, having experienced steady growth over recent years. Kuwait hosts five fully-fledged Islamic banks (compared to five commercial banks, and nine international bank branches). Islamic banking windows have been banned in Kuwait since 2004, allowing the domestic sector to develop independently.

Total assets of Islamic banks in Kuwait grew by a compound annual rate of 26.5% from from KD6.8 billion (24.5 billion) in 2006 to KWD18.4 billion (US$66.3 billion) in 2011, accounting for 42.8% of total banking assets in the country — one of the highest levels in the region. According to KFH Research this growth was underpinned by: "A growing awareness of Islamic banking products and aggressive steps towards marketing and relationship building carried out by Islamic banks."

Total deposits grew by 28.3% annually between 2006-2010, reaching KWD8.7

continued...

CLOSING BELL

Problematic gold pawning

INDONESIA: Bank Indonesia, the central bank, has postponed the issuance of its decision letter on gold pawning to March this year.

The authority, which is still reviewing its regulations on gold pawning, was expected to announce its decision this month.

BNP Paribas ends rumors

GLOBAL: France's BNP Paribas will continue its banking operations in Bahrain, according to Jean-Christophe Durand, its head for the Middle East and Africa region, in response to rumors that the bank may quit the kingdom due to political unrest.

HOGAN LOVELLS

GLOBAL: Law firm Hogan Lovells has appointed **Nicholas Cheffings** as chairman for a three-year period, effective from the 1st May 2012.

Cheffings will take over from Claudette Christian and John Young, the firm's current co-chairs.

Good appetite for Sukuk

SAUDI ARABIA: The appetite for Sukuk, especially for project finance, is very high in the kingdom, noted Yasir Al Rumayyan, the CEO of Saudi Fransi Capital.

He also said that demand for Shariah compliant papers would be higher if the Saudi central bank provided facilities for banks to invest their cash in the Sukuk market.

RHBCap to change hands again?

MALAYSIA: Abu Dhabi sovereign wealth fund Aabar Investments is reportedly in discussions with Japan's Sumitomo Mitsui Banking Corporation to dispose of its 25% stake in RHB Capital (RHBCap), less than a year after it acquired the stake.

Aabar is said to be exploring a sale as its investment in RHB Capital has devalued to around US$1.3 billion from US$1.9 billion. However, the talks are understood to be preliminary with a transaction still not decided upon.

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billion (US$31.3 billion) in 2011, while total financing grew by 25.6%. Boubyan Bank led asset growth in 2011 with a 13.5% increase, followed by KFH with 6.1%. In addition, financing-to-deposit ratios of Islamic banks in Kuwait have eased recently due to deposit growth outpacing financing, which has led to a comfortable level of liquidity for Islamic banks.

The country is home to the second biggest Islamic bank in the world, Kuwait Finance House (KFH), which is also the largest bank in Kuwait, with assets of over US$43 billion as at the end of 2010, accounting for 72.5% of total Islamic banking assets. However, competition is growing. NBK also recently entered the Islamic finance sector with the acquisition of a 47.3% stake in Boubyan bank, and there are indications that KFH's chokehold is loosening.

Sam Habbas, the head of the international department at ASAR Legal in Kuwait, notes that: "In the near future, we will see strong competition between KFH, Warba Bank and Al Rajhi, and such competition will have a positive impact on the Islamic finance industry in Kuwait."

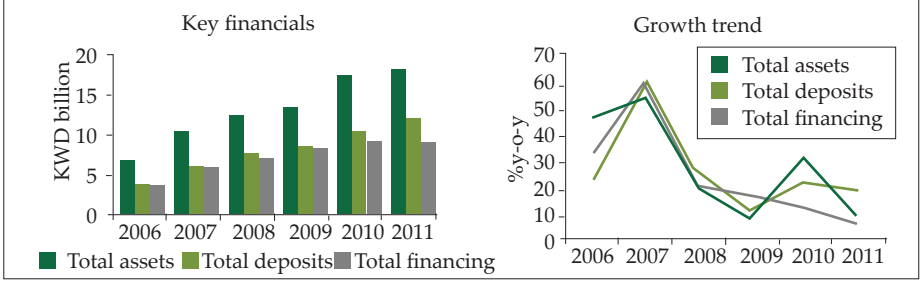
Habbas comments that: "Kuwait has a tendency to favor Islamic products and most of the major companies in Kuwait operate in accordance with the Islamic Shariah." In addition: "Kuwait has a monetary surplus with a notable ambition to invest in compliance with the Islamic Shariah."

Slow to Sukuk

Islamic banks should be able to play a significant role in financing Kuwait's development plan, including financing IPOs to institutional investors (who will be sold up to 26% ownership shares in all development companies) and via Shariah compliant funding to Kuwaiti citizens (who will be sold 50% ownership shares).

This is key for a country which despite its thriving Islamic banking sector has been slow to enter the capital market. In 2011 Kuwait accounted for just 0.4% of Sukuk issuance by domicile, compared to 5.1% from the UAE, 2.5% from Bahrain, and 11.6% from Qatar, suggesting that not only does it have a highly limited domestic Sukuk industry but that its corporates are not utilizing any meaningful level of Islamic financing.

Kuwait Islamic banking system



Habbas explains that: "So far, local Sukuk cannot be issued in an amount more than the issued capital of the Kuwaiti entities, which leads to most major Sukuk issues being made through SPVs outside Kuwait but guaranteed by the Kuwaiti originators."

> ***"In 2011 Kuwait accounted for just 0.4% of Sukuk issuance by domicile"***

However, there is a growing interest in Sukuk within the country. Hossam Abdullah, a member of ASAR Legal, explains that: "Sukuk and especially convertibles are being explored now to resolve financing equity needs by shareholders that are not sure of the equity market conditions and will be more willing to inject cash under Sukuk which give them the option to convert into capital if the market improves and share prices appreciate."

In the last year three major Sukuk have emerged from the country. Kuwait-based Gulf Investment Corporation (GIC) announced that it had issued twice, the first in March 2011 for RM600 million (US$299.8 million) and the second in August which was a five-year, RM750 million (US$239.8 million) Islamic bond in Malaysia, the second installment of its 20-year, RM3.5 billion (US$1.1 billion) medium-term Sukuk Wakalah program. In Turkey, Kuveyt Turk Participation Bank (which is 62% owned by KFH) also issued a US$350 million Sukuk in October 2011.

Poor regulation

However, the legal structure for Sukuk is woefully underdeveloped. Kuwait has never issued a domestic Sukuk, and between 2001 and 2010 there were only nine international issuances by Kuwaiti companies with a combined value of US$1.58 billion — less than 1% of the total value of Sukuk issuances during the period.

Kuwait was one of the hardest hit GCC countries during the 2008 credit crisis, with several high-profile Sukuk defaults including, The Investment Dar (TID) in 2009, and International Investment Group (IIG) in 2010. Unlike its neighbor the UAE, the country failed to react to the crisis through the creation of a robust governance structure, which contributed to considerable delays in default proceedings and frustrated investors.

Currently foreign investors account for less than 10% of trading on the Kuwait Stock Exchange, which has suffered from increased regional competition and a lack of transparency and independent regulation.

Islamic finance in Kuwait is regulated under the Central Bank of Kuwait (CBK) which sets the requirement for the Shariah Governance Framework.

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Kuwait: State of play

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Although this does provide comprehensive legislative provision for Islamic banking, it has been hindered by poor execution. Habbas explains that: "In Kuwait… legislation is not enough to encourage Islamic finance, which continues to exist despite the lack of a proper Islamic legislative environment."

A decree in 2007 opened the door for the issuance of Islamic bonds, but further changes to the regime are needed to allow the market to develop. The government recently established a Capital Markets Authority, which began operating in 2011 and is expected to issue new Sukuk laws.

However, a set of proposed amendments has been delayed by the political deadlock in the country and a focus on resolving a crisis over investment firms hit by the financial crisis, which has led to Sukuk legislation taking a back seat.

With the new elections resulting in a strongly Islamic government taking the reins, Habbas comments that: "We can only hope that the Kuwaiti parliament passes many of the expected bills which have been outstanding for years, including the draft bill on Sukuk."

> ***"Currently foreign investors account for less than 10% of trading on the Kuwait Stock Exchange"***

Grassroots demand

While Kuwait has made little progress from the top down, the peformance of its Islamic banking industry and the demand from its population for Shariah compliant products suggest considerable potential. The strong growth despite the lack of government support demonstrates a country simply waiting for the right push to launch it into real competition with the established Islamic finance hubs.

Professor Laurent Marliere, the CEO of ISFIN has noted that: "There is currently a tremendous opportunity for Kuwait to profile itself as a hub for Islamic finance and Islamic banking. We see a growing competition between Saudi Arabia, the UAE, Qatar and Bahrain. There is no reason for Kuwait not to take a winning edge in the competition."

However, sadly this support does not yet appear to be forthcoming. While there has been much fanfare over the potential for reforms, no concrete action has yet materialized and the industry is still developing from the ground up rather than being encouraged on a national level.

The sector is crying out for new products and improved regulation in order to move to the next stage of development, and the new government would be wise to listen to the voice of its people and take a more active role in encouraging the industry.

Kuwait is a country waiting in the wings, desperate for a chance to prove itself. The chance is there — but will they take it? — *LM*

Better to get things right the first time…

Editor's Note

The current events plaguing Europe have stressed, more than ever, the importance of getting things right from the outset: especially for an industry still very much in its infancy like Islamic finance.

This week, our issue looks at how the industry handles some of the more complex aspects of its inner workings; including an article by expert Sukuk structurer Mohammed Khnifer scrutinizing the structure of the General Authority of Civil Aviation's (GACA) US$4 billion Sukuk.

We also have a report on withholding tax on cross-border Islamic finance payments by Islamic finance consultant, Mohammed Amin.

Our cover story takes an in-depth look at the current state of the industry in Kuwait; delving into its strengths and shortcomings and examining prospects for the growth of Islamic finance in the country.

Meanwhile, contributors from law firm Vinson & Elkins write on the opportunities and challenges for mergers and acquisitions in Islamic finance.

An aspect of Islamic finance that is often overlooked is corporate social responsibility (CSR); and Sutan Emir Hidayat from the University College of Bahrain and Suliman Abdulrahman Alhur of the Almajdouie Group write on the concept of CSR at Islamic banks as set out by AAOIFI.

This week, IFN reports cover the potential for Turkey's first sovereign Sukuk; and a roundup of Sukuk issuance in 2011 and expectations for this year. Our IFN Correspondents write on new rules for Islamic banks in Iraq, Bahrain's model for regulating Islamic finance and professional qualification tests for Iran's capital market practitioners.

Our Case Study also looks at the GACA Sukuk, while Meet The Head talks to Ahmed Emara, the CEO and managing director of investment firm ReAya Holding.

AFRICA

Nigeria seeks US$600 million from IDB

NIGERIA: The federal government has applied for a US$600 million financing from the IDB to fund the country's development projects, according to Alhaji Yerima Lawan Ngama, the minister of state for finance.

Alhaji said that the IDB has approved the application; with the disbursement of funds, to be channeled in tranches over a three-year period, to begin soon.

He added that the financing application from the government excludes a US$370 million private sector financing already extended to the country by the IDB for other developmental projects.

Draft amendments for Sukuk out

EYGPT: The Egyptian Financial Supervisory Authority (EFSA) has published draft amendments to the Executive Regulation of the Capital Market Law No. 95 of 1992 regarding the regulation of Sukuk.

The authority has invited bodies and institutions which deal with Sukuk to provide views and comments regarding the matter, before it prepares the final draft amending the Executive Regulation.

The final draft is to be submitted to EFSA's board of directors for approval and will be passed on to the country's minister of investment.

ASIA

Sukuk on the cards

MALAYSIA: Encorp Systembilt has proposed the issuance of up to RM1.58 billion (US$524.48 million)-worth of Sukuk Murabahah, the bulk of which will be used to refinance its existing Bai Bithaman Ajil notes (BaIDs notes) issuance, from which it raised around RM1 billion (US$332.61 million).

The Sukuk will also be used to fund the trustee's reimbursement account and for the company's general corporate purposes.

The proposed Sukuk has been assigned a preliminary rating of 'AA2' by RAM, with a stable outlook for its long-term rating.

New real sector index

INDONESIA: The central bank, Bank Indonesia, will launch a real sector index in February 2012 that can be used by Islamic banks as a benchmark in establishing the profit sharing of their financing arrangements, said Rifki Ismal, a senior researcher at the central bank's directorate of Islamic banking.

Rifki noted that Islamic banks have been using conventional interest as a benchmark for their profit sharing and financing margin.

However, he added that these banks are not required to apply the index, as it will only serve as a benchmark.

New guidelines for Mudarabah firms

PAKISTAN: The Securities and Exchange Commission of Pakistan has issued new Shariah compliance and audit mechanisms for Mudarabah firms to enhance compliance and eliminate the risk of any inadvertent violation of Shariah principles.

The new mechanism provides an elaborate framework for compliance and lays down the process for purifications of dividend income.

Under this framework, investment by the companies in the form of shares and securities shall only be made in companies screened by the Shariah advisor from the Modaraba Association of Pakistan.

To further facilitate the process, every company must also appoint a Shariah advisor.

Attractive destination

INDONESIA: The country's Islamic finance industry is attracting investments from the Middle Eastern and European banks following the government's target to double Shariah compliant assets to 10%.

Indonesia reported IDR130 trillion (US$14.53 billion)-worth of Islamic assets as at the 31st October 2011.

Saudi Arabia's Al Rajhi Bank, which is currently chasing investment banking

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Musical chairs at Emirates NBD

UAE: Emirates NBD (ENBD), which took over troubled Islamic bank Dubai Bank in October last year, appears to be busy consolidating its operations and is seeing some of its top management jump ship in the process.

Abdul Wahed Al Fahim, the group deputy CEO, has reportedly resigned; shortly following the announcement of the departure of Suresh Kumar, the CEO of Emirates NBD Capital, on the 31st May this year.

In December last year it moved Giel-Jan Van Der Tol, the former head of Dubai Bank, into the position of group head of wholesale banking at ENBD. It also hired Douwe Oppedijk as interim CEO of Dubai Bank.

The management reshuffle follows the consolidation of ENBD's investment banking and financial advisory business, under Emirates NBD Capital, last year. It also appointed Mohammed Wajid Kamran as the general manager of the business.

With Dubai Bank, ENBD's flagship Shariah banking arm Emirates Islamic Bank, and Emirates NDB Capital making up just three of ENBD's subsidiaries, it is little wonder that the banking group is looking towards streamlining its operations.

Furthermore, with a decision still needed to be taken on the fate of Dubai Bank and EIB, at this point still existing as two separate Islamic banking entities within the group, the game of musical chairs currently underway at ENBD is likely to continue for a while yet.

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business in the country, may open branches there, said Mudassir Amray, the director of wholesale banking at Al Rajhi Bank Malaysia.

Meanwhile, Standard Chartered Saadiq is planning to add to the 11 branches offering Islamic services at Bank Permata, the Indonesian bank in which it owns a 44.5% stake, while Asian Finance Bank, the Malaysian unit of Qatar Islamic Bank, is also on the lookout for an Indonesian acquisition.

Additionally, Riawan Amin, the chairman of the Indonesian Shariah Banks Association, said that a Middle Eastern bank is expected to acquire a local Islamic bank.

Lack of private sector financing

PAKISTAN: The American Business Forum (ABF) has expressed concern over the central bank, the State Bank of Pakistan's, latest report regarding scheduled banks' large investments in government papers, including Sukuk, on worries that the banks are forfeiting extending financing to the private sector.

Salim Ghauri, the president of the ABF, has urged the central bank to encourage banks to adopt a more business-friendly approach and help facilitate private sector expansion.

Form and function sought

INDONESIA: Islamic banking products should not only rely on the legal aspect of Shariah, but must also have the economic substance of Shariah, said Mulya Siregar, the director of Islamic banking at the central bank, Bank Indonesia.

Mulya stressed that the economic substance is necessary for customers to be able to differentiate between Islamic and conventional banking products.

He added that the economic substance of Shariah should be prioritized over the legal aspect of Shariah.

Meanwhile, the performance of the local Islamic banking industry is expected to remain strong this year, based on its consistently high financing-to-deposit ratio (FDR), low non-performing financing (NPF) and capital adequacy ratio at 8%.

Rifki Ismal, a senior researcher at the central bank's directorate of Islamic banking, said that the sector recorded a 48.35% growth in 2011, FDR (88.6%) and NPF (2.52%) as at December 2011.

Investment-based financing amounted to 33%, while debt-based financing comprised 67% of total financing.

Eyeing the best

THAILAND: The Islamic Bank of Thailand is aiming to be among the top three Islamic banks in the Asia region with an asset size of THB300 billion (US$9.74 billion), said Dheerasak Suwannayos, its president.

To achieve the target, the bank seeks to increase its assets by THB25 billion (US$811.56 million) a year until 2017 from the present THB114 billion (US$3.7 billion). The growth will come from new products including personal and corporate financing; and mortgages.

The bank also plans to allocate 45% of its financing portfolio for retail, small and medium-sized enterprises (40%); and corporate (15%).

Options open for BNI Syariah

INDONESIA: Bank Negara Indonesia (BNI) would consider a tie-up for its Islamic banking unit, BNI Syariah; possibly with a Malaysian Islamic bank, said Yap Tjay Soen, BNI's managing director and chief financial officer.

Yap explained that a tie-up could materialize through the issuance of debt by BNI, followed by a share-swap with a Malaysian bank; allowing a cashless transaction.

BNI's interest in a merger and acquisition for BNI Syariah is also despite having ruled out any other consolidation for the rest of the banking group.

Islamic finance's international role touted

MALAYSIA: Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia, the central bank, said that the increasing role of Islamic finance in the global financial system has contributed to greater financial integration in Asia.

The Sukuk market in particular has established itself as a crucial avenue for international fund raising and

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KFH-related Medini development project under fire

MALAYSIA: The Medini integrated development project in the state of Johor, which Kuwait Finance House is jointly developing, has come under fire for alleged questionable dealings.

The project is being led by Iskandar Investment, a 60%-owned entity of sovereign wealth fund Khazanah Nasional. Iskandar Investment has signed a US$1.2 billion deal with a consortium of Middle East entities, including KFH and the Mubadala Development Company, to develop the project.

Questions have now been raised on the lease and buy-back of the Medini land by Iskandar Investment; alleged related party transactions, also in connection to the real estate; and the payment of dividends by Iskandar Investment.

The involvement of UWI Capital, an associate company of Dubai's Jumeirah Capital, as Iskandar Investment's partner to develop Medini has also been questioned, given that UWI Capital is also said to own 10% in Mubadala and KFH, allowing it to realize profit from both selling and buying the Medini land.

Khazanah has attempted to clarify the allegations; rationalizing the ownership issues in relation to the Medini land as an important feature to attract investors and to provide them with flexibility in their commitment levels and investment appetite due to the 25-year horizon of the project.

The sovereign wealth fund also defended the appointment of UWI Capital to develop Medini, due to its track record of projects in the Middle East; and further clarified that UWI Capital was invited on board not just for its role as a land broker but also as an equity partner.

Khazanah also reiterated that it always practices the highest corporate governance standards; including the establishment of independent executive and audit committees.

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investment activities that generate significant cross-border flows, with the internationalization of Islamic finance helping to facilitate stronger financial ties between Asia and the Middle East, she said.

She also noted that internationalization of Islamic finance has made it an increasingly important channel for the efficient allocation of financial resources across borders and for the diversification of risk.

Two heads for the SC?

MALAYSIA: The Securities Commission Malaysia will reportedly appoint Dr Wan Abdul Aziz Wan Abdullah, the outgoing secretary general of the Treasury, and Ranjit Ajit Singh, currently the executive director of market supervision at the SC, to jointly take over the duties of Zarinah Anwar, the commission's executive chairman, following the expiry of her contract in March this year.

The Malaysian government is said to be splitting the SC post for accountability purposes.

The government is expected to make an announcement on the matter soon, including naming a replacement for Wan Abdul Aziz in the Treasury.

US$1.2 billion portfolio

AZERBAIJAN: The IDB Group's financing to Azerbaijan has reached an estimated US$1.2 billion.

Projects financed in the country include in the areas of energy, water supply and sanitation, irrigation and reclamations worth US$250 million.

Still keen to expand

MALAYSIA: Zukri Samat, the managing director of Bank Islam Malaysia, said that the bank still intends to expand its reach overseas.

"We still harbor ambitions for Indonesia. It is still in its preliminary stage and a bit too early to comment," he said.

He declined to confirm whether the bank in question is Bank Muamalat Indonesia (BMI), for which Bank Islam is reportedly in early talks to buy a stake in. The size of the stake is said to be slightly lower than the mandatory general offer trigger level of 33%.

On whether Bangladesh is also still on the cards, Zukri stressed that the bank is keener on Indonesia as it is "more advanced."

Shariah-based act on the cards

MALAYSIA: A new hire-purchase act based on Shariah law is being discussed and will be introduced in the country soon, according to Ismail Sabri Yaakob, the domestic trade, cooperatives and consumerism minister.

The Islamic Hire-Purchase Act will aim to rectify issues and financing problems generally found in common hire-purchase legislations, such as the Hire Purchase Act 1964 and the Pawnbrokers Act 1972.

The first draft of the Act is being discussed by a panel of Islamic economists and Muslim consumer associations.

Islamic banking growth for Pakistan

PAKISTAN: The State Bank of Pakistan (SBP), the central bank, is working on a three-pronged strategy for the promotion of Islamic banking in the country.

The proposed strategy will allow new fully-fledged Islamic banks in the private sector and conventional banks to set up Islamic banking subsidiaries.

Under the same plan, conventional banks will also be able to open stand-alone Islamic banking branches.

Central bank data shows that total Islamic banking deposits in the country now stand at PKR463 billion (US$5 billion), while total Islamic banking assets amount to PKR$568 billion (US$6.2 billion).

First Islamic Modaraba warned

PAKISTAN: Thirteen companies including Takaful operator First Islamic Modaraba have been warned by the Karachi Stock Exchange (KSE) for failing to comply to the stock exchange's listing requirements.

KSE has warned the companies to rectify their defaults committed under the listing regulations within 30 days, failing

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Malaysia's doors still open for foreign banks

MALAYSIA: The government is continuing to court financial institutions from abroad; with the door also remaining open for the establishment of Islamic banking services by foreign banks.

Mizuho Corporate Bank has emerged as the latest to receive an International Currency Business Unit (ICBU) license from the central bank, Bank Negara Malaysia; allowing it to transact Shariah compliant products in foreign currencies.

This follows the commencement of Mizuho Corporate Bank (Malaysia)'s commercial banking operations in September last year.

Yasuhiro Sato, the group CEO and chairman of Mizuho Financial Group, said that the bank will adopt a proactive approach to Islamic finance, of which demand is expected to grow going forward.

The receipt of its ICBU license is also in line with the Japanese bank's aim to make Malaysia the hub for its Islamic finance business.

However, with the Malaysian market already flooded with banks offering Shariah compliant services — including 17 Islamic banks and five international Islamic banks — Mizuho Corporate Bank will have to carve a niche for itself in order to compete efficiently.

Nonetheless, given the slow development of Japan's own Islamic finance market, it is fortunate that Malaysia remains receptive to the set-up of Shariah compliant services by foreign financial institutions.

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which the exchange will initiate action against the companies as required under the regulations; including suspension of trading and delisting.

The names of the companies involved will also be forwarded to the Securities and Exchange of Commission of Pakistan for further necessary action.

Higher profit

INDONESIA: Bank BNI Syariah's profit for the 2011 financial year has doubled to IDR73 billion (US$8.1 million) from IDR36.5 billion (US$4.05 million) in 2010.

The bank's financing reached IDR5.31 trillion (US$588.2 million), up 49.15% from 2010.

Bank Islam in co-op deal

MALAYSIA: Bank Islam Malaysia has signed an agreement with Koperasi Pembiayaan Syariah Angkasa (KOPSYA) to become the cooperative's banking solutions provider.

The collaboration will allow KOPSYA's members to utilize Bank Islam's banking services.

KOPSYA was formed to provide Islamic banking for cooperative organizations operating in Malaysia.

"KOPSYA intends to help other cooperatives in this country further develop their businesses," said Mohd Ali Baharum, the president of KOPSYA.

EUROPE

15% asset growth target

TURKEY: Bank Asya is targeting 15% asset growth and a 36% growth in retail banking this year.

The bank also said that it aims to open 25 more branches in Turkey this year.

Talks on insurance unit sale

TURKEY: Bank Asya is in discussions with investors on the sale of its general insurance unit, Işık Sigorta

According to Abdullah Çelik, the general manager of Bank Asya, the bank may consider selling the insurance company as a whole, depending on the bids it attracts.

The bank is managing the discussions on its own after a mandate given to brokerage HSBC Yatirim expired.

Amendments for Islamic finance

IRELAND: The Irish government has announced 21 measures to support the international financial services industry in its newly published Finance Bill 2012.

The measures include the enhancement of the tax regime for Islamic finance, which was introduced in the 2010 Finance Act.

The finance bill proposes technical changes to certain Islamic financial transactions in the same manner as conventional financial transactions by allowing such company to have other income in addition to income from leasing and/or income from specified financial transactions.

GLOBAL

January Sukuk up 23.1%

GLOBAL: Global Sukuk issuances reached US$20.2 billion as of January this year, an annual increase of 23.1%, boosted by the US$9.7 billion issuance by Malaysia's PLUS Expressways, according to a report by Kuwait Financial House Research (KFHR).

Other notable issuances for the month included three Sukuk from the UAE; and Saudi Arabia's General Authority for Civil Aviation's US$4 billion sale.

Real estate financing

GLOBAL: Banks in the GCC are starting to offer real estate financing again as the economy improves and various sections of the real estate market show signs of stability and growth.

John Chang, the head of retail banking at Dubai-based Noor Islamic Bank, attributes this to a more positive market sentiment on real estate compared to a year ago as well as the rise in bank liquidity due to a lower interbank lending rate.

The road to economic recovery is expected to be slow but banks are "beginning to feel more confident about real estate," said Chang.

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Time to reconsider real estate investing?

GLOBAL: 2012 could be a good time to reconsider investing in property as prices have moved lower, according to the Bank of London and The Middle East (BLME).

"Across the world, various property markets have seen downward revaluation to a varying extent, for example the US, the UK, Europe and the UAE. There is anecdotal evidence, too, that other firms are seeing niche opportunities in the UK real estate sector with the launch of funds specializing in student accommodation and nursing homes," it said.

It added that property investment supports taking a long-term view, ideal for strategic asset allocation.

The bank also sees investors taking a safe-haven approach to placing funds; given the emergence of a bear market, especially in the equities market. As such, investors have also looked at gold as an optimal value asset class; although the recent gold run suggests that it is beginning to be overvalued.

"One might conclude that it is now time to invest in equities on that basis, but the current build-up of cash on many corporate balance sheets would indicate there are few profitable investment projects which can be identified at present. If anything, emerging market equities offer superior long-term growth prospects, but bring with them a fairly high level of expected risk, too," it said.

It also noted that the US dollar Sukuk market finished in positive territory in the fourth quarter of last year, although displaying some volatility. In spite of this, the Islamic bond market showed lower volatility than in the conventional market, it said.

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Real gross domestic product growth in the UAE is expected to remain positive in 2012, averaging 4%, according to data from IHS Global Insight.

Strong kick-off

GLOBAL: The Gulf has started the year with record levels of Sukuk sales, with funds raised to-date in this quarter already surpassing the region's pre-crisis peak.

Gulf Sukuk issuances totaled US$5.69 billion during the first six weeks of the year; higher than any quarter on record.

Debashis Dey, the head of capital markets at law firm Clifford Chance in the UAE, pointed out that the difficulty in issuing conventional bonds last year convinced more companies that tapping Islamic markets was the easiest way to secure funding.

Additionally, he said with Europe's current volatility and the retreat by European financial institutions from buying conventional instruments, there is a view that there is more desire to buy Sukuk; while pricing is seen as better in the Islamic market than in the conventional market.

New standards for real estate

GLOBAL: AAOIFI is seeking feedback for its exposure draft on a proposed new accounting standard on investment in real estate, which was published in January 2012.

The exposure draft touches on the standard that will be applied in the recognition, measurement and disclosureof an entity's direct investment in real estate.

IDB and EIB strengthen partnership

GLOBAL: The Islamic Development Bank (IDB) and the European Investment Bank (EIB) have signed a MoU to cooperate and consult on the development and social progress of Egypt, Jordan, Morocco and Tunisia.

The cooperation between the two banks will include consultation, information sharing and development expertise.

Birama Sidibe, the vice president operations of IDB, said that the agreement will strengthen the partnership between the two banks, which have overseen 24 projects worth US$19 billion.

MIDDLE EAST

US$75 million financing

UAE: Abu Dhabi Islamic Bank (ADIB) is set to provide AED275 million (US$75 million)-worth of Islamic financing to JBF RAK, a subsidiary of JBF Industries.

JBF RAK specializes in polymer manufacturing focusing on PET polymer resin chips and BOPET film products.

UNB profit climbs

UAE: Union National Bank has reported an 11% year-on-year increase in its 2011 net profit to AED1.5 billion (US$408 million).

Net interest income and net income from Islamic financing surged 22.5% to AED2.38 billion (US$648 million).

Solid year

KUWAIT: Ahli United Bank has reported a KWD31.5 million (US$113.57 million) in net profit for the 2011 financial year, a 15% increase from 2010.

During the period, total assets climbed 7.1% to KWD2.63 billion (US$9.48 billion), while customers' deposits grew 30.4% to KWD1.68 billion (US$6.07 billion).

However, the bank's non-performing debt coverage percentage has exceeded 149% and amounts to 196% after taking into account collateral. Both percentages exceed the coverage percentage at local and regional banks.

Blessing in disguise

UAE: The absence of Dubai government guarantees in support of the Dubai Group's debt restructuring is credit positive for the emirate's sovereign credit worthiness, said Bank of America Merrill Lynch (BofA Merrill Lynch).

According to BofA Merrill Lynch, the lack of guarantees from the government in support of Dubai Group highlights a renewed focus to prioritize involvement and support to strategic government related entities (GREs).

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Law firms in consolidation mode

GLOBAL: The legal profession has seen a flurry of activity in the beginning of this year; with law firms seeing a shake-up on the consolidation front.

Herbert Smith is one firm keeping busy; having just parted ways with Germany's Gleiss Lutz and Benelux's Stibbe at the end of last year. Herbert Smith is also in negotiations with Australian firm Freehills for a possible merger.

Meanwhile, UK law firms Pinsent Masons and McGrigors have agreed to merge, in a tie-up that will see more than 2,500 employees and offices in Asia Pacific, Dubai and Qatar, in addition to its home market. The merged firm, which will keep the Pinsent Masons name, also plans to set up offices in France and Germany this year.

Other alliances have seen Ashurst, another UK law firm, announce plans to merge with Australian Blake Dawson by 2014, while Norton Rose has taken Canadian law firm Macleod Dixon under its wing.

With most firms heavily involved in Islamic finance, it appears that the Shariah compliant financial industry can look to benefit from further international expertise. In addition, the consolidation of law firms the world could just provide the boost the industry needs in transacting cross-border deals.

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"Despite the lack of a perceived blanket guarantee, the preference appears to be to continue to protect bondholders over loan holders and thus ensure market access to other GREs across the Dubai Inc structure," explained Jean-Michel Saliba, an economist at BoFA Merrill Lynch.

However, the absence of government support to debt restructuring is expected to cause tighter liquidity conditions in the UAE banking sector, with the geopolitical threat from the Iran crisis also potentially tightening liquidity.

14% net profit rise

QATAR: Al khaliji has reported a 14% increase in net profit to QAR487 million (US$133.6 million) for 2011.

The conventional bank also saw its net income from Islamic banking activities fall by 88% to QAR11 million (US$3 billion) following its compliance with the Qatar Central Bank's ban on Shariah compliant activities by conventional banks.

Financing arrangers picked

UAE: Dubai carrier Emirates Airline has appointed a consortium of three local Islamic banks, led by Dubai Islamic Bank (DIB), to help arrange a 12-year Ijarah financing worth AED1.9 billion (US$517.43 million).

DIB will be the coordinating bank and the mandated lead arranger for the transaction, while the other lead arrangers are Al Hilal Bank and Ajman Bank.

The financing will be used to fund the purchase of three aircraft, comprising two Airbus A380 superjumbos and one Boeing 777-300.

Good year for bonds

SAUDI ARABIA: The success of the General Authority of Civil Aviation's (GACA) SAR15 billion (US$4 billion) Sukuk has created expectations of a record year for bond sales in the kingdom.

Fahad Al-Saif, the head of debt capital markets at HSBC in Saudi Arabia, who is expecting to witness at least five big new Sukuk issuances in the kingdom this year, said that the debt capital markets are now definitely an option for Saudi firms seeking to diversify their funding.

Additionally, GACA's Sukuk, which was priced 59 basis points above the 10-year US Treasury, has established a new reference point for Saudi's financial system, making it easier to price and evaluate future debt.

Net profit increase

KUWAIT: Gulf Bank has announced a net profit of KWD30.6 million (US$110 million) for last year against KWD19.1 million (US$68.7 million) in 2010.

As at the end of December 2011, the bank's total assets reached KWD 4.78 billion (US$17.2 billion), while deposits amounted to KWD 4.1 billion (US$14.6 billion).

Banks sign on for personal debt fund

UAE: The UAE has announced the signing of agreements with banks for the AED10 billion (US$2.7 billion) fund created by president Sheikh Khalifa Zayed Al Nahyan to help pay off low-income citizens' debts.

The agreements were co-signed by the National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Abu Dhabi Commercial Bank, Union National Bank, National Bank of Ras Al Khaimah, Standard Chartered Bank and Mashreq Bank.

All agreements between the fund and banks will remain valid until all financings have been cleared.

First draft coming soon

OMAN: The Central Bank of Oman is close to finalizing the first draft of a rulebook for Islamic banking in the sultanate.

However, Hamoud Sangour al Zadjali, the governor of the central bank, said that the guidelines will not be completed until the amendment of Oman's banking laws to incorporate Shariah compliant banks. The amendments are expected to be completed by the middle of this year.

Lucrative year

BAHRAIN: Arab Banking Corporation has reported a consolidated group net profit of US$204 million for the 2011 financial year, a 43% increase from 2010.

Revenue grew US$99 million to US$818 million during the period, while

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operating expenses increased by US$55 million to US$414 million, resulting in a cost-to-income ratio of 51%.

Impairment provisions for regional and international exposures, which were cushioned by recoveries, resulted in a net charge of US$28 million for 2011, against US$77 million in 2010.

ADIB's profit up 12.8%

UAE: Abu Dhabi Islamic Bank (ADIB) has reported a net profit of AED1.16 billion (US315.8 million) for the 2011 financial year, a 12.8% growth compared to 2010.

Revenue rose 11.4% to AED3.43 billion (US$934 million).

However, total non-performing assets increased 9.4% year-on-year to AED821.1 million (US$223.54 million), but were down 16% quarter-on-quarter in the fourth quarter; while total credit provisions and impairments for the year rose 9.6% from 2010 to AED821.1 million (US$223.54 million).

Quitting in criticism

KUWAIT: Salem Abdulaziz Al Sabah, the governor of the Central Bank of Kuwait, has resigned.

Salem, who held the post for over 25 years, announced his resignation in a one-sentence official statement that did not provide a reason for his departure. However, his exit is said to be in protest at the sharp rise in Kuwait's public spending.

Syndicated Islamic facility for APICORP

SAUDI ARABIA: Arab Petroleum Investments Corporation (APICORP), the multilateral development bank of the 10 member states of OPEC, has closed a three-year SAR2.5 billion (US$666.61 million) syndicated Shariah compliant facility with four local banks.

Proceeds from the financing will be used to retain and increase APICORP's medium-term funding.

Al Rajhi Bank, Banque Saudi Fransi, Riyad Bank and Saudi British Bank served as the mandated lead arrangers, while Riyad Bank was the Murabahah facility agent. The term financing was oversubscribed by the mandated lead arrangers.

Laudable financial performance

KUWAIT: Shariah compliant Aviation Lease and Finance Company (ALAFCO), a subsidiary of Kuwait Finance House, has reported a net profit of KWD15 million (US$54 million) for the first quarter ended the 31st December 2011.

Ahmed Abdullah Abdulaziz Al-Zabin, the chairman and CEO of ALAFCO, said that the net profit includes gains realized through the adjustment of purchase agreements with aircraft manufacturers during the period.

During the quarter, ALAFCO announced the lease and delivery of three Airbus A320 aircraft to Vietnam-based Vietjet Air for an eight-year period, making a new addition to its customer base.

The company has also signed an agreement with Airbus to purchase 50 new A320s valued at US$4.5 billion at list prices, following its plan to expand its fleet to 100 aircraft by the end of this decade.

Eye on Islamic finance

OMAN: Local finance firm Muscat Finance Company is considering expanding into Islamic finance.

Faisal Mohamed Al Yousef, its chairman, said that the firm is looking at all aspects of an entry into Islamic finance, in which it sees opportunities. However, it has yet to make a final decision as it is currently conducting a feasibility study on the matter.

More job cuts at SHUAA

UAE: Dubai-based investment bank SHUAA Capital is to undergo another round of layoffs following its fourth consecutive year of losses.

It has reported a full-year loss of AED293.8 million (US$79.9 million) for 2011, up 31% from the previous year.

The bank announced its third round of layoffs in tandem with its losses, in an exercise that will see it reduce its total number of staff to 130. Most of the redundancies will be implemented at its retail brokerage in the first half of this year.

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RATINGS

Still standing tall

MALAYSIA: RAM has reaffirmed Hong Leong Islamic Bank's long- and short-term financial institution ratings at a respective 'AA1' and 'P1'. The long-term rating has a stable outlook.

Solid start

TURKEY: Fitch has rated Türkiye Finans Katılım Bankası for the first time and assigned the bank a national long-term rating of 'AAA(tur)', local currency long-term issuer default rating (IDR) of 'BBB' and foreign currency long-term (IDR) of 'BBB-'.

Egypt downgraded

EGYPT: S&P has lowered its long-term foreign and local currency sovereign credit ratings on Egypt to 'B' from 'B+'.

The downgrade is based on S&P's assessment that the country's external position has deteriorated and is likely to weaken further.

Moving backwards

MALAYSIA: MARC has downgraded its rating on Sistem Penyuraian Trafik KL Barat's RM510 million (US$169 million) Bai Bithaman Ajil Islamic debt securities (BaIDS) to 'A+ID' from 'AA-ID'.

The rating reflects the removal of rating uplift incorporated for shareholder support in the issue rating.

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The bank said that its job cuts have so far resulted in savings of AED46 million (US$12.5 million).

IMF critiques Qatar

QATAR: The complete segregation of Islamic and conventional banks in the country should reduce the risk of contagion from one system to another should troubles arise in either one, said the IMF.

However, it said that several issues merit future consideration by the Qatar Central Bank when implementing the directive to ensure that the desired objectives are met.

"In order to reduce the risk of oligopolistic behavior among the remaining Islamic banks, the central bank could permit the re-organizing of Islamic windows as subsidiaries," it said.

It also urged the authorities to monitor the impact of the segregation on the availability of Islamic products and the banking sector's capacity to provide syndicated loans to ensure effective financial intermediation.

Mobily gets US$2.7 billion Islamic refinancing

SAUDI ARABIA: Seven local banks have signed a SAR10 billion (US$2.67 billion) Shariah compliant refinancing agreement with local telecoms firm Etihad Etisalat (Mobily), allowing the company to refinance three of its existing loans.

The banks are: Al Rajhi Bank, Banque Saudi Fransi, National Commercial Bank, Riyad Bank, Samba Financial Group, Saudi British Bank and Saudi Hollandi Bank.

The facility, which is 3.5 times covered by the banks, comprises four tranches with tenors ranging from five-seven years.

It will be used to refinance the remainder of a SAR10.78 billion (US$2.87 billion) facility signed in 2007, a SAR1.5 billion (US$400 million) program signed in 2009 and a SAR1.2 billion (US$320 million)short-term financing arranged in December 2010.

Two tranches carry a profit rate of 0.7% and the remaining at 0.65% over the Saudi Interbank Offered Rate.

Eng Abdulaziz Alsaghyir, Mobily's chairman, said that the refinancing will allow Mobily to grow revenues and to maintain its leadership position in the Saudi broadband market.

Samba Capital was appointed as financial advisor for the transaction, while Banque Saudi Fransi was named documentation and agent bank.

EIB in the red

UAE: Emirates Islamic Bank has reported a full-year net loss of AED448.6 million (US$122.1 million) in 2011 against a net profit of AED59.3 million (US$16.1million) in 2010 due to significantly higher impairments on financing and investment activities as well as a surge in expenses.

Impairment allowances rose to AED783.3 million (US$213.2 million) from AED530.5 million (US$144.4 million) during the period, with net impairments on financing growing 86.8% to AED529 million (US$144 million).

It also booked a 43% increase in impairments on investment properties to AED199.65 million (US$54.3 million), although impairments on investments declined to AED54.4 million (US$14.8 million) from AED139 million (US$37.8 million).

Additionally, it reported total assets of AED21.5 billion (US$5.9 billion) from AED32.5 billion (US$8.85 billion) in 2010.

Coming up...

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Features

Islamic finance in a predominantly non-Muslim jurisdiction: Singapore as a case study; By Yeo Wico and Suhaimi Zainul-Abidin, partners at Allen & Gledhill.

The evolution of Islamic derivatives; By Martin Forster-Jones, associate at the Islamic finance department at King & Spalding.

Bay' Al Dayn bi al Sila: A new sunshine for the Islamic capital market; By Muhammad Sofiyussalam Mohamad Johari, executive in Shariah research and training, Shariah division at RHB Islamic Bank.

MOVES

BANK OF NEW YORK MELLON

GLOBAL: The Bank of New York Mellon (BNY Mellon) has appointed **Bill Williams** as its chairman of Middle East & Africa.

Williams, who will also remain as head of development markets client management, replaces **Hani Kablawi**, who has been appointed head of the bank's Europe, Middle East and Africa asset servicing business.

QATAR FINANCIAL CENTER AUTHORITY

QATAR: The Qatar Financial Center Authority has appointed **Bob Wigley** as a non-executive director.

Wigley was previously the chairman of Merrill Lynch Europe, Middle East and Africa.

DUBAI FINANCIAL SERVICES AUTHORITY

UAE: **Paul Koster**, the CEO of the Dubai Financial Services Authority (DFSA), will step down in September this year.

Koster has headed the authority since December 2008.

The DFSA said that it has commenced a nominations process to identify a new CEO.

EMIRATES NBD

UAE: **John Eldredge**, the general manager of global markets and treasury at Emirates NBD, will reportedly resign from his post in April this year.

ING INSURANCE

MALAYSIA: ING Insurance has appointed **Bruce Hodges** as deputy CEO responsible for managing and growing ING Life Malaysia and ING's Takaful joint-venture operations in Malaysia.

Hodges replaces **Dr Nirmala Menon**, who has been appointed head of South Asia for ING Insurance Asia Pacific.

He was previously the regional chief information and operations officer at Sun Life Financial in Hong Kong.

Those who fell by the wayside

It was an exciting year-end for the debt capital markets in 2011, particularly for Islamic finance, with Sukuk being the word on the lips of every practitioner. Despite the Eurozone crisis and volatile global markets, a total of 14 global Sukuk were priced during this period totaling US$16.26 trillion according to data provider Dealogic. This list does not include domestic issuances and private placements issued.

Issuers even in the conventional space are now looking towards introducing Islamic bonds as a means of attracting Middle East and Asian investors. However, despite the lucrative market, there have been several issuers that have yet to bring their Islamic bonds to the market.

The most notable of these is the proposed US$2 billion issuance by Goldman Sachs. Announced last September, the bank has since faced numerous hurdles after issues were raised as to the Shariah compliance of the transaction.

Other issuers include Malaysia's plastic additives producer Emery Oleochemicals Group, which has postponed issuing RM480 million (US$158 million) in Sukuk to the second quarter of this year citing adequate financial resources.

Issuers in Turkey have not been spared from the effects of the ongoing Eurozone crisis, and Al Baraka Turk Katilim Bankasi and Bank Asya have announced that they will postpone issuing their respective Sukuk till the end of 2012. However, it has been reported that additional factors are also involved in this delay.

Nevertheless, the setbacks faced by potential issuers in the current climate are far and few and far between. Saudi Arabia's largest food producer, Almarai, obtained shareholder approval in December last year to issue Sukuk. No other details have yet been afforded by the company, which is reportedly planning to invest SAR4 billion (US1.07 billion) in the poultry sector.

Another potential issuer almost certain to issue is Axis Real Estate Investment Trust, better known as Axis REIT. The tentative amount is currently set at RM200 million (US$66.13 million) as it reportedly intends to lock in longer tenure financing at fixed rates as it anticipates profit/interest rates to increase in the next five to 10 years.

On the sovereign front, South Africa approached several banks in the country in December to mandate its first Islamic bond. It is hardly a leap of faith by the government, however, as Islamic finance has been in the country for over 20 years.

KFH Research in its most recent report states that issuances for the month of January alone surpassed US$20.2 billion, amounting to a 23.1% annual increase. We can expect many more issuances to emerge in the market in the months to come. — *RW*

Islamic finance to sweeten deal?

Turkey might issue its first sovereign Sukuk in a bid to attract investors to finance the construction of a third bridge across the Bosphorus: a highly crucial waterway that separates Europe from Asia, and is the only strait that connects the Black Sea with the Mediterranean.

The project was initially part of a larger plan, including the building of a 414km highway. However, all 18 companies which were approached to carry out the project on a build-operate-transfer model failed to register their bids for the tender, which closed on the 10th January. The project, which was initially estimated at US$6 billion, has now been divided into two parts, with the building of the bridge and its link roads slated to cost a third of the initial cost at US$2 billion.

Ali Babacan, the deputy prime minister of Turkey and the country's main economic policymaker, has however reiterated the government's determination to complete the construction and financing of the bridge. He had also alluded to plans to issue the country's debut Sukuk to support its construction at a Capital Markets Board meeting on the 30th January in Istanbul. "The financing of the investment will be concluded somehow," he was quoted as saying. Further reports have also indicated that the republic's treasury has been studying the prospects of issuing an Islamic bond, for this purpose. Transport minister Binali Yildiri has also confirmed the government's plans to re-open the tender in April and begin construction by the end of the year.

> ***"The Turkish economy has seen steady growth over the last few years, despite the economic and political troubles affecting its neighbors on either side of the Bosphorus"***

The Turkish economy has seen steady growth over the last few years, despite the economic and political troubles affecting its neighbors on either side of the Bosphorus. Just recently, the country's deputy prime minister reiterated his confidence in the prospect of 4% GDP growth for 2012, despite IMF reports stating otherwise. According to the IMF, Turkey's economy could potentially see a slowdown to 0.4% this year, despite ending 2011 with a whopping 8.3% in GDP growth.

The Islamic project and infrastructure financing sector is expected to thrive this year, with emerging markets such as Saudi Arabia and Indonesia leading the way. The recent PLUS Highway Sukuk, which is also the largest Sukuk issuance to date at RM30.6 billion (US$10 billion), and the US$800 million Dubai toll road financing deal which is based on the securitization of toll receipts, is also testament to the growing interest from investors in participating in Islamic project financing. Perhaps the decision to issue Sukuk for the financing of Turkey's third Bosphorus bridge will be an appropriate acid test for demand for Islamic finance in the country, and its prospects. — *NH*

Bahrain: A regulatory architecture for Islamic finance

BAHRAIN

By Dr Hatim El-Tahir, IFN Correspondent

As Islamic finance development progresses in the region and elsewhere in the world, regulators and policy makers are still debating the introduction of best practices in Islamic finance regulation. Officials from the central banks, insurance and capital market authorities are debating the need for effective regulation and models of building capacity and competencies in Islamic finance. In this regard, Bahrain with its proven well-regulated financial industry, and in particular its Islamic finance architecture, is fast gaining popularity as a regulatory hub and a distinctive destination for capacity building in Islamic finance

During the last week of January, two important delegations visited the country with the prime objective of exchanging experience in Islamic finance practice. First, a high level delegation from Oman's Capital Market Authority visited Bahrain and met with the Central Bank of Bahrain (CBB) and other industry-supporting institutions such as AAOIFI, the IIFM, the IIRA and the regional anchor educational and training institute, the Bahrain Institute of Banking and Finance.

The main objective of the Omani delegation visit was two-fold: to discuss collaboration between the Oman's CMA and CBB in respect of Islamic finance regulation and to meet with industry standard-setting leaders based in Bahrain to introduce best practices in the Omani market.

Similarly, a representative economist from the Japan Center for International Finance recently met with financial industry officials in Bahrain to learn more about the Islamic finance industry and the role of Bahrain as a leading regulator in this landscape.
It is worth noting that similar delegations from African and Arab countries have visited Bahrain in the past. Most recently a high-level delegation from the Central Bank of Nigeria visited Bahrain and met with the CBB and the three industry standard-setters hosted by Bahrain: AAOIFI, the IIFM and the IIRA.

The regulatory visits to Bahrain were not only intended to share knowledge and to exchange experiences on Islamic financial regulation with Bahraini officials counterparts responsible for support and development of Islamic finance practice, but also to enhance the understanding and implementation of best practices, human capital development, and the ever-sought objective of harmonizing Islamic finance regulations and practices in markets where it operates.

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

Professional qualification test for practitioners in the Iranian capital market

IRAN

By Majid Pireh, IFN Correspondent

The professional qualifications test was organized in Tehran on the 9th February 2012. These tests were organized in order to evaluate practitioners' qualifications for managing affairs in the Iranian Islamic capital market. More than 7,000 practitioners and experts participated in the exam.

> *"Shariah-related knowledge is a new experience for the Iranian capital market"*

Those who are going to actively participate in the Iranian capital market must pass these tests. Islamic knowledge is among the most important issues that a practitioner must be aware of.

The structure of the capital market, rules, regulations, financial mathematics, micro and macroeconomics, corporate finance and financial derivatives are the most common subjects for test questions.

Those who pass the test are qualified to participate in the market; whether as a broker, financial institutions manager or a supervisor for financial institutions.

Currently, there are seven exams in the market for practitioners, which are:

1. Capital market principles.
2. Capital market analysis.
3. Financial institutions management.
4. Financial instruments trading.
5. Securities valuation.
6. Derivatives trading.
7. Trading in commodities exchange.

Currently in the Iranian Islamic capital market practitioners must pass one/some of the above test(s), to be qualified as an official capital market expert in financial institutions. An institution which recruits an expert with the above certificates will be rated better.

Currently in the Iranian capital market, the following institutions are conducting their business:

- Investment companies.
- Mutual funds.
- Market makers.
- Pension funds.
- Holding companies.
- Investment banks.
- Securities brokerage firms.
- Commodities brokerage firms.

While the professional certificates are a common subject for many capital markets globally, Shariah-related knowledge is a new experience for the Iranian capital market. During the three previous tests, participants have had to be aware of the principles of Islamic rules and regulations for contracts. This has created Islamic awareness for market practitioners.

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Islamic Banks Instructions No. 6 for 2011

IRAQ

By Khaled Saqqaf, IFN Correspondent

The government has recently introduced new instructions regarding Islamic banks and branches in Iraq. The Instructions No. 6 for 2011 ('instructions') define Islamic banks as any legal person or persons holding a permit, as per those instructions, allowing them to carry out Islamic banking in accordance with Shariah. These instructions came in light of Article 104 of the Banking Law No. 94 for 2004 and deal with a number of issues such as the conditions required for commercial banks to open Islamic finance branches, a list of the permitted and prohibited activities to be carried out by Islamic banks, the formation and competences of the Shariah Board ('board') as well as investment gains and losses.

According to the instructions, Islamic banks and branches shall aim to provide the following:

1) Provide banking services and funding in accordance with Shariah, as well as prohibiting usury in all its forms, whether or not they mention the said services in their contract of incorporation.

2) The development of the means used for attracting funds and savings and allocating the same towards investments based on Islamic law and principles.

3) All services and activities carried out by the Islamic banks and branches should comply with the principles of Shariah and shall be consistent with the board's code.

In regards to the activities and services permissible for Islamic banks and branches to undertake, Article 3 of the Law outlines several, which include the following:

1) Conclude contracts and agreements with individuals, companies, institutions and bodies within and outside Iraq in accordance with the Instructions;

2) The work of agents, custodians as well as the appointment of agents;

3) Financing commercial and trade activities, both domestic and foreign, as well as contributing to projects for the development of agricultural, industrial, construction and housing sectors or any other projects with economic and social benefits; and

4) Providing the necessary funds to the owners of small and medium sized businesses for the purpose of developing and expanding their economic projects.

In addition to the above, the Law prohibits Islamic banks and branches from conducting a number of services and activities. These include: opening savings accounts, the usage of usury or interest in any way or form and investing in banks that use usury or interest.

As to the board's formation and competences, the Law provides some guidelines as to how it shall be formed as well as the responsibilities it shall hold. It further provides for the circumstances in which the said board shall be suspended and the method by which the suspension shall take place. Article 8 of the Law states that the board or any member thereto shall not be suspended unless a suspension decision is issued by the Islamic bank's board of directors after a two-thirds majority vote. It further states that the said decision shall only be valid if it is paired with an approval issued by the shareholder's general assembly.

According to the Law, each Islamic bank or branch should include an internal Shariah auditing department (department). This department is responsible for a number of activities including the following:

1) The accounting procedures and annual audit plans, as well as the accounting controls and risk management and issuing recommendations for approval.

2) The external auditor's reports, with respect to the financial statements of the bank, as well as informing the Board of Directors of its findings prior to their approval by the Council.

3) The reports submitted by the bank to the Central Bank of Iraq.

Even though Iraq's economy has been affected by a series of negative circumstances caused by the country's political unrest and instability, the Iraqi government has tried to revive the economy by introducing a number of laws and instructions that aim to assist in encouraging investments as well as creating opportunities for small and medium sized businesses and catering to the needs of the Iraqi public. The introduction of the aforementioned instructions is a prime example of this.

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Next Forum Question:

"What is the outlook for the Islamic finance industry to reduce its investment in real estate?"

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 18th February 2012.

GACA's US$4 billion guaranteed senior Sukuk

The Saudi General Authority of Civil Aviation (GACA) successfully closed its SAR15 billion (US$4 billion) Sukuk offering on the 15th January. The Sukuk was three times oversubscribed and was priced at the tighter end of guidance at a yield of 2.5%. The issuance is guaranteed by the ministry of finance and has been approved by Saudi Arabian Monetary Agency (SAMA). The proceeds of the SAR15 billion GACA Sukuk will be used to part-finance the construction of the SAR27.1 billion (US$7.23 billion) King Abdul Aziz International Airport in Jeddah.

This was the first major Saudi quasi-sovereign to raise funds from the Saudi riyal market though a Sukuk issuance. Hitherto it has been utilities that have led the way in Sukuk origination in the kingdom. Walid Khoury, CEO of HSBC Saudi Arabia, highlighted that the issuance was the largest single-tranche Sukuk ever issued.

> ***At SAR15 billion, the Sukuk's size is approximately 12% of the total cash and cash equivalents of the Saudi banking system***

Given the scarcity of Saudi government debt issuance, particularly Sukuk, the sizable issuance will offer a profitability boost to local Islamic finance institutions, which make up 20% of the system by assets.

The Sukuk's benchmark status will allow it to be repo-ed or quickly sold for cash, which will go a long way to improving their liquidity positions. However, this may be undermined by the under-developed secondary trading market that currently exists on the Tadawul platform.

Fahad Al-Saif, a director and the head of debt capital markets at HSBC Saudi Arabia, said that the GACA Sukuk issuance had conceptually set the new risk-free rate for the Saudi Arabian markets.

The GACA issuance presents Saudi banks with a much-needed benchmark with which to price longer-tenured local currency issuances, helping to build a much needed local yield curve. This is important as Saudi banks, along with other GCC banks, possess severe asset/liability mismatches on their balance sheets given the dearth of long-term market funding opportunities.

As of the end of September 2011, 91% of the banks' non-equity funding was funded with short-term deposits and as such, a deeper bond market would support more longer-term funding for Saudi banks and ultimately encourage the reduction of these persistent asset/liability mismatches.

In the context of sustained fiscal surpluses, the Saudi government has been aggressively reducing the amount of government debt outstanding over the past decade. Strong economic growth and high oil revenues, along with relatively limited domestic investment opportunities, are creating an excess of liquidity in the local banking system.

At SAR15 billion, the Sukuk's size is approximately 12% of the total cash and cash equivalents of the Saudi banking system and 38% of cash and cash equivalents of Islamic financial instituitions in Saudi Arabia. The GACA Sukuk will therefore go a long way towards absorbing some of this excess, helping to moderate some of its inflationary credit growth.

The quasi-sovereign nature of the Sukuk has led many to speculate if these will serve as a prelude to the first Saudi sovereign Sukuk. However, the kingdom officially does not need to raise funding from the debt market as the total 2012 budget is currently met by existing oil revenue. In addition, on the regulatory and legal front, the architecture that handles Islamic finance must undergo significant revision before such a push would be considered. — *SW*

General Authority of Civil Aviation's guaranteed senior Sukuk

SAR15 billion (US$4 billion)

January 15th 2012

Issuer	General Authority of Civil Aviation (GACA)
Issuance price	SAR15 billion (US$4 billion)
Purpose of issuance	The funds from the Sukuk issuance will be used for the construction of the new King Abdul Aziz International Airport in Jeddah
Guarantor	Ministry of finance
Tenor	10 years
Coupon rate / return	2.5% yield
Rating	'Aa3' — Moody's
Currency	Saudi riyal
Maturity date	18th January 2022
Joint lead manager and bookrunner	HSBC Middle East
Structure / instrument	Murabahah
Investor breakdown	The offering, sale and delivery of the Sukuk was limited solely to Saudi nationals and sophisticated investors and those other legal persons with a permanent establishment in the kingdom, registered with the ministry of commerce and industry.

Uncovering the financial engineering of Saudi Arabia's first sovereign Sukuk

MOHAMMED KHNIFER analyzes the structure of the GACA Sukuk and highlights the cashflow of the underlying assets.

Following the raising of SAR15 billion (US$4 billion), Saudi Arabia has just closed its first sovereign Sukuk. Unlike what has been reported by the media — that the structure is based on Murabahah only — it has become clear that we are referring to two structures. These are Mudarabah and 'questionable' Murabahah. The Sukuk portfolio constitutes 51% Mudarabah and 49% Murabahah. Such a structure would make it tradable.

> *"The exposure to the cashflow of these three airports is part of the financial engineering of Mudarabah"*

Cashflow

On the closing date, the Sukukholders' agent will purchase the [•] per cent [•%] of the benefits that are owned by the issuer (i.e. the General Authority of Civil Aviation (GACA)) which entitles it to charge and collect fees from airlines. Such fees are for:

(a) The landing aircraft at the King Abdulaziz International Airport in Jeddah, King Fahad International Airport in Dammam and King Khaled International Airport in Riyadh; and

(b) The parking aircraft at King Abdulaziz International Airport (which, for the avoidance of doubt, shall exclude rights relating to the Hajj Terminal), King Fahad International Airport and King Khaled International Airport.

The exposure to the cashflow of these three airports is part of the financial engineering of Mudarabah. From the first take, we might think we are referring to 'usufruct' Ijarah. Nonetheless, it appears that GACA is the Mudarib here.

Murabahah or reverse Tawarruq?

The rate of return for Murabahah investment is quite high and it is cleverly linked to the reserve fund which acts as a buffer for any shortfall in the periodic payment (i.e. 2.5% per annum).

I will try not to spill the beans and confirm whether what we have here is reverse Tawarruq (RT) or simply plain vanilla Murabahah. For a well-versed Sukuk structurer, the following paragraph taken from GACA's offering circular may shed some light:

"The Issuer will, pursuant to the terms of the Murabahah agreement (as defined in the conditions), acquire from time to time commodities from the seller (each as defined in the Murabahah agreements) for subsequent on-sale to independent third party purchasers."

For those who are having difficulty in distinguishing between what constitutes a Sukuk Murabahah or RT, they can easily refer to an online paper I wrote on Goldman Sachs' Sukuk which will have the answer. (Please refer to IFN Volume 8, Issue 42, 'Disclosure of three flaws in Goldman Sachs' US$2 billion Islamic Bonds'.)

Credit enhancement

The obligations of the issuer to the Sukukholders are not secured by any assets or security. Pursuant to a credit support agreement (the guarantee) to be entered into by the ministry of finance of Saudi Arabia (the guarantor), the payment obligations of the issuer as purchaser under the Murabahah agreement and as administrator under the purchased benefits administration agreement will be guaranteed in full by the guarantor.

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When do cross-border Islamic finance payments suffer withholding tax?

MOHAMMED AMIN provides an analysis of cross-border Islamic finance payments paid from the UK to Malaysia.

For obvious reasons, countries do not attempt to tax foreign persons unless there is some nexus with the country concerned. Such a nexus can arise in two ways:

1. The foreign person may be carrying out business inside the country. This involves having a physical presence in the country: for example renting an office which has employees and which carries out purchases and sales.

2. The foreign person may receive payments from individuals or companies which are in the country concerned.

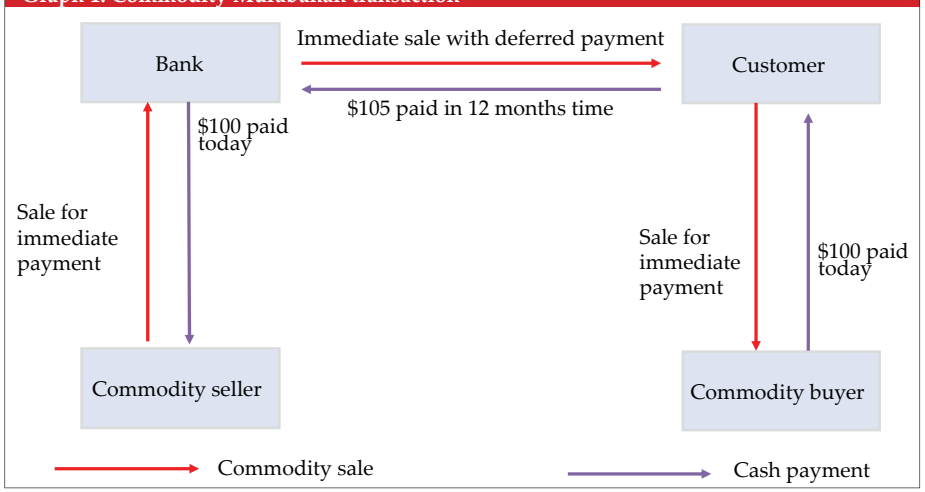
In the first case, the country normally charges tax (income tax or corporation tax) on the business profits made within the country, calculated by comparing revenues and expenses. In the second case no attempt is made to compute the profits of the business as the only connection with the country is the payment which has originated there. Instead, if tax is charged at all, it will be charged simply by reference to the amount of the payment. To ensure that the tax is collected, the in-country person making the payment is required to withhold the tax and pay if over to the country tax authorities. The foreign person only receives the net amount after deduction of the withholding tax.

To decide if a particular cross-border payment will suffer withholding tax requires knowledge of:

1. The domestic tax law of the country concerned, to see whether a payment of the type under consideration suffers withholding tax, and if so at what rate.

2. The double tax treaties that the country concerned has entered into. Most countries negotiate double tax treaties between themselves to prevent businesses being disadvantaged by having the same profits being taxed in both countries.

Graph 1: Commodity Murabahah transaction



Such elimination of double taxation typically leads to increased cross-border business activity, benefiting both countries.

Tax law is different in every country. Furthermore a country may have double taxation agreements in force with dozens of other countries. While such treaties may have similar language there are often differences of detail, since each treaty is negotiated by a unique pair of countries.

Accordingly it is impossible to give a generic answer to the question asked in the title. However to illustrate the principles, this article considers cross-border Islamic finance payments paid from the UK to Malaysia.

What kinds of payments are made in Islamic finance?

Conceptually, Islamic finance payments fall into two categories.

(a) Payments of the same nature as in conventional finance.

Some Islamic finance transactions give rise to payments that are essentially the same as in conventional finance. For example, a Shariah compliant investor may choose to invest only in those transactions which satisfy certain Shariah screening tests, such as not carrying on a prohibited business (e.g. selling pork) and not earning or paying more than a limited amount of interest. These companies will pay dividends to the investor, and the investor may make a capital gain by selling the shares that he has purchased. There is no reason for treating these dividends or capital gains as being different from dividends/capital gains involving companies which fail the Shariah screening tests.

Similarly the payments made under an Ijarah leasing contract are essentially no different from payments under a conventional lease. What makes the Ijarah contract Shariah compliant should be a different allocation of risks and responsibilities between lessor and lessee compared with a conventional leasing contract.

The tax analysis of such payments in Islamic finance is relatively straightforward, as there is extensive experience with the equivalent conventional payments. For example the UK charges 20% withholding tax on rental payments in respect of UK real estate if paid to foreigners; which applies regardless of whether it is a conventional land lease or an Ijarah contract. Conversely the UK generally does not charge withholding tax on leases of movable property located in the UK.

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(b) Payments which are of a different nature from conventional finance.

Some Islamic finance transactions involve payments whose economic nature is quite different from conventional transactions that they may be similar to. This is best illustrated by considering a commodity Murabahah transaction.

The transactions here are the purchase of copper by the bank, its sale to the customer and the customer's sale of the copper to the market.

In a conventional context such copper purchases and sales would normally take place at market prices, with the bank and the customer holding the copper for a meaningful period of time and taking on real exposure to market price fluctuations during the holding period. Even with 'day trading' where the holding period may only be a few hours, the holder will be seeking to profit from price changes occurring during the holding period.

Most countries, including the UK, would not charge tax to a foreign bank that engages in such transactions with copper located within the country unless the bank had some other connection with the country such as an office. Otherwise, it is normal for double tax treaties to give taxing rights to the country of residence of the bank. That is the case with the UK/ Malaysia double tax treaty.

However with commodity Murabahah, neither the bank nor the customer wishes to have any exposure to market price fluctuations during the holding period, and the holding period is kept to the bare minimum. Furthermore the price of US$105 for copper whose immediate re-sale value is only US$100 can only be justified as being arms-length because 12 months credit is allowed for payment of the US$105 price by the customer.

In economic terms, neither the bank nor the customer can be regarded as trading in copper since that involves taking the risk of price fluctuations over a meaningful holding period, even if that holding period is only a few hours. Instead the correct economic analysis is that the transaction is a financing transaction, having the same economic consequences for the bank and for the customer as a loan of US$100 for 12 months at 5% interest.

In general, both the UK and Malaysia charge withholding tax on interest paid to foreign persons. Accordingly one needs to ascertain whether any withholding tax arises on this transaction.

The UK has enacted specific tax law for this transaction. It has the effect of treating the difference between the two prices of US$5 (US$5=US$105-US$100) as an 'alternative finance return' which is treated for tax purposes in the same way as interest.

The legislation which requires the withholding of income tax at 20% when an interest payment is made to a foreign person then becomes applicable. Accordingly under domestic UK law, the customer would withhold 20% of US$5, i.e. US$1 when paying the US$105 to the foreign bank located for example in Malaysia.

The question then arises whether a double taxation treaty will reduce or eliminate this withholding tax. Article 11 of the UK/Malaysia double taxation treaty permits the UK and Malaysia to withhold tax at a maximum rate of 10% on interest paid from one country to another. However, interest is defined as:

"… income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures…"

The definition does not include the mark-up on a commodity Murabahah contract as there is no debt-claim giving rise to income. Furthermore the profit of US$5 that the bank has made appears to fall within the definition of "business profits" in Article 7 of the treaty, which would permit only Malaysia to tax the profits, as the bank does not have a taxable presence in the UK. The overall conclusion would be that the treaty would have the effect of preventing the UK from withholding tax from the US$5 commodity Murabahah profit.

The definition problem is likely to be resolved as the UK renegotiates its double taxation treaties. The current UK/ US treaty is newer than the UK/Malaysia treaty, and contains the following definition of interest in Article 11(2):

"…income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtor's profits, and, in particular, income from government securities and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds or debentures, and all other income that is subjected to the same taxation treatment as income from money lent by the taxation law of the Contracting State in which the income arises…"

The critical difference is that the UK/ US treaty treats as in interest "all other income that is subjected to the same taxation treatment as income from money lent by the taxation law of the contracting state in which the income arises". Accordingly, the interest article of the UK/US treaty would apply to the US$5 profit. The effect would be to reduce the UK withholding tax to zero, which is the withholding tax rate on cross-border interest under the UK / US treaty.

Conclusion

In the case of Islamic finance payments which are of a different nature to conventional finance, one must first determine their tax treatment under national law. That will provide a first indicator of whether any withholding tax is due.

However the national withholding tax requirement may be overridden or reduced by the effect of a double taxation treaty. Most double taxation treaties were negotiated without any consideration being given to Islamic finance. In those cases, the effect of the treaty may be to give a tax outcome different from the natural expectation, as illustrated by the above UK/Malaysia commodity Murabahah transaction.

Disclaimer: As all taxation issues need specific professional advice, the author disclaims any responsibility to anyone who acts or fails to act as a result of the discussion in this article

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Corporate social responsibility for Islamic banks

SUTAN EMIR HIDAYAT and SULIMAN ABDULRAHMAN ALHUR explain the concept of corporate social responsibility for Islamic banks based on AAOIFI's governance standard for Islamic financial institutions.

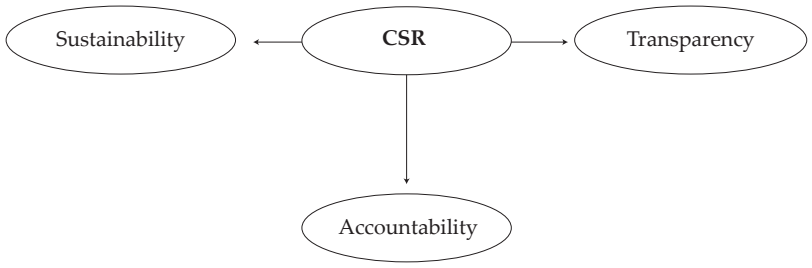
Corporate social responsibility (CSR) has become an important issue in the corporate world. Corporations are realizing the need to run their operations not just to make profit but also to contribute to the betterment of society. Theoretically, corporations may gain various benefits from pursuing CSR: such as increased profits, customer loyalty, trust, positive brand attitude and combating negative publicity. Similar to other corporations, Islamic banks also have to comply with this issue. This is due to the fact that Islamic financial institutions (IFIs) were established with the aims of achieving the objectives of Shariah. One of these objectives is to improve the welfare of the society, which is very much in parallel with the concept of CSR.

However, due to its unique features, the concept of CSR for Islamic banks is somewhat different from the general concept of CSR. Unity, justice, free will and responsibility are the axiomatic principles upon which the conceptual framework of the Islamic perspective of CSR rests. As a result of the differences between CSR for Islamic banks and general concepts of CSR, there are several CSR activities required for Islamic banks which are not required for other corporations.

General concept of CSR

There is no a single definite definition of CSR. On the local level, it refers to the relationship between a corporation and the local society in which it resides or operates. It can also refer to the relationship between a corporation and its stakeholders. All CSR activities operate on three basic principles: namely sustainability, accountability, and transparency. Sustainability requires that no resource shall be used by society more than it can be regenerated. Accountability refers to the responsibility of a corporation for the effects of its activities on the external environment. Transparency means that the corporation has the necessary mechanisms to disseminate to the public truthful information about its operations. Graph 1 summarizes the three basic principles of CSR activities:

Graph 1: Three basic principles of CSR activity



It is thus clear that society is now looking at CSR as a corporate activity that goes beyond making profits. These include caring for employees, being ethical in trading, protecting the environment, and getting involved in the local community. It also refers to a set of standards of behavior that should be followed by any company that desires to have a rightful place in the business world.

> *However, due to its unique features, the concept of CSR for Islamic banks is somewhat different from the general concept of CSR*

AAOIFI's Governance Standard No. 7: Corporate social responsibility conduct and disclosure for IFIs

AAOIFI defines CSR for IFIs as all activities carried out by an IFI to fulfill its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individual and institutions. The definition above differentiates the concept of CSR for IFIs (including Islamic banks) from the general concept of CSR, as the former includes the religious aspect as one of the basic principles of CSR activities. As a result, AAOIFI includes in its standards some religious activities (based on Shariah) in CSR activities for Islamic banks. In addition, discretionary responsibility for Islamic banks is also based on Shariah teaching.

AAOIFI also explains in more detail each aspect of CSR for Islamic banks. Religious responsibility refers to the overarching obligation of Islamic banks to obey the laws of Islam in all dealings and operations. Economic responsibility refers to the obligation for Islamic banks to be financially viable, profitable and efficient. Legal responsibility refers to the obligation of Islamic banks to respect and obey the laws and regulations of the country of operation. Ethical responsibility refers to the obligation of Islamic banks to respect the mass of societal, religious and customary norms which are not codified in law. Discretionary responsibility refers to the expectation from stakeholders that Islamic banks will perform a social role in implementing Islamic deals over and above the religious, economic, legal and ethical responsibilities. Graph 2 summarizes the aspects of CSR for Islamic banks.

Referring to the above five aspects of responsibility, AAOIFI identifies 13 activities for Islamic banks to perform in order to fulfill their CSR. The 13 CSR

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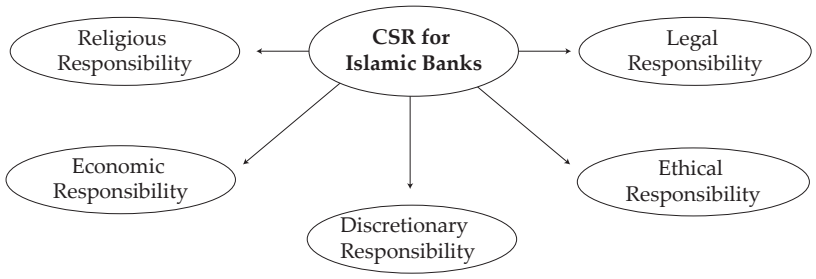
Graph 2: Aspects of CSR for Islamic banks



activities of Islamic banks can be divided into two categories: namely mandatory and recommended conducts. There are five activities under mandatory conduct and eight activities under recommended conduct.

Mandatory conduct

1. Policy for screening clients: Among the responsibilities of Islamic banks under this category are to ensure that the clients' investments are compliant with Shariah, the clients are not using the Islamic banks to engage in any criminal activities such as money laundering and the clients' investments are not negatively impacting the economy, society and environment.

2. Policy for responsible dealing with clients: Among the responsibilities of Islamic banks under this category are to avoid the imposition of onerous terms and conditions to clients, ensure that all marketing campaigns and documents are ethically balanced, promoting business without an exclusive focus on profits, the implementation of responsible financing practices in all types of transactions with clients, and fair dealing with late repayment and insolvent clients.

3. Policy for earnings and expenditures prohibited by Shariah: Among the responsibilities of Islamic banks under this category are to specify the reasons for undertaking such prohibited transaction and how Islamic banks intends to dispose of such revenues, assets and liabilities created from the prohibited transactions. Islamic banks are also responsible under this category for finding viable permissible alternative transactions to the current ones.
4. Policy for employee welfare: Among the responsibilities of Islamic banks under this category are to stipulate provisions for the rights and obligations of employees, avoidance of discrimination and child labor, expected behavior of all employees, and merit-based salary and promotion structure for all employees.

5. Policy for Zakat: Among the religious responsibilities of Islamic banks is to collect and distribute Zakat revenues on behalf of clients, customers, or shareholders (subject to the approval of Shariah supervisory board).

Recommended conduct

1. Policy for Qard Hasan: Islamic banks are encouraged to establish a Qard Hasan fund, circumstances in which such loans are distributed, maintain its record of sources and uses, establish write off conditions for debtors unable to repay the loans and develop strategy to increase the fund amount.

2. Policy for reduction of adverse impact on the environment: Islamic banks are encouraged to reduce the impact of their operations on the environment including minimal usage of non-renewable resources, incentives and initiatives to find alternatives to non-renewable sources of energy and materials for operations.

3. Policy for social, development and environment based investment quotas: Islamic banks are encouraged to assist poor and needy individuals, orphans, heavily indebted individuals, development of research and education facilities.

4. Policy for par excellence customer service: Islamic banks are encouraged to establish a code of conduct for all employees and contractors in dealing with customers, develop customer service skills of employees and conduct surveys on customer service feedback from the clients.

5. Policy for micro and small business: Islamic banks are encouraged to assist micro and small businesses through special features and terms of these types of investment depositors.

6. Policy for social savings and investments: Islamic banks are encouraged to offer social savings for marriages, children's education, community-based programs, and other social welfare programs with the aim of improving the welfare of the society.

7. Policy for management of Waqf properties: Islamic banks are encouraged to manage Waqf properties on behalf of their beneficiaries. One of the possible Waqf to be managed is cash Waqf (Waqf al-Nuqud).

8. Policy for charitable activities: Islamic banks are encouraged to establish charity funds and avenues for voluntary donations by donors, establish fund raising drives from banks' clients through existing operational means and identify target groups, communities and institutions that require assistance.

The importance of public awareness on CSR activities of Islamic banks

It is clear that CSR is part of Islamic banks' activities. However, there is a question on how to measure the success of CSR activities undertaken by Islamic banks. One way to measure the success of CSR programs of Islamic banks is by evaluating the public awareness of CSR activities conducted by these banks. Among the objectives of public awareness are: to bring out the best advocacy results, to make people aware of a new piece of information, fill a knowledge gap in understanding an issue, stimulate the change of public attitudes and ultimately change public behaviors. However, to the best knowledge of the authors, there are only a few studies that track the public

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awareness of Islamic banking activities and its role in the enhancement of society.

CSR survey

One of these studies was a research paper recently conducted which related to awareness on CSR activities of Islamic banks using AAOIFI's Governance Standard No. 7 as the basis. The survey was conducted through a questionnaire distributed to 154 CEO of large IFIs worldwide. However, only 29 institutions completed the questionnaire. Using the 'yes' and 'no' approach, the survey revealed that 100% of respondents answered yes to having a policy to screen prospective clients which is actively implemented. Similarly 97% have an organizational policy that deals with client responsibly. Eighty three percent of the respondents stated that they had policy that provides equal opportunities to all their employees. Seventy six percent indicated that they had policies for charitable activities. Overall, the results suggest that IFIs are in general performing well regarding most aspects of social responsibility, contrary to criticisms that have been leveled at the industry.

> ***"Studies on CSR in Islamic banks reveal that Islamic banks do have a good start on most aspects of social responsibility"***

However, this varies widely between institutions. Also, the IFIs have yet to move from the negative screening framework, which is primarily based on avoidance (first generation), to the positive action framework, which is based on both avoidance and engagement in socially responsible activities (second generation).

Conclusion

Studies on CSR in Islamic banks reveal that Islamic banks do have a good start on most aspects of social responsibility. However, they have yet to move from the negative screening framework to the positive action framework. In addition, they should intensify their efforts to make their clients more aware of the CSR programs undertaken by them.

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Islamic finance in M&A: Opportunities and challenges

While specific M&A activity involving Islamic finance is currently limited, there are clearly wide-ranging opportunities for acquisitive companies to explore and exploit. BARRY COSGRAVE, CARLO PIANESE and EMILE BOULOS explore.

As traditional lines of credit dry up and the crisis in Europe and elsewhere deepens, many corporates and investment institutions are increasingly turning to alternative modes of finance in order to fund acquisitions. The low yields offered by Sukuk financing in particular have attracted notice with several institutions favoring Sukuk over their traditional capital markets funding lines. Recent Sukuk issuances in the US and elsewhere may herald a new phase in Islamic financing as the drivers behind the choice to go Islamic move away from matters of traditional Shariah compliance and instead become driven by the need to diversify sources of funding to satisfy liquidity needs. This could be a boon for the Islamic finance industry but care will need to be taken to ensure that the principles of Shariah are adhered to in a manner that is acceptable to the broadest group of scholars as possible.

> *"A company must meet certain financial ratio criteria in order to qualify as a Shariah compliant investment"*

The drivers behind Shariah compliant acquisition finance and conventional acquisition finance in the context of an M&A transaction are economically comparable but it should be noted that the former must comply with strict Shariah screening criteria. It is clear that by abiding by Shariah principles, a buyer's investment opportunities are more limited; although it could also be argued that such a buyer can enjoy a larger pool from which to raise money as Islamic funds tend to attract both Islamic and conventional investors. There is also a common misconception that Islamic finance — and the precepts of Shariah that guide it — is something that is available to Muslim investors only. However, as further discussed below under Shariah screening criteria, many of the prohibitions on investment that guide Islamic finance overlap with the principles that guide ethical investments in the conventional sphere: such as a prohibition on investing in casinos and arms production.

Shariah screening criteria

Any M&A transaction will only be considered an Islamic M&A transaction if it satisfies specific Shariah criteria. These range from the nature of the financing instrument itself to the nature of the target's business. The business of the target is obviously particularly relevant in the context of an M&A transaction owing to the fact that the use of proceeds for any acquisition facility associated with it will be narrowly defined and that the end result of such transaction will be the integration of the target or its assets into the business of the purchaser.

As each M&A transaction presents a different fact pattern it is not possible to produce an exhaustive list of the requirements of Shariah. However, there are certain key principles that will always need to be considered when a target is selected and the failure to satisfy one or more of these criteria will be a 'red flag' issue. The criteria exclude any proposed investment in a company based on the following two key principles: (i) the nature of the business conducted by the target company and (ii) the financial viability of the target company.

Business activity screens

In order to qualify as a Shariah compliant investment, at least 95% of a company's gross revenues must be generated from business activities not excluded under the Shariah principles. Any business activity involving alcohol, tobacco, pork-related products, pornography and conventional financial services is an excluded activity under the Shariah principles. While on the surface these restrictions might seem to be clear (an M&A transaction involving a casino or an alcoholic drinks manufacturer would obviously be prohibited), there are more far-reaching implications. For instance, were an M&A transaction to involve a retail business that owned a number of shopping malls, consideration would need to be given as to whether those shopping malls contained cinemas, alcoholic drinks outlets and any pork butchers. In the event that they do, it is common for scholars to request that such aspects of the business are carved out of the deal or that they are not material; with the materiality threshold being revenues that do not exceed 5% of the target's revenues.

Financial ratio screens

A company must meet certain financial ratio criteria in order to qualify as a Shariah compliant investment. The relevant financial benchmarks used differ slightly and are dependant on the Shariah school of jurisprudence adopted by the scholar advising on the relevant investment as well as the investment itself. It is generally accepted that the company's total debt should be less than 33% of the equity; accounts receivables should be less than 49% of total assets; and interest income from cash and interest-bearing securities should not be more than 5% of the total income. This becomes particularly relevant in the context of an acquisition financing and consideration will need to be given to the balance sheet of the target both before and after the completion of any acquisition.

It should be noted that although there are certain restrictions which apply to Islamic finance, there is nothing that states that it is not possible for Islamic investors and institutions to profit from business activity. In line with

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this thinking, scholars are prepared to take a pragmatic approach to the implementation of the above guidelines in the form of granting a post-completion grace period during which the purchaser must 'clean up' the business of the target so as to ensure that it complies with the principles of Shariah. Such 'clean up' or 'Islamization' of the relevant target's operations can be achieved through paying off the target's conventional debt and/or replacing it with Shariah compliant financing instruments. Further, an ongoing dialogue with the scholars is to be encouraged from the outset of any proposed transaction so as to provide clarity to both sides and allow for collaborative solutions to any issues that may arise.

> ***"Although the Bai Salam structure has traditionally been used to provide working capital, it has recently also been used as a form of acquisition financing"***

Common structures used for financing M&A transactions

Innovative products are of course common in the still-burgeoning Islamic finance industry and this innovation may increasingly be turned on the world of M&A. A number of transactions in the past have employed Islamic acquisition financing.

Commodity Murabahah

Most notable among these is The Investment Dar (TID)'s acquisition of its stake in Aston Martin in 2007. TID is a fully Shariah compliant company and as such conventional methods of finance were not available to it. Instead, TID used a commodity Murabahah financing to raise the funds required to purchase its stake. TID also had to satisfy itself and its Shariah board that the Aston Martin Lagonda group was a company suitable for investment from an 'activity' standpoint. Being a car manufacturer this was a relatively straightforward process but consideration should be given to certain car manufacturers that, for instance, have fighter jets manufacturing divisions or a consumer finance arm. In such circumstances the structure of the deal becomes important as it will determine at what level the investment or acquisition is made. The implication of this is that a corporate reorganization may be required in order for a company to be deemed eligible for an acquisition or investment by another in compliance with the principles of Shariah irrespective of any financing structure that may be utilized.

Bai Salam

Although the Bai Salam structure has traditionally been used to provide working capital, it has recently also been used as a form of acquisition financing. The acquisition by the Infrastructure and Growth Capital Fund and Abraaj Buy Out Fund II of the Egyptian Urea Petrochemicals Company was partially refinanced by a syndicate of financiers (led by Deutsche Bank) using the principles of the Bai Salam structure, whereby the purchase of a future supply of urea by the financiers was agreed with Egyptian Urea Petrochemicals Company being appointed by the financiers to sell the supplies of urea on their behalf. This was a US dollar refinancing and the return on the financing was benchmarked to Libor plus a fixed margin. What is interesting about the Bai Salam structure employed here is the difference between it and a financing that relies solely on the balance sheet of the obligor to make payments of, for example, the Murabahah purchase price. A structured repayment profile similar to the one outlined above may also appeal to the risk appetite of a private equity fund and, given the opportunity for sharing in the losses as well as the profits of the target, would also appeal to one of the central principles of Shariah.

Sukuk

However, it is Sukuk financing that is currently catching the eye of the M&A market, owing to the current low yields and the relative ease with which offerings are being brought to market. Much of this is a result of the dearth of Islamic assets classes in which funds can invest. Sukuk would be a popular choice for many Shariah compliant investment funds and as such their popularity is high.

Sukuk funding was successfully utilized by DP World in connection with its acquisition of a stake in P&O. DP World used a Musharakah structure under which it invested (through its subsidiary Ports, Customs & Free Zone Corporation (PCFC)) a US$1.5 billion contribution in kind in the Musharakah. The Sukuk holders invested US$3.5 billion in the Musharakah through PCFC Development FZCO which, together with PCFC's investment, provided the capital necessary to meet the purchase price for the target: P&O. The Musharakah partners then appointed PCFC as manager of the Musharakah capital and instructed it to complete the purchase of P&O.

The challenge for industry professionals will be to augment the typical Sukuk structures with more sophisticated structured returns to satisfy the needs of financial investors. A structured return profile or alternative exits can take many forms but one of the more obvious is that of a convertible Sukuk, as seen with Nakheel's issuance in 2008, the Tabreed Mandatory convertible Sukuk issued in 2008, as well as the PCFC example above. The Nakheel convertible Sukuk offered investors the opportunity to exchange the amounts payable to them at redemption under the purchase undertaking for the right to participate in any qualifying public offering on preferential terms. This sort of structure would lend itself well to financial investors seeking to participate in the upside following the restructuring of a target. Similarly, a mandatory convertible could be employed to lock investors into a participation in the future of the target.

Musharakah

The Musharakah structure is one which also lends itself to the world of private equity as it is a partnership structure in which the parties agree to share in any losses of the business/project in proportion to their initial investment but may agree on a profit-sharing mechanism in any manner they wish.

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In structuring a Musharakah where shares of a target are the underlying assets, careful consideration will need to be given to AAOIFI's ruling in 2008 regarding the valuation of the assets subject to the purchase undertaking. AAOIFI ruled that assets should be valued at their fair market value immediately prior to their purchase by the obligor at maturity/exit (as opposed to fixing the price in reference to the face value of the outstanding Sukuk). Where shares are involved this means that the concept of principal protection that was seen in many pre-2008 Musharakah structures cannot be used.

For example, in the case of the P&O transaction, the underlying assets of the Musharakah were the shares in P&O (and certain other Shariah compliant investments). In order to return the principal amount invested to Sukukholders at maturity, DP World is required to purchase the interest held by the Sukukholders' in the P&O shares under the Musharakah. It should be noted that a right was also included (and was exercised) for Sukukholders to convert a portion of the cash purchase price for the Musharakah assets held by them for shares in DP World in the event of an IPO of DP World. The DP World transaction pre-dated the 2008 AAOIFI ruling and as such there are doubts as to whether such a structure would work were it to be proposed today. It is instead more likely that the scholars would insist on a market valuation of the P&O shares prior to the exercise of rights under the purchase undertaking. Whilst this risk profile may appeal to certain classes of investors, consideration will also need to be given to the impact such a structure may have on pricing and/or the ratio in which profits are shared when a Musharakah structure is utilized.

Mudarabah

Under the Mudarabah structure the financier commits capital to a project and the Mudarib (who is seeking the capital injection) commits their expertise. The financier takes a risk on the business/project and the ability of the Mudarib to deliver on its business plan, but this sort of risk has appeal to certain investors especially if the proposed venture has the opportunity of making a healthy profit. Therefore it could usefully be used in the venture capital and, to a lesser extent, private equity space to provide structured, equity-style returns which are offset against the risk of the business/project failing.

Other variations to the Mudarabah structure include the utilization of a Wakalah (investment agency) arrangement by which the obligor acts as an agent to the investor, hence lending its investment management expertise within the framework of a pre-determined set of investment guidelines and restrictions. These include both general investment criteria (e.g. concentration, industry and geography) and Shariah investment criteria. Wakalah arrangements are commonly used in the context of private equity and real estate investment funds.

Conclusion

While specific M&A activity involving Islamic finance is currently limited, there are clearly wide-ranging opportunities for financiers, funds and acquisitive companies to explore and exploit. The challenge for industry professionals as always will be to provide innovative products to meet these requirements and to attract investments by both Islamic and conventional investors into industries that are 'ethical' and unduly burdened by debt. This can only be achieved through an alliance of creativity and an understanding of the key precepts of the Shariah through a process that engages scholars at an early stage and maintains dialogue throughout. As events in Europe continue to unfold, sources of funding will become ever more diverse and new solutions need to be found. Islamic finance structures represent an opportunity to provide creative solutions to these evolving problems.

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Asset Management

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Beyond the religious factor

Cover Story

Singapore is a thriving economy, with real GDP growth averaging 7.1% between 2004 and 2007.

The global financial crisis had caused a contraction of 0.8% in 2009 although it rebounded to 14.5% in 2010. However, the weak global economy and Eurozone debt crisis last year is clearly taking a toll on the island republic's economic growth, which grew an estimated 5.3% in 2011.

Singapore's ministry of trade and industry in November last year projected protracted growth of between 1-3% in 2012, citing a cloudy economic outlook for the heavily dependent export nation.

In the Islamic finance arena, news of Singapore Unit Trusts (SUT) withdrawing two of its Shariah compliant funds in the second quarter this year has left a bitter aftertaste for many in the industry, particularly when most Islamic funds in the Southeast Asian region are outperforming their conventional peers.

SUT posted on its website that its Ethical Growth Fund and Ethical Value Fund will be terminated with effect from the 9th May 2012, with subscriptions into the fund no longer accepted with effect from the 17th January 2012.

SUT attributed the closure of the two funds, launched in September 2001, to their small respective fund size as well as the increased management costs.

Since inception the funds have underperformed their respective benchmark, the Dow Jones Islamic Market Index, contracting by 32%, according to SUT's factsheets as at the 30th January.

The factsheet of the respective funds go on to state that both funds have investments not only in the Asia Pacific region but also in Europe and the US – continents that have been plagued with monetary and economic crises.

> ***"Relying merely on compliance to Shariah has so far proven unsuccessful for the majority of Singapore-domiciled funds"***

SUT's funds are not the only ones underperforming in Singapore. HSBC Insurance has three Shariah compliant investment linked policy funds that have also been registering negative performance.

HSBC-Link Ethical Global Equity Fund, which feeds into the HSBC Amanah Global Equity Index Fund, which in turn invests heavily in the US markets, posted a negative cumulative performance of 18.72% but still outperformed its customized benchmark index by 5.69%.

The fund size stood at SGD61.45 million (US$49.36 million) as at the 30th November 2011. The other two funds are also miniscule with assets under management (AUM) of below SGD20 million (US16.06 million) respectively.

Another fund with a low AUM is the Afdaal Asia Pacific Equity Fund, managed by UOB Asset Management. As at the 30th December 2011, the fund's AUM stood at SGD5.51 million (US$4.42 million). In terms of returns, the fund also registered in the negative region of 13.94%, but it did outperform the benchmark by 1.03%.

Having a 'first of firsts' in terms of Islamic investments has also not been an alluring factor. Case in point is Daiwa Asset Management, which launched the company's and the country's first Shariah compliant exchange traded fund in 2008. The Daiwa FTSE Shariah Japan 100 has since accumulated assets of US$2.95million as at the 8th February and despite outperforming its benchmark by 1.16%, its total returns were still -12.14% as at the 30th December 2011.

Muslims make up 14.7% of the total estimated 5.18 million population in Singapore. Relying merely on compliance to Shariah has so far proven unsuccessful for the majority of Singapore-domiciled funds in attracting Muslim investors — retail and institution alike — in this small nation.

At the end of the day, fund managers of these funds should always remember the cardinal rule that performance in terms of returns is still paramount to an investor, Muslim or otherwise. — *RW*

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IDB Fund divesting power plant stake

GLOBAL: The IDB Fund has entered into an agreement to sell a 23.3% stake in Jordan-based Amman East power plant to Qatar's state-owned utility firm Qatar Electricity & Water Company (QEWC).

Under the agreement, QEWC will acquire the fund's 38.9% stake in AES Oasis, which owns AES Jordan, the operator of the Amman East power plant.

The value of the transaction, which is expected to close in the current quarter, was not disclosed.

Independent financial advisory firm Rothschild advised the IDB Fund on the deal, while QEWC was advised by The Royal Bank of Scotland.

Strong growth

GLOBAL: Wealth management company SEI's assets under management at its subsidiary, SEI Islamic Investments Fund, grew more than 25% in 2011.

Launched in 2007, the SEI Islamic Investments Fund is a UCITS investment company fund with four underlying sub-funds: the SEI Islamic Emerging Markets Equity Fund, the SEI Islamic European Equity Fund, the SEI Islamic Pacific Basin Equity Fund and the SEI Islamic US Equity Fund.

Abraaj Capital sets sights on Turkey

GLOBAL: UAE-based Abraaj Capital is set to acquire more Turkish companies in 2012 after raising US$1 billion from its sale of Turkish hospital chain Acibadem Saglik Hizmetleri ve Ticaret.

Abraaj currently has around US$6.5 billion of assets under management and is reportedly in negotiations with up to four companies in Turkey.

Risk-averse investing

MALAYSIA: AmIslamic Funds Management has launched AmIslamic Fixed Income Conservative, an Islamic bond fund which provides capital appreciation over the short-to-medium term.

The fund is to be invested in a portfolio comprising fixed-income devices that are Shariah compliant.

60% acquisition

GLOBAL: US private asset management firm Rohatyn Group has agreed to acquire 60% of CapAsia, the private equity subsidiary of Malaysia-based CIMB Group.

CapAsia has more than US$400 million in assets under management and previously raised more than US$500 million in capital commitments across three funds, one of which is Shariah compliant.

However, the value of the transaction was not disclosed.

Returns for aircraft leasing

BAHRAIN: Local Islamic investment bank Capital Management House (CMH) has distributed a dividend of 10% per annum for the GCC investors of its CMH Aircraft Leasing Investment Company for the fourth quarter of 2011.

"At the end of 2010, we identified aviation and the leasing sub-segment, in particular, as areas of opportunity and concluded a successful transaction that enabled CMH to realise strong gains and create a steady stream of income for the bank and our investors throughout 2011," said Mohamed Aljasim, the chief investment officer of CMH.

The bank is also exploring further opportunities in aviation and leasing.

Hwang AIIMAN Income Plus Fund

To provide a steady income stream over the medium to long-term period through investments primarily in Shariah-compliant debentures or Sukuk

Why has this particular region and asset class been chosen?

AIPF, initially launched as AIIMAN Balanced Fund, had its mandate changed to a Sukuk fund effective the 15th April 2010 to take advantage of Malaysia's vibrant Sukuk market. With AIPF, retail investors are now able to access Sukuk as an asset class and receive regular income over the medium to long-term period.

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

Since the change in mandate on the 15th April 2010, AIPF's performance has been driven by the local Sukuk market as well as our stringent credit selection process before and during the investment.

What specific risks does the fund take into consideration? And why?

Just like any other investment, AIPF carries specific risks. However, the main potential risk is the local Sukuk market. We mitigate the potential risk with our stringent credit selection process before and during the investment. Moreover, the strategy for Shariah compliant investments in local Sukuk is driven by the interest rate outlook for the market over the medium to long-term horizon.

How often do you review this fund?

AIPF is constantly monitored closely by the respective portfolio manager driven by our investment process of which is an on-going process to ensure that the fund meets its objective to provide a steady income stream over the medium to long-term period. Moreover, the fund is also reviewed by an investment committee on a quarterly basis and since we place emphasis on our stringent Shariah investment framework and guidelines, we submitted AIPF's portfolio to the Shariah advisor on a monthly basis.

What are the specific Sukuk that are heavily invested in and why?

No.	Sukuk
1	AmIslamic Bank 4.4%
2	National Bank of Abu Dhabi 4.9%
3	Konsortium Lebuh Utara 7.27%
4	TSH Sukuk Ijarah 4.3%
5	Malakoff Corporation 6.68%

The primary focus for AIPF is on credit quality to ensure capital preservation and maintain portfolio integrity

What is the rate of return of this fund?

For the period under review since inception on the 28th June 2004 to the 31st December 2011, AIPF has registered 65.01% total returns equating to annual compounded returns of 6.94% per annum.

What is the market outlook for this fund?

The current market outlook for AIPF is very positive. It will be good time for the issuers in 2012 as we expect interest rates to remain low. As such, Sukuk issuers would have lower funding cost when they issue bonds in Malaysia. Hence, we aim to continue to improve the credit quality as value opportunities arise to do so.

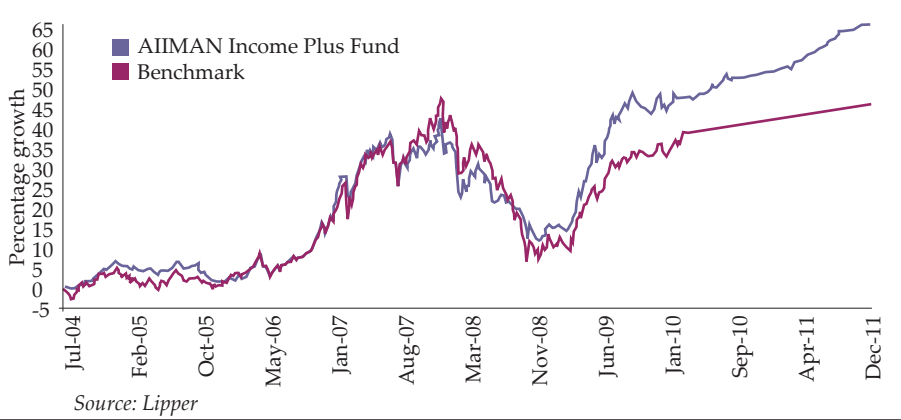
Fact sheet

Management Company	Hwang Investment Management (HwangIM) (Formerly known as HwangDBS Investment Management)
External Fund Manager	Asian Islamic Investment Management (AIIMAN)
Trustee	HSBC (Malaysia) Trustee
Shariah Advisor	Amanie Advisors
Benchmark	12-Month Maybank General Investment Account (GIA) rate
Domicile	Malaysia
Inception Date	28th June 2004
Fund Characteristics **(as at 31st December 2011)*	**Fund Type** Open-ended Fund **Fund Size** RM133.5 million (US$44.09 million) **NAV per share** RM0.55 (US$0.18) **Minimum / Subsequent Investment** RM1,000/ RM100 (US$302.8/ US$30.28) **Annual Management Fee** 1% of the NAV of the Fund per annum

***Performance Summary**

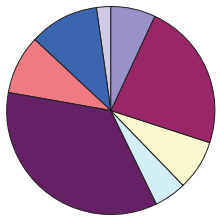
	Sukuk Maybank 12 Months GIA-i Tier I Rate		Hwang AIIMAN Income Plus
Year to date	Changes	3.05	7.95
	Rank	—	8/56
Since Inception	Changes	27.01	65.01
	Rank	—	3/26

***Fund Performance**



Source: Lipper

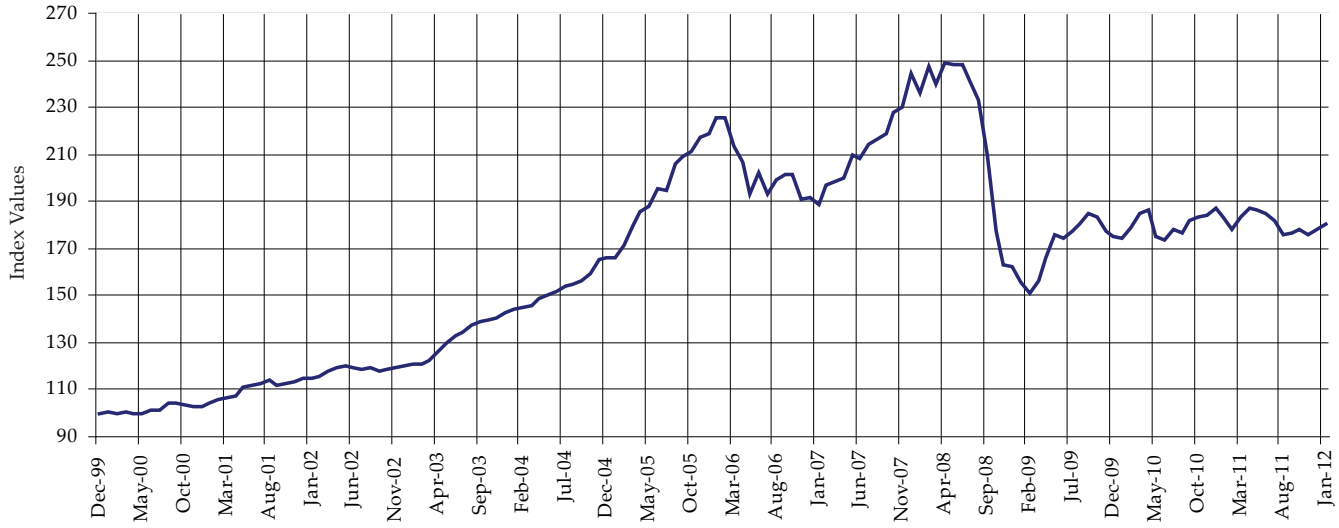
***Sector Allocation**



Asset backed securities	2%
Islamic banking	7%
Cash	23%
Financials	8%
Government	5%
Industrial	35%
Special purpose vehicle	9%
Utilities	11%

Source: HwangIM

Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 Monthly returns for Asia Pacific funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Atlas Islamic Stock	Atlas Asset Management	10.58	Pakistan
2	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	10.03	Pakistan
3	Meezan Islamic	Al Meezan Investment Management	9.75	Pakistan
4	Al Naqaa Asia Growth	Banque Saudi Fransi	9.41	Saudi Arabia
5	Al Meezan Mutual	Al Meezan Investment Management	8.90	Pakistan
6	AlAhli Asia Pacific Trading Equity	The National Commercial Bank	8.30	Saudi Arabia
7	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	7.76	Pakistan
8	Asian Pacific Shariah Growth - USD I	CIMB-Principal Asset Management	6.77	Guernsey
9	CIMB Islamic Small Cap	CIMB-Principal Asset Management	6.06	Malaysia
10	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	5.96	Malaysia
	Eurekahedge Asia Pacific Islamic Fund Index		**2.09**	

Based on 61.44% of funds which have reported January 2012 returns as at 14th February 2012

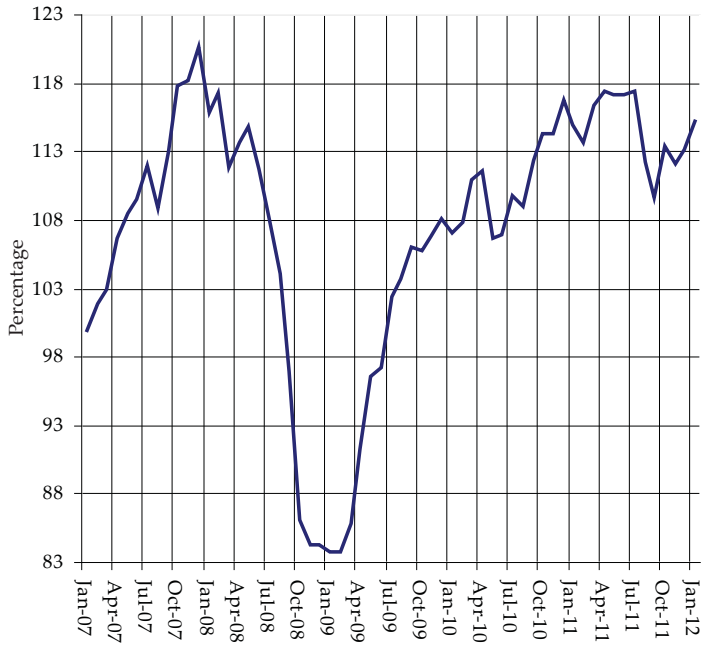
Top 10 Monthly returns for Middle East/Africa funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Aman Fund - CIB & Faisal Islamic Bank Mutual	Commercial International Asset Management	10.99	Egypt
2	Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	10.73	Egypt
3	Al Baraka	Hermes Fund Management	10.15	Egypt
4	Jadwa Africa Equity Freestyle	Jadwa Investment	5.08	Saudi Arabia
5	Al-Mubarak Pure Saudi Equity	Arab National Bank	3.75	Saudi Arabia
6	Futuregrowth Albaraka Equity	Futuregrowth Specialist Asset Management	3.73	South Africa
7	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	3.66	Saudi Arabia
8	Bakheet Saudi Trading Equity	Bakheet Investment Group	3.56	Saudi Arabia
9	AlAhli Saudi Mid Cap Equity	NCB Capital Company	3.52	Saudi Arabia
10	Eammar and Estethmar	Bayan Investment Company	3.41	Kuwait
	Eurekahedge Middle East/Africa Islamic Fund Index		**1.27**	

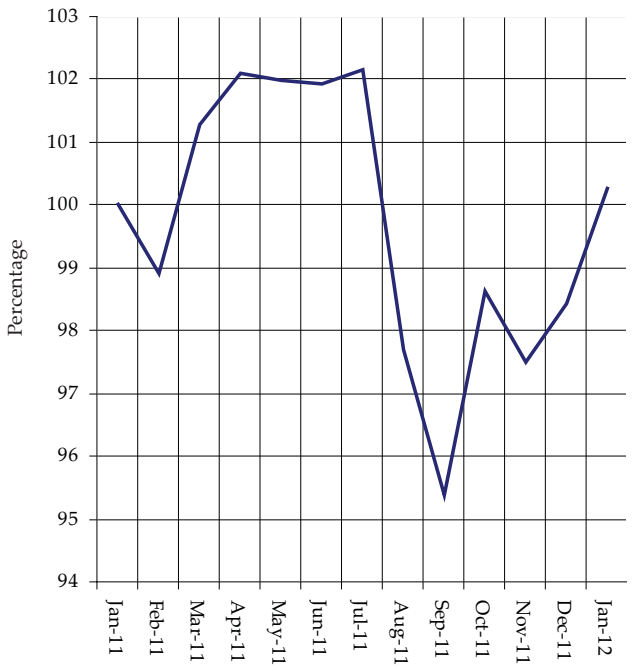
Based on 70.10% of funds which have reported January 2012 returns as at 14th February 2012

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

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	1.92	Saudi Arabia
2	AlManarah High Growth Portfolio	The National Commercial Bank	1.54	Saudi Arabia
3	Al Rajhi Multi Asset Growth	Al Rajhi Bank	1.45	Saudi Arabia
4	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	1.10	Saudi Arabia
5	AlManarah Medium Growth Portfolio	The National Commercial Bank	1.02	Saudi Arabia
6	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	0.77	Saudi Arabia
7	Jadwa Balanced Allocation	Jadwa Investment	0.61	Saudi Arabia
8	AlManarah Conservative Growth Portfolio	The National Commercial Bank	0.55	Saudi Arabia
9	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	0.41	Saudi Arabia
10	Jadwa Conservative Allocation	Jadwa Investment	0.32	Saudi Arabia

Based on 100.00% of funds which have reported December 2011 returns as at 14th February 2012

Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	7.07	Saudi Arabia
2	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	3.83	Ireland
3	Al-'Aqar KPJ REIT	AmMerchant Bank	1.77	Malaysia
4	Al Dar Real Estate	ADAM	1.24	Kuwait
5	Markaz Real Estate	Kuwait Financial Centre	1.06	Kuwait

Based on 93.34% of funds which have reported January 2012 returns as at 14th February-2012

Contact Eurekahedge
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Takaful news

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15th February 2012

Quality assured

Cover story

Significant growth has been forecast for the Takaful industry in 2012. However, the industry has yet to prove that it can successfully achieve enough critical mass to be entirely self-sustaining, especially after some significant retrenching post-financial crisis. So how do operators go about achieving significant advancements in the Takaful industry, and move beyond their initial base to the next level?

Opportunities abound within the industry, as current Takaful uptake accounts for little over 1% of the total global insurance market. However, Takaful operators need to ensure that they have strong foundations in place to sustain financial performance. Ghassan Marrouche, the general manager of Takaful Emarat commented: "The Takaful industry, like any other growing industry, is facing challenges like increasing competition, the need for skilled professionals, a regulatory and prudential framework and Shariah compliant investment opportunities which need to be addressed. Takaful operators must focus on improving the quality of their product offerings."

Raising awareness of Takaful and encouraging investment discipline will help to sustain the rapid growth expected in 2012. One of the central challenges for Takaful is to raise product awareness beyond simply adherence to religious principles and towards the inherent benefits that cooperative insurance can offer its participants. Understanding at the corporate level also remains problematic as far too few companies realize that there are products on offer to meet their requirements and as a result fail to request a quotation.

In addition, overall insurance penetration is also significantly lower than in many emerging Takaful markets, an indication that insurance is not a priority for individuals unless it is made mandatory through government regulations.

Another central issue is a shortage of experts with significant competency in Takaful to create alternative and viable products; hindering future innovation in an industry desperately requiring fine tuning to the needs of those that it is hoping to serve. Creating quality products that identify with the customer base as a whole will allow Takaful to permeate the market, spreading beyond its current theology-focused boundaries.

Islamic banks and Takaful operators have experienced rapid growth in recent years and we see this trend continuing as there is significant potential for product development and service enhancement in the industry. According to Marcel Omar Papp, the head of re-Takaful at Swiss Re: "Takaful operators must focus on underwriting quality, cost management and investment discipline as the current volatile investment environment presents a challenge to overall financial performance."

Takaful has a number of attributes that need to be identified and capitalized on, particularly in light of the continuing global financial crisis. So far the articulation of the attributes and value proposition of Takaful has not taken place and needs to be introduced to a wider audience and to markets beyond Malaysia and the GCC.

Takaful has garnered a better image perception primarily due to its perceived ethical dimension and transparent nature gifted to it through its adherence to the principles of Shariah. By increasing consumer education and product knowledge, the industry can capitalize fully on these inherent features to move beyond Muslim targeted approaches to sales and uptake.

Takaful is still looking for its own paradigm shift, allowing it to operate on its own plane without subsidy or slanted market and regulatory support.

Essential to achieving this momentum and to take the industry to the next level will be the creation of simple, easy to understand products that avoid unnecessary technical jargon and heavy reliance on Arabic terminology. A customer should be drawn to the inherent qualities offered by Takaful. By raising the expectations of what a Takaful provider can offer, the industry can begin to compete on a higher service level. In creating distinguishing features between service providers you gain customers, as it is this principle of choice and quality of service on which people base their selection of provider.

— *SW*

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Takaful News 33

US$12.3 million net profit

QATAR: Qatar Islamic Insurance Company has announced a net profit of QAR45 million (US$12.3 million) for 2011 against QAR47.2 million (US$ 12.9 million) in 2010.

Complications for growing Takaful markets

GLOBAL: Medical, healthcare and life insurance business markets are growing particularly strongly in the Middle East but the growth is not without complications, according to Justin Balcombe, the senior director of Ernst & Young MENA Insurance.

In particular, hurdles in the Takaful market include operating in unprofitable segments and the existence of too many companies in the market, he said.

Large potential for Takaful

GLOBAL: The GCC's insurance and reinsurance industry is set to see additional business from the US$960 billion-worth of investments in infrastructure projects planned over the next decade, said Abdul Rahman Mohammed Al Baker, the executive director of financial institutions supervision at the Central Bank of Bahrain.

He said among sectors creating great potential for the insurance industry's growth and transformation includes roads and railway projects, where planned spending in the GCC between 2011-2020 amounts to US$97 billion.

He also noted that the recent financial meltdown in the Middle East has provided an opportunity to build a platform for the development and growth for the Takaful industry.

Yassir Al Baharna, CEO of Arab Insurance Group, also commented that: "The growth in the Middle East insurance is fuelled by a surge in regional demand for products. The low levels of insurance penetration and strong economic growth hold tremendous potential for growth in the Middle East."

Takaful in Tanzania?

TANZANIA: The country may launch Takaful services in the market if an ongoing study by the Tanzania Insurance Regulatory Authority Insurers (TIRA) gathers sufficient evidence for the demand and supply of Takaful services.

TIRA is conducting a viability study with the Association of Tanzania Insurers on Takaful products and the associated regulatory framework.

The study will also identify legislative and operational gaps for the introduction of Takaful and propose legal and regulatory initiatives to eliminate these gaps.

TIRA also seeks to carry out a comparative study of Takaful insurance regulatory frameworks of selected jurisdictions where both Takaful and conventional insurance operations are regulated; with a view to identifying regulatory models that may be feasible for Tanzania.

Great expectations

OMAN: The introduction of Takaful is expected to drive the growth of the country's insurance industry, although it will take time to gauge the effects of the Shariah compliant insurance market on the wider industry.

According to a report by Islamic Finance Advisory & Assurance Services, 85% of Omani consumers have shown interest in taking up Islamic financial products, such as Takaful.

Existing insurance firms are also hopeful that Shariah compliant products will help increase investment earnings.

However, the country's insurers remain mindful that it will take time for the establishment of Takaful in the local market, with some industry players likely to adopt a wait-and-see approach on whether a major shift by policyholders to Shariah compliant products will materialize.

Medgulf's 1.5% net profit increase

SAUDI ARABIA: Mediterranean & Gulf Cooperative Insurance & Re-insurance (Medgulf) has announced a net profit of SAR206.8 million (US$55 million) for 2011 compared with SAR203.7 million (US$54 million) in 2010.

The growth was due to an increase in its insurance operations surplus.

Aiming higher profit

INDONESIA: Local general insurance company Asuransi Staco Mandiri is targeting a net profit of IDR2.25 billion (US$249,639) from its Islamic business units this year, a 60% increase from 2011.

To achieve this target, the insurance operator will boost business lines, expand business sources and enter into a consortium with other insurers, said Ruhari, its president director.

5% growth for Takaful

BAHRAIN: Takaful International Company has reported a 5% year-on-year growth in total insurance contributions to BHD17.1 million (US$45.3 million) in 2011.

Total Takaful revenues rose to BHD8.7 million (US$23 million) from BHD7.6 million (US$19.6 million) in 2010.

Maintaining standards

BAHRAIN: The Central Bank of Bahrain will introduce a training and competency requirement for insurance licensees and their staff performing controlled functions to maximize protection of policyholders.

The move will also ensure a minimum level of qualification for those managing policyholders.

Takaful Ikhlas' parent for sale?

MALAYSIA: Companies owned by government-linked Permodalan Nasional (PNB), including MNRB Holdings, which owns Takaful Ikhlas, may be up for sale as the government looks to reduce its holdings in the private sector, according to industry observers.

PNB and sovereign wealth fund Khazanah Nasional are expected to sell five companies each under the strategy.

New kid on the block

INDONESIA: A new Takaful operator will commence operations in the country this year, said Mohammad ShaifieZein, the chairman of AsosiasiAsuransiSyariah Indonesia.

He also said that the Takaful firm, which has a capital of IDR54 billion (US$6 million), is awaiting permission from country's capital market supervisory agency, Bapepam, to start its operations. It has already received approval from the National Shariah Council.

Ahmed Emara, CEO and managing director, ReAya Holding

Ahmed Emara has over 20 years experience in international business spanning the management of large-scale and diverse operations of multinational and regional companies across different industries. He also founded investment firm ReAya Holding, focusing on achieving sustainable returns while contributing to overall social economic development in the Middle East.

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

I started my path to professional life by pursuing medicine, a discipline for which I had a particular passion. However, I was never inclined towards the practice of medicine as a career. Hence, directly after earning my Bachelors degree I completed my MBA in order to pursue a career in business. In order to utilize the benefits of my scientific background, I entered the world of business through of the field of healthcare, combining both fields throughout my career path. I have also had the opportunity to reform organizations, managing change and launching new culture. I was privileged to have such rich exposure across North America and the MENA region. I have always placed both self-development and advancing the community in which I operate as personal and professional goals.

What does your role involve?

My role comprises three major folds under which several functions lie:

a) New investments: Sourcing new investment opportunities, undergoing the investment analysis process, leading the business due diligence and then structuring the closing of the deal legally and financially.
b) Portfolio management: Growing our investments as I also represent the company as a director of the board of our portfolio companies and as the managing director of our 100%-owned subsidiaries.
c) Strategy leadership: Formulating and delivering the corporate vision and strategy at the company and its subsidiaries.

Which of your products/ services deliver the best results?

We are an investment company whose goal is to create maximum value for our portfolio companies. The investment strategy that provides us with our edge is our full support of long-term growth of our portfolio companies, not only financially but also operationally. We become present in the company at a board level and participate in any way possible to facilitate expansion. We spare no effort to take the companies to the next level, regardless of whether we hold a minority or majority of the shares in the company.

What are the strengths of your business?

We offer a unique value proposition as we are the first healthcare-dedicated private equity holding (long-term) investment company across the MENA region. Our deep understanding of local, regional and international markets dynamics plus our non-operating, investment focus have allowed us to look beyond competition for management and instead provide the operators with our full support.

What is your greatest achievement to date?

Transforming the company's functional framework into one with a more dedicated objective by coming up with a focused investment strategy, adhering to it, and building a strong track record implementing it. This change has established us as pioneers in our specialization. Thus, at the level of portfolio companies, we have amassed solid successful records, as we have expanded our turnover by multiple folds over the last five years.

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

We believe that the success we have reached today is mainly due to our commitment to integrity and honor in all our pursuits. We also work with the mission of providing good healthcare, improving life sciences, and bringing economic development to the region. On a smaller scale, the strong, steadfast principles, focused strategy, and hard work of everyone across our firm are what fill up our success indicators.

What are the obstacles faced in running your business today?

- Balancing between the need for retaining innovation and advancement in the field and the need for accommodating the demands of the country.
- Identifying good investment opportunities across the value chain of healthcare and life sciences in Saudi Arabia.
- Dealing with the regulatory constraints of Saudi Arabia as ours is such a highly regulated sector.

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

I see the industry undergoing an exponential growth across not only the Islamic countries but also in the west. I anticipate more in-depth participation in a wider range of sectors, a greater, more practical input in global financial services, and a more prominent influence on the world's economy.

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

I would love to see more Islamic products to compete with the traditional ones and suite the real-life demands of business. For example, I hope for more practical functions in the domain of corporate financing and more varied opportunities in that of personal financing

ISSUER	SIZE	DATE ANNOUNCED
Encorp Systembilt	RM1.58 billion	8th February 2012
Egypt sovereign	TBA	6th February 2012
Development Bank of Kazakhstan	TBA	6th February 2012
Turkey sovereign	TBA	3rd February 2012
Abu Dhabi National Energy Company	RM3.5 billion	3rd February 2012
Musteq Hydro	RM80 million	24th January 2012
General Authority for Civil Aviation	TBA	24th January 2012
Indonesian finance ministry	IDR2 trillion	24th January 2012
Albaraka Turk Katilim Bankasi	US$200 million	23rd January 2012
AirAsia X	US$200 million	17th January 2012
1Malaysia	TBA	16th January 2012
HSBC Amanah	TBA	12th January 2012
Bank Muamalat Indonesia	IDR1.25 trillion	9th January 2012
Indonesian finance ministry	TBA	5th January 2012
Sudan sovereign	TBA	3rd January 2012
Malaysian Airline System and Air Asia	RM12 billion	23rd December 2011
Emery Oleochemicals Group	US$151 million	20th December 2011
Saudi Arabia sovereign	TBA	13th December 2011
South Africa sovereign	TBA	6th December 2011
KMCOB Capital	RM343.1 million	5th December 2011
Emirates NBD	TBA	29th November 2011
Solum Asset Management	TBA	27th November 2011
Indonesian finance ministry	TBA	24th November 2011
Bank Syariah Mandiri	IDR500 billion	18th November 2011
UEM Group & EPF	RM33 billion	17th November 2011
Abu Dhabi Islamic Bank	US$500 million	9th November 2011
Emirates Airline	TBA	8th November 2011
DRB Hicom	RM1.8 billion	1st November 2011
Sabah Credit Corporation	RM1 billion	28th October 2011
Credit Agricole	TBA	27th October 2011
Anih Berhad	RM2.5 billion	24th October 2011
Axis Real estate Investment Trust	RM300 million	24th October 2011
Finance ministry of Pakistan	TBA	20th October 2011
Goldman Sachs	US$2 billion	19th October 2011
Almaraj, Saudi Arabia	TBA	16th October 2011
Mydin	RM350 million	13th October 2011
Barwa Bank	TBA	11th October 2011
Mashreq Al Islami	TBA	10th October 2011
Dow Chemical Company & Saudi Arabian Oil Company	TBA	9th October 2011
National Iranian Oil Company	TBA	1st October 2011
Qatar International Islamic Bank	TBA	28th September 2011
Tamweel	US$300-US$500 million	27th September 2011
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Bank Negara Malaysia	RM1 billion	6th September 2011
Bank Syariah Mandiri	IDR450 million	25th August 2011
Aref Investment Group	TBA	24th August 2011

IFN Correspondents

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deputy chief of Islamic banking, Bank Mille Afghan

AUSTRALIA: David Wood
partner, Mallesons Stephen Jaques

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

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

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

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

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

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

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

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

JORDAN: Khaled Saqqaf
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partner, Lee & Ko

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partner, Allen & Gledhill

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SWITZERLAND: Khadra Abdullahi
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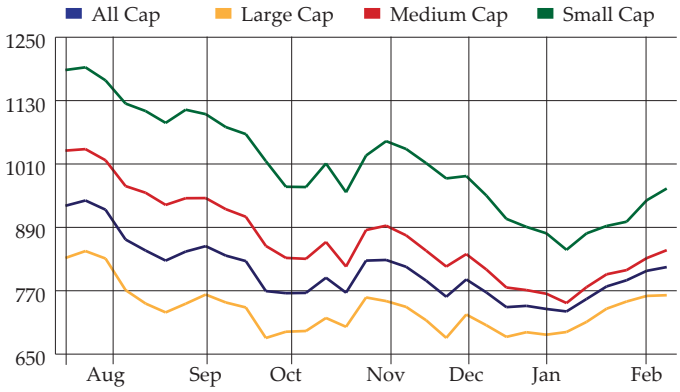
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

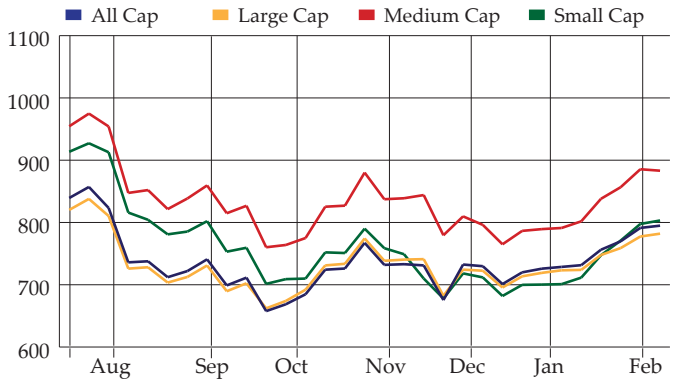
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

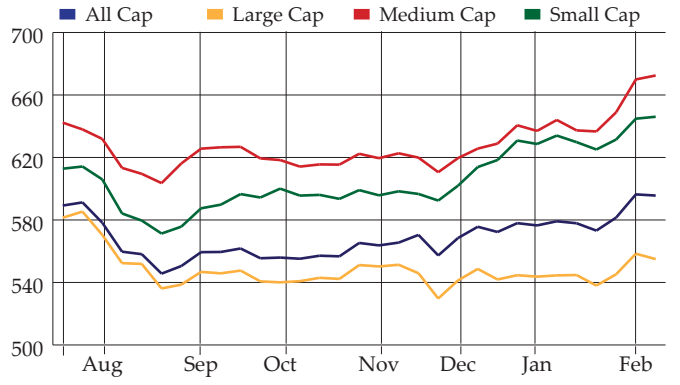
REDmoney Asia ex. Japan *6 Months*



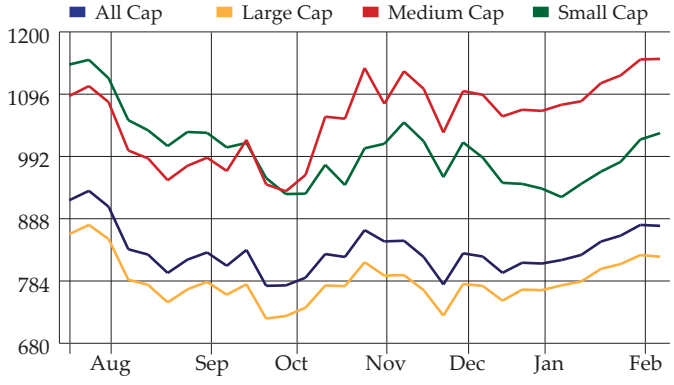
REDmoney Europe *6 Months*



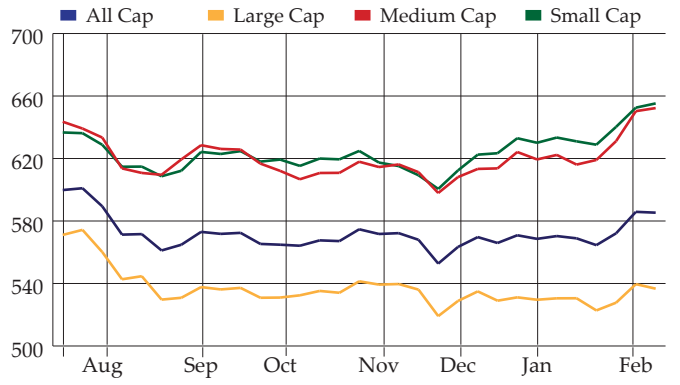
REDmoney GCC *6 Months*



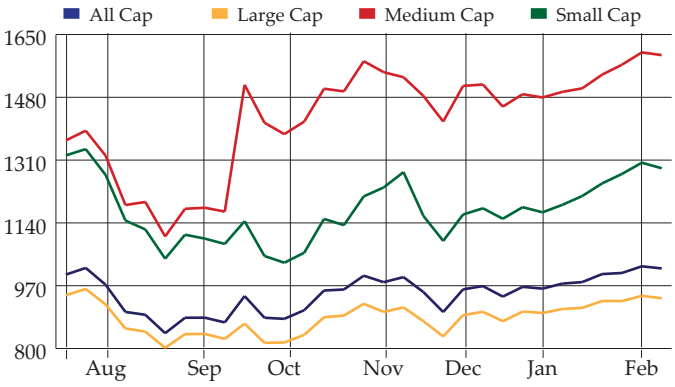
REDmoney Global *6 Months*



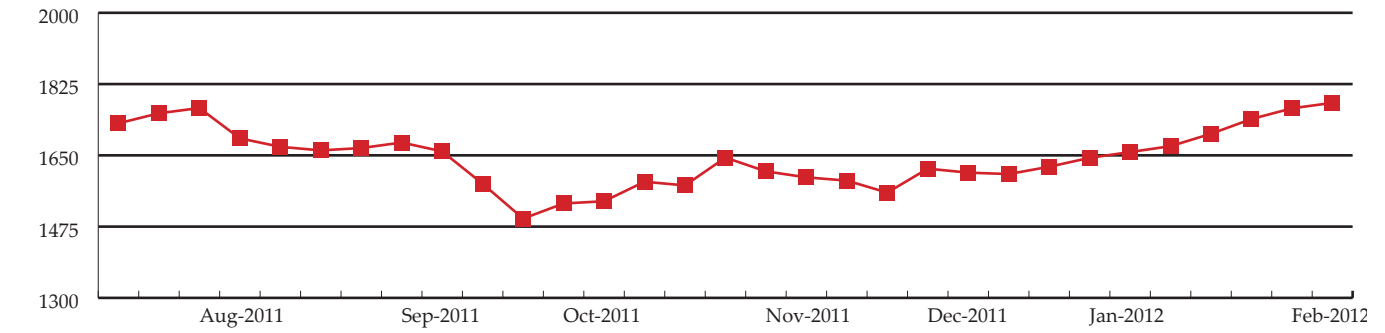
REDmoney MENA *6 Months*



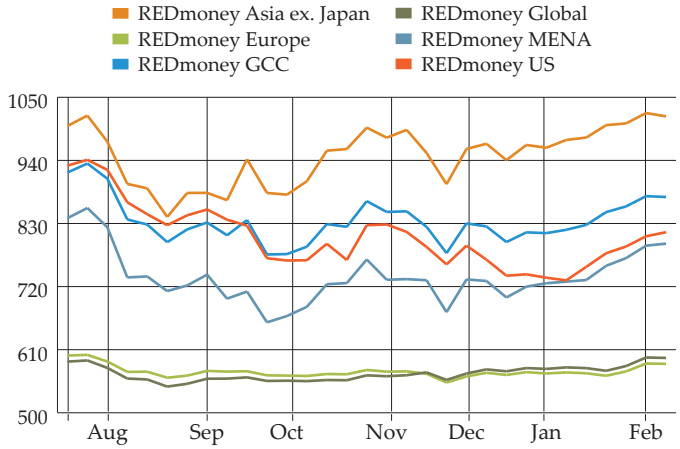
REDmoney US *6 Months*



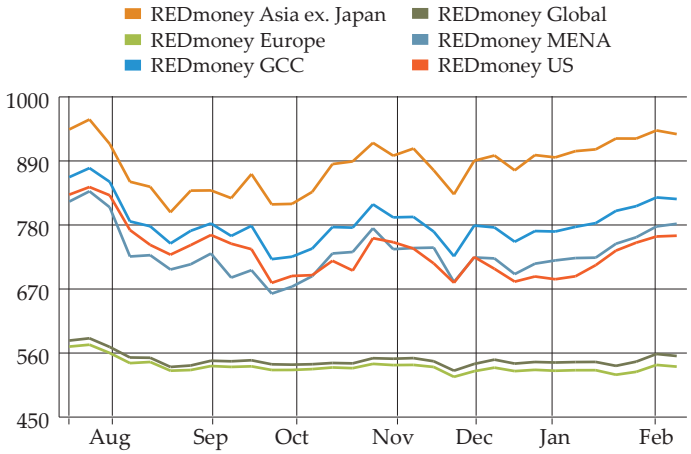
SAMI Halal Food Participation (All Cap) *6 months*



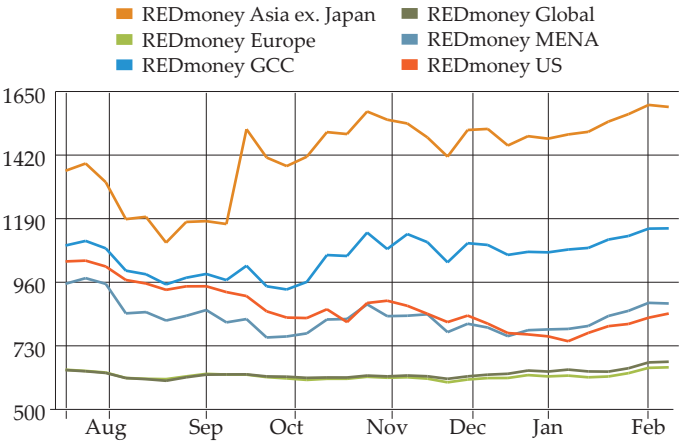
REDmoney Global Shariah Index Series (All Cap) *6 Months*



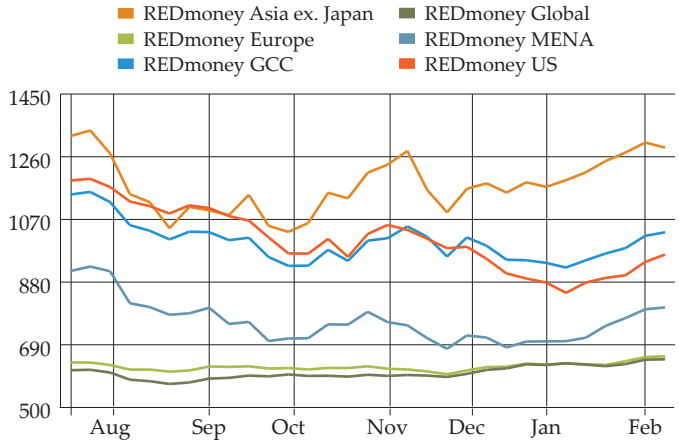
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



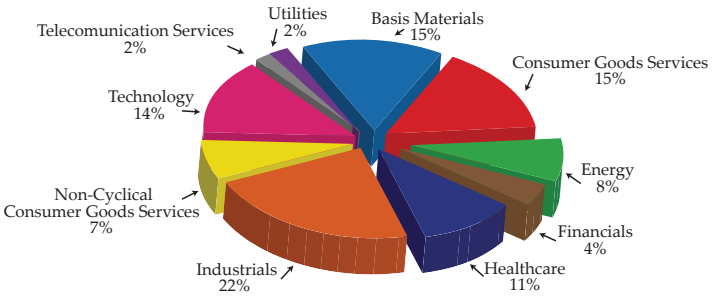
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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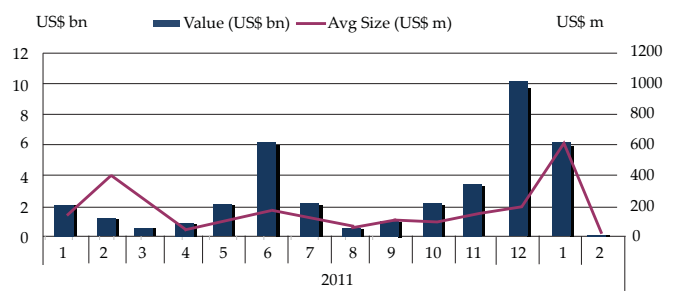
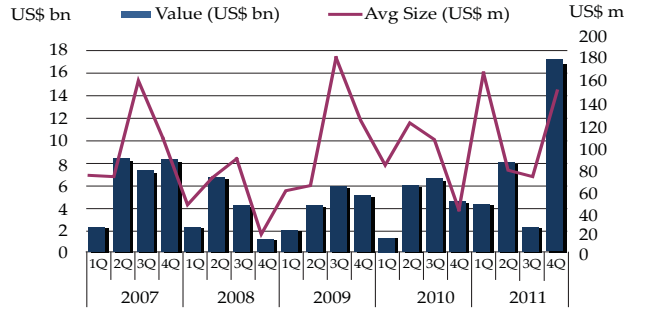
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
31st Jan 2012	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	Standard Chartered, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
17th Jan 2012	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	HSBC
12th Jan 2012	Tamweel	UAE	Sukuk	Euro market public issue	300	Standard Chartered, Dubai Islamic Bank, Citigroup
11th Jan 2012	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
11th Jan 2012	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
10th Jan 2012	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	6,155	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	3,455	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Dec 2011	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	JPMorgan
28th Nov 2011	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	132	Maybank Investment Bank
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	786	CIMB Group, Maybank Investment Bank
22nd Nov 2011	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
16th Nov 2011	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	Standard Chartered, BNP Paribas, Citigroup
16th Nov 2011	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14th Nov 2011	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	Standard Chartered, HSBC, Citi
2nd Nov 2011	Pengurusan Air SPV	Malaysia	Sukuk Ijarah	Domestic market private placement	139	CIMB Group
25th Oct 2011	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	Lembaga Tabung Haji, CIMB Group
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank

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 Murabahah	Domestic market public issue	2,388	3	HSBC, 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	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
7	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
8	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1	CIMB Group, Maybank Investment Bank
9	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
9	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
11	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
12	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
13	HSBC Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
13	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	1	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
13	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
13	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
13	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
18	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
19	Sharjah Islamic Bank	UAE	Issue price undisclosed	Euro market public issue	400	1	Standard Chartered Bank, HSBC
19	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	1	Standard Chartered, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
21	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	397	10	CIMB Group, AmInvestment Bank, Maybank Investment Bank
22	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	371	1	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
23	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
24	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
25	Tamweel	UAE	Sukuk	Euro market public issue	300	1	Standard Chartered, Dubai Islamic Bank, Citigroup
25	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	1	JPMorgan
27	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
28	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
29	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
30	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	263	3	CIMB Group, AmInvestment Bank, Maybank Investment Bank
	Total				**36,353**	**104**	

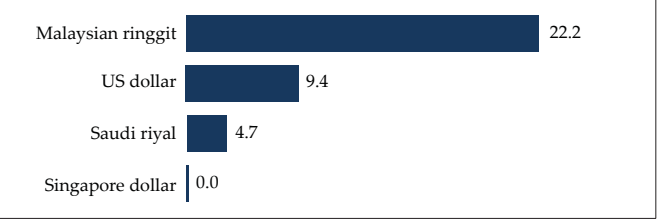
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	6,951	28	19.1
2	Maybank Investment Bank	6,896	29	19.0
3	HSBC	6,786	15	18.7
4	AmInvestment Bank	4,823	29	13.3
5	RHB Capital	2,353	14	6.5
6	Standard Chartered Bank	1,874	12	5.2
7	Citigroup	1,692	8	4.7
8	Lembaga Tabung Haji	847	2	2.3
9	JPMorgan	558	3	1.5
10	BNP Paribas	438	2	1.2
11	Deutsche Bank	427	2	1.2
12	National Bank of Abu Dhabi	292	3	0.8
13	Kenanga Investment Bank	265	1	0.7
14	Abu Dhabi Islamic Bank	253	3	0.7
15	Riyad Bank	240	1	0.7
16	Dubai Islamic Bank	200	2	0.6
17	Affin Investment Bank	189	5	0.5
18	OCBC	184	7	0.5
19	Hong Leong Bank	141	4	0.4
20	Bank of America Merrill Lynch	125	1	0.3
20	Abu Dhabi Commercial Bank	125	1	0.3
22	Public Bank	118	4	0.3
23	KFH	109	2	0.3
24	DRB-HICOM	90	3	0.3
25	RBS	83	1	0.2
25	Nomura	83	1	0.2
25	Emirates NBD	83	1	0.2
28	Commerzbank Group	70	1	0.2
29	Malaysian Industrial Development Finance	40	1	0.1
30	OSK	16	3	0.0
	Total	**36,353**	**104**	**100.0**

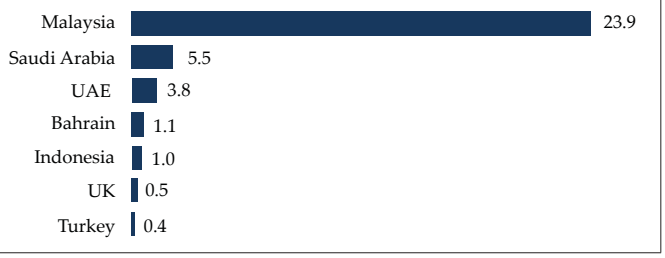
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	921	3	8.9
2	HSBC Holdings	771	3	7.4
3	Samba Financial Group	592	4	5.7
4	Public Investment Fund	463	2	4.5
5	Arab National Bank	463	2	4.5
6	Sumitomo Mitsui Financial Group	404	2	3.9
7	KfW Bankengruppe	369	2	3.6
8	Mitsubishi UFJ Financial Group	360	1	3.5
9	Malayan Banking Bhd - Maybank	332	1	3.2
10	Australia & New Zealand Banking	289	1	2.8
10	Mizuho Financial Group Inc	289	1	2.8

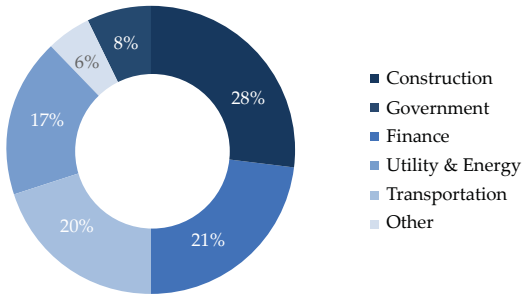
Sukuk Volume by Currency US$ (billion) *12 Months*



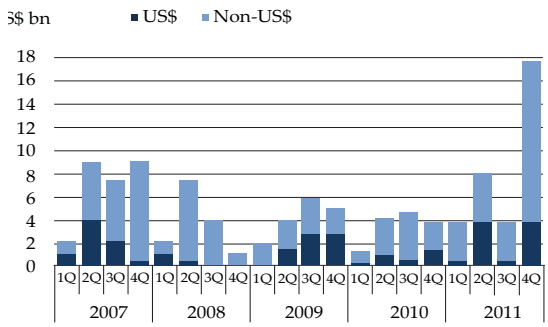
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	HSBC	826	5	11.3
2	Citigroup	501	8	6.8
3	Samba Capital	472	3	6.4
4	Standard Chartered Bank	368	7	5.0
5	CIMB Group	304	3	4.1
6	Noor Islamic Bank	297	3	4.0
7	Barwa Bank	266	2	3.6
8	Maybank Investment Bank	264	2	3.6
9	RBS	233	1	3.2
10	Saudi National Commercial Bank	219	1	3.0
10	Banque Saudi Fransi	219	1	3.0
10	Arab National Bank	219	1	3.0
13	Qatar Islamic Bank	213	1	2.9
13	Qatar International Islamic Bank	213	1	2.9
13	Masraf Al Rayan	213	1	2.9
16	Deutsche Bank	204	2	2.8
17	Arab Banking	172	4	2.3
18	Abu Dhabi Islamic Bank	171	4	2.3
19	RHB Capital	164	1	2.2
19	Lembaga Tabung Haji	164	1	2.2
19	AmInvestment Bank	164	1	2.2
22	Emirates NBD	160	3	2.2
23	Bank of America Merrill Lynch	126	3	1.7
24	Bank of China	93	1	1.3
25	OCBC	88	1	1.2
26	Bank Al-Jazira	68	1	0.9
26	Alinma Bank	68	1	0.9
26	Al-Rajhi Banking & Investment	68	1	0.9
29	National Bank of Abu Dhabi	61	1	0.8
29	Commerzbank Group	61	1	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Citigroup	618	8	8.4
2	HSBC	305	2	4.2
3	Samba Capital	233	1	3.2
3	RBS	233	1	3.2
5	Abu Dhabi Islamic Bank	219	4	3.0
6	Standard Chartered Bank	165	3	2.3
7	Emirates NBD	122	2	1.7
8	Maybank Investment Bank	100	1	1.4
9	Bank of China	93	1	1.3
10	National Bank of Kuwait	87	1	1.2

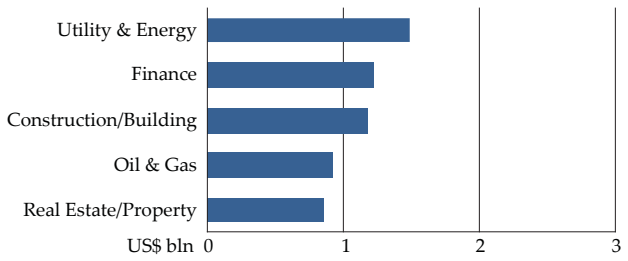
Top Islamic Finance Related Loans Deal List *12 Months*

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

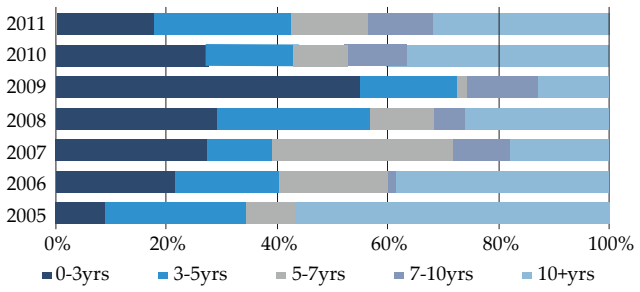
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	UAE	1,706	7	23.2
2	Saudi Arabia	1,511	3	20.6
3	Malaysia	1,190	3	16.2
4	Turkey	998	6	13.6
5	Qatar	850	1	11.6
6	Indonesia	601	4	8.2
7	Pakistan	203	4	2.8
8	China	93	1	1.3
9	Kuwait	87	1	1.2
10	Russian Federation	60	1	0.8

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Jennifer Cheung (Media Relations)
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15th — 16th February 2012
Credit Risk Asia
Singapore (*Fleming Gulf*)

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

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

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

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

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

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

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

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

15th — 17th May 2012
The 9th Islamic Financial Services Board Summit
Istanbul (*IFSB*)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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