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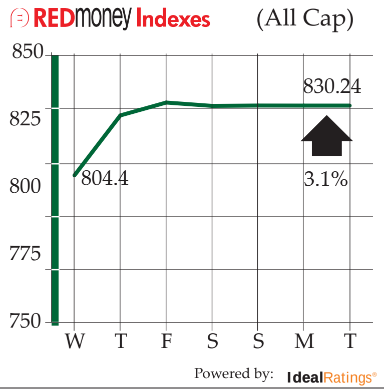

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Bahrain: Back from the brink

Cover Story

After the recent political protests threatened to derail the country's economy, the spotlight has been on Bahrain's banking sector, with doom and gloom predicted across the media. However, while the first quarter of 2011 saw considerable disruption Bahrain's financial sector has in fact managed to achieve continuous growth over the last 12 months, growing by 1.7% in the second quarter compared to 2010. With the economy picking up, banks consolidating, and neighboring Dubai facing troubles of its own, has Bahrain managed to pull itself back from the brink?

There is no doubt that Bahrain's economy was seriously affected by the crisis, with an estimated cost to GDP of around US$391 million or 2.77% of GDP, and an increase in public expenditure of US$2.1 billion. However, compared to many other states caught up in the turmoil, the country escaped relatively lightly.

In a broad generalization of the Arab Spring's financial impact on the GCC, oil exporters benefited while oil importers suffered, due to the effect of the market volatility on oil prices. The UAE saw its economy grow by US$63 billion during the Arab Spring according to some sources, while Saudi Arabia experienced growth of US$5 billion and Kuwait US$1 billion. Although Bahrain has limited oil reserves compared to its neighbors and has worked hard to diversify its economy, petroleum production and processing still account for around 60% of budget revenues and 30% of GDP. Due to the rising oil prices the country was therefore able to limit the fiscal impact of the crisis, with public revenues actually increasing by US$1.4 billion. In addition, the government also enacted measures to compensate for the impact on the banking and retail sectors, with every Bahraini family receiving US$2,660 in cash. Although there remain rumblings of discontent, the major protests have now died down. So now that the storm has passed, how does the landscape look?

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Still a hub

Boyd Winton, the director of financial services at the Bahrain Economic Development Board, insists that: "Bahrain continues to be a global hub for the Islamic finance industry… The reasons Bahrain became a hub still stand. The fact that people came to Manama for the World Islamic Banking Conference last month is proof of that."

His claim is backed up by the figures. There are currently 26 Islamic banks in Bahrain, along with nine Takaful and re-Takaful firms and 56 Islamic funds: almost exactly the same as in 2010 despite the rumors of international banks packing up shop.

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And the award goes to…

Editor's Note

With the end of the year traditionally heralding the awards season for the financial industry's best performers, Standard & Poor's (S&P) dropped a bombshell that it may collectively downgrade the ratings of 15 Eurozone countries, including France and Germany, after it placed the countries on Creditwatch Negative on the 5th December.

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RHB Islamic Bank records US$28.71 million in pre-tax profit for the nine months ended the 30th September

Indonesia to appoint sales agents for retail Sukuk on the 4th January 2012

HSBC Holdings identifies Malaysia as Asia Pacific's priority market

Danajamin Nasional guarantees **Mydin Mohamed Holdings**' maiden Islamic medium-term notes program

International Bank of Azerbaijan's consultants are finalizing a report on the development of Islamic finance in the country

CIS Financial & Banking Council suggests the setting up of a working group to apply and develop Islamic banking in the CIS states

Indonesia's central bank looks to allow trade of Sukuk for reverse repo operations

Securities and Exchange Commission of Pakistan allows Mudarabah firms to impose management fee

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ISRA commences strategic plan for 2012

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Dubai Islamic Bank Pakistan seeks expansion

French academics show interest in utilizing Saudi expertise in Islamic banking and finance

Islamic Bank of Britain unveils variable rate buy-to-let purchase plan

GCC banks targeting small and medium-sized enterprises, youth and women market to increase returns

Southeast Asia and GCC should strengthen ties to increase cross-border transactions, says group CEO of **Noor Islamic Bank**

Qatar's US$5 billion sovereign bond sale could close the market for other impending issuances

Abu Dhabi real estate market headed the way of Dubai?

The **IDB** gives green light to US$4.2 billion-worth of financing for projects in 2011

Countries and banks in Southeast Asia and the GCC should build deeper relationships to increase cross-border transactions

World Congress of Muslim Philanthropists and Pakistan's **Farz Foundation** ink MoU to fortify collaboration

IFSB to hold second public hearing for Exposure Drafts 12 and 13 on the 14th December 2011

Insolvency of **UM Financial** to hamper growth of Islamic finance in North America?

Costs for GCC Islamic debt hover at highest levels in more than a year

Qatar and Malaysia to set up US$823 million joint venture investment fund

Eurozone crisis adversely affects member countries, says **IDB** president

SHUAA Capital to let go of 29 employees in first phase of redundancy program

National Commercial Bank renews US$285.31 million financing facility for **Abdullah A M Al-Khodari Sons**

US$136.12 million **Ducab-HV** cable plant part-financed by **Noor Islamic Bank** starts production

Al Baraka Syria to continue expansion despite country's unrest

Emaar Properties said to agree on US$800 million Islamic financing with three banks

Qatar Islamic Bank signs MoU with **Export-Import Bank of Korea** for information exchange and co-financing opportunities

Oman Arab Bank is prepared to offer Islamic banking products through two of its branches

Almarai Company said to raise US$400 million from Sukuk issuance

INVESTOR

Public Mutual declares distributions for five of its Islamic funds

Commodities institution **Source** not promoting its exchange-traded commodities product outside its target market

Bank Simpanan Nasional wants to aggressively grow wealth management division

TAKAFUL

Takaful firms must focus on underwriting quality, cost management and investment discipline amid volatile investment environment

Amana Takaful and two other firms apply to provide universal health insurance under the Maldives' public-private partnership initiative

Takaful is necessary for the development of sustainable insurance sector, says **Pak-Qatar Family Takaful**

Prudential BSN Takaful and **Bank Simpanan Nasional** launch Giro Takaful Hajj

AM Best seeks views for Takaful rating methodology

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MARC affirms 'AAA/S' rating for **IJN Capital**'s outstanding US$17.5 million Sukuk

MARC affirms **CIMB Islamic**'s long-term financial institution rating at 'AAA'

Moody's assigns '(P)Baa3' rating to **Tamweel Funding III**'s Sukuk program and '(P) Baa1' rating to impending US dollar trust certificates

MOVES

Rasmala Investment Bank hires **Zaid Ghoul** as head of investment banking

Burj Bank appoints **Ahmed Khizer Khan** as president and CEO

StanChart appoints **Hassan Jarrar** as CEO for Bahrain

Dubai Group names **Trevor Regan** as chief investment officer

Emirates NBD names **Douwe Oppedijk** as interim CEO of **Dubai Bank**

Deutsche Bank names **Salah Al Jaidah** as chairman of Islamic finance

Deutsche Bank names **Salah Al Jaidah** as chairman of Islamic finance

Bahrain: Back from the brink

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"Islamic banks now account for 12% of Bahrain's banking sector and the sector as a whole is performing well," Winton confirms. "While some Islamic banks saw their profitability suffer… it is important to realise that no bank in Bahrain required a bail-out and that growth in the Islamic finance sector has remained robust." In fact, the number of financial institutions registered in Bahrain overall has actually increased, to 408 from 403 in 2010.

Rumors of the departure of several international banks have also been exaggerated. According to Winton: "There has been a very limited departure of financial institutions, the number of which can be counted on the fingers of one hand, and those that have left have had wider considerations than the unrest earlier in 2011. In particular, the slowdown in global economic growth and the crisis in the Eurozone is causing some international institutions to reduce their exposure to the region."

Crédit Agricole is one of the most high profile Islamic banks to depart, with its Bahrain operations due to relocate to Dubai in June 2012. However according to Bernard Mignucci, the general manager for the Gulf countries: "It's not to do with the political decision. We had around 50 people in both Bahrain and Dubai so we wanted to focus on one place."

In fact, the bank is consolidating all its operations in the Middle East, and scaling back overall to focus on Europe and Asia – and Dubai has not escaped the retrenchment. In September it was announced that the bank's Dubai-based MENA M&A division will also close, with operations moving back to its Paris office.

Taken in context

In fact, when compared with the wider situation in the region, Bahrain's performance looks rather more solid. Despite strong growth in some countries, overall the Middle East banking sector is still suffering from the string of setbacks that have rocked it since the financial crisis of 2008. IPO activity in the GCC region halved in 2011 to US$400.5 million from US$800.7 million in 2010, down from US$10.2 billion in 2008. Fees earned by Middle East banks are reported to have fallen to US$320 million in the first nine months of 2011: a decline of 42% from US$551 million in 2010, and of over 70% from the US$1.1 billion recorded in 2008. The Eurozone crisis has resulted in banks pulling back across the region in an attempt to reduce costs as their revenues are squeezed.

Winton

According to some reports, banks have cut up to 137,000 jobs over the last 12 months, and several large banks are restructuring their Middle East divisions. Deutsche Bank is moving its head of equity capital capital markets, Christopher Laing, back to London from Dubai, as is Citigroup with its regional head of equities, Adam Key. HSBC also announced last month that it would be stopping its brokerage services to retail investors in the UAE and focusing only on institutional clients, after local trading volumes tumbled to a seven-year low. The bank is also closing its consumer operations in Kuwait as part of its strategic restructuring.

> *"There has been a very limited departure of financial institutions"*

In this context, Bahrain's position as a financial hub looks a little more secure. The country's banking sector is maintaining its growth trajectory, while industry experts believe that it can rely on its strong foundations and favorable regulatory climate to retain its hub status.

Dr Abdullah Mansury, CEO of Bahrain-based Allianz Takaful, comments that: "My outlook for Bahrain remains positive in the long-term as Bahrain boasts several advantages distinguishing it from other locations." Winton agrees: "It has some of the lowest costs of doing business in the region, the best access to

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CLOSING BELL

Potential Sukuk for Kenya

KENYA: The government of Kenya is still mulling over whether its US dollar-denominated sovereign bond, planned for sale by June 2012, will be fully or partly Shariah compliant.

Capital Markets Authority Kenya is currently in consultation with the financial industry to decide on relevant laws to make part of its treasury bond issues Shariah compliant.

Nour Party eyes full Islamic banking system

EGYPT: The Nour Party, a political party representing the country's Salafi Islamists, is reportedly looking to gradually remove non-Islamic banks and put an end to foreign borrowing.

The party, which practices a strict interpretation of Shariah law and is said to have won at least 24% of the vote in Egypt's ongoing elections, is aiming to expand Islamic financing to boost the country's economy.

Investcorp exits Accuity

BAHRAIN: Alternative asset management firm Investcorp has announced the sale of its US portfolio company, Accuity Holdings, for an aggregate enterprise value of US$530 million.

The firm has distributed US$1.5 billion to its clients from four corporate investment portfolio exits in the last 18 months.

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the GCC market, high quality regulation and the Gulf's best-skilled local workforce."

Consolidation

However, change is still needed in order to grow. Mansury warns that: "Although the Bahraini marketplace is highly competitive, it is also fragmented. Consolidation is imperative to manage costs and realize economies of scale."

The Central Bank of Bahrain (CBB) is rumored to be encouraging consolidation in the industry, and supporting potential mergers as a means of shoring up the banking sector. Mansury confirms: "The banking sector has incurred losses, and this impacts their core capital position. Insurance companies also suffer from heavy price competition in major lines of business, in particular the motor segment.

"I think the CBB is interested in maintaining and nurturing financial stability and is thus supporting consolidation efforts in the industry to improve the capital position of the companies."

> **"Islamic banks now account for 12% of Bahrain's banking sector and the sector as a whole is performing well"**

Winton agrees. "Consolidation is important to the growth of the sector – one or two larger banks will have more scope and capital than a handful of smaller banks. This will help both to increase product innovation and provide greater stability." Several potential mergers have already been reported, including a proposed tie-up between Bahrain Islamic Bank and Al Salam Bank to create a $4.5 billion entity which would be the largest Islamic lender in the kingdom.

In September of this year it was also revealed that Kuwait Finance House Bahrain had been appointed advisor on the merger of three as yet unnamed Islamic banks to create a potential US$400 million entity with assets of US$500 million. The merger is expected to be completed by mid-2012.

"While we can't provide details," confirms Winton, "there are currently four mergers which are in progress."

The insurance industry is also seeing consolidation. Allianz and Medgulf recently created a partnership, with Medgulf acquiring 75% of shares of Allianz Takaful in Bahrain and Qatar to form Medgulf Allianz Takaful. Mansury explains that: "This deal provides Allianz with access to the regional network and local market know-how of Medgulf, while Medgulf gains access to the expertise of Allianz Takaful in Islamic insurance."

However, he warns that: "The core point for the Islamic industry is that a merger is not only about achieving size, but rather to expand skills so the customer can directly benefit. Merging per se does not make sense if there is no strategic fit of the partners."

The CEO of the Bahrain Economic Development Board, Sheikh Mohammed bin Essa Al Khalifa, believes that consolidation is vital if Bahraini banks want to compete regionally and globally – something that the bigger players are increasingly moving towards as the sector develops. "I am one of these people who would favor consolidation. Let people grow and compete globally, absolutely."

Winton also believes that considerable opportunities exist for Bahrain's banks in the wider global market. "While the exact timing of any expansion will clearly be highly dependent upon market conditions, it's clear that there are many markets in the wider region that have strong potential for Islamic finance. This is particularly the case in retail banking, especially in countries like Egypt where there are large populations, many of whom who remain unbanked."

> **"Islamic finance in the Gulf is not a zero-sum game"**

Into the future

It looks as if despite Bahrain's troubles, it is managing to hold onto its operational advantage and the future looks brighter than anyone a few months ago could have expected. In addition, the country is conducting renewed exploration both onshore and offshore after new oil deposits were discovered this year, which will undoubtedly have an impact on its economic future.

"Increased oil production would help to further economic growth and as financial activity depends on economic growth, this would clearly be beneficial to the industry, " says Winton, although he warns that any effect will be "in the medium to long-term, rather than the short-term," and that due to the government's economic diversification drive, "demand for finance will be driven by the manufacturing and construction sectors at least as much as the production of oil."

He confirms however that: "Bahrain will continue to develop its leadership role in the Islamic finance industry, through the work done by the Central Bank of Bahrain to develop legislation that works for the industry, by AAOIFI to set the standards for accounting and auditing and by IIFM's work to drive standardization in products and documentation in order to drive down costs."

The kingdom is also investing heavily in its skilled workforce in order to help growth in the industry, and has launched several new initiatives through the CBB, Tamkeen (Bahrain's labor fund)

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and the Bahrain Institute for Banking and Finance, to provide advanced skills training both to new entrants and specialists.

United we stand

Yet while Bahrain is performing relatively well, especially in light of its recent troubles, it is not out of the woods yet. It has suffered from business and investment outflows to neighboring competitors such as Dubai, investor confidence has been severely knocked, and the country is still experiencing political uncertainty.

Mansury also warns that while "Bahrain's core problem remains the current unrest," there remain issues that need to be addressed within the Islamic banking sector. "It is important to ease the restrictions on the employment of expats, which would facilitate the import of Islamic finance practitioners from other countries. Instead of imposing quotas on hiring local staff, I believe it is better in the long-term for the country to lift such barriers to enforce local employees to face competition with other labor pools, thus eventually improving the quality of the local labor pool."

> **"*Facilitating cross-border activities for financial companies is vital, as the single GCC markets are too small on their own, in particular Bahrain*"**

It is also important to remember, points out Winton, that: "As the profile of Islamic finance grows across the region, everyone will benefit." Over 40% of Bahrain's non-oil exports go to its GCC neighbors, and thus as their economies grow so does Bahrain's business.

The region is closely interlinked and united it faces a far brighter future. Mansury also suggests that given the close links between the Middle East countries, there should be a move towards more regional recognition and standardization of regulatory requirements, so that companies can set up branches more easily in other regional markets.

"Facilitating cross-border activities for financial companies is vital, as the single GCC markets are too small on their own, in particular Bahrain."

As Winton says: "Islamic finance in the Gulf is not a zero-sum game." In the long-run, Bahrain's loss is no one's gain. — *LM*

And the award goes to…

Editor's Note

With the end of the year traditionally heralding the awards season for the financial industry's best performers, Standard & Poor's (S&P) dropped a bombshell that it may collectively downgrade the ratings of 15 Eurozone countries, including France and Germany, after it placed the countries on Creditwatch Negative on the 5th December.

S&P's move has sent investor sentiment tumbling yet again, just as markets were picking up steam on optimism over EU policymaker decisions. However, while the global market, especially in the west, continues to struggle against Europe's woes, the Islamic finance industry has remained relatively resilient; and we at Islamic Finance *news* have started to give out accolades of our own for this year.

As covered in one of our IFN reports this week, we are pleased to announce the results for the 2011 Islamic Finance *news* Best Service Providers Poll, which saw AAOIFI recognized as the Most Outstanding Standard Setting Body. The awards covered 11 categories, with a total of 865 votes cast in November this year.

This week, our cover story looks at developments in Bahrain amid its political unrest, with industry players reaffirming their recognition of the kingdom's position as a financial hub.

Our features this week can also be taken as an informal awards ceremony, with contributors saying "yay" or "nay" on various aspects of the Islamic finance industry. Dr Zaharuddin Abd Rahman, a Shariah scholar and lecturer at the International Islamic University Malaysia, evaluates the Shariah compliance of Islamic banks and Takaful operators; while Sutan Emir Hidayat of the University College of Bahrain analyzes the benefits and challenges of applying the International Financial Reporting Standards for Islamic finance.

Peter Measures of Ince & Co highlights the utilization of Murabahah as a tool for trade finance; and Tony Hidayat of Bank BRI Syariah looks at the emerging Islamic microfinance sector in Indonesia.

Ayaz Mustafa Zuberi from Faysal Asset Management touches on Islamic investment opportunities in Pakistan in our Islamic Investor feature; while Pak-Qatar Takaful Group's Syed Adnan Hasan writes on the potential for Takaful in Pakistan for our Takaful feature.

Insider looks at the IDB's activities this year, and our IFN reports cover Qatar's booming bond market; interdisciplinary approaches to Islamic finance; and growing investor interest in the GCC.

Our IFN Correspondents write on the importance of Islamic banking laws in Bangladesh, Shariah compliant investment in Chinese real estate and the outlook for banks in Qatar.

ASIA

32% growth for RHB Islamic

MALAYSIA: RHB Islamic Bank has reported a pre-tax profit of RM91.3 million (US$28.71 million) for the nine months to the 30th September 2011, against RM69.4 million (US$21.81 million) in the previous corresponding period.

The growth was attributed to higher net financing income on the back of strong financing growth of 42.8% and lower financing impairment allowances; partially offset by higher other operating expenses.

Retail Sukuk on track

INDONESIA: The government expects to appoint sales agents for its retail Sukuk offering slated for March next year on the 4th January 2012.

It began accepting applications from banks and brokerages to act as sales agents on the 28th November.

Meanwhile Rahmat Waluyanto, the director general of the finance ministry's debt management office, also dismissed concerns that the offering may be impacted by the volatile market, noting that the retail market has remained relatively resilient as investors comprise individuals rather than institutions.

Focused investment

MALAYSIA: London-based HSBC Holdings has identified Malaysia as one of its seven priority markets in Asia Pacific. The country now stands alongside Hong Kong, China, India, Singapore, Indonesia and Australia, as areas in which HSBC will continue to invest aggressively.

Stuart T Gulliver, its chairman and group chief executive, said that expectations for Malaysia's GDP to grow by 5% next year make it logical for the group to continue investing in the country.

He added that the Malaysian government's initiative to develop Kuala Lumpur as an Islamic finance center provides an opportunity for the HSBC group to expand its expertise in the area.

HSBC Bank Malaysia plans to expand its network of branches to 57 nationwide by the end of this year, of which 15 will comprise Islamic banking branches.

Credit enhancement for Mydin

MALAYSIA: Danajamin Nasional has announced that it is guaranteeing Mydin Mohamed Holdings' 13-year RM350 million (US$111.39 million) maiden Islamic medium-term notes program.

The first tranche of the Sukuk, amounting to RM55 million (US$17.5 million) and maturing in seven years, was issued on the 30th November and was fully subscribed, said Danajamin in a statement.

The Sukuk was issued with a 'AAAIS(fg)' rating from RAM. CIMB Investment Bank is the principal advisor, lead arranger and lead manager for the program.

Advancing Islamic banking in Azerbaijan

AZERBAIJAN: International Bank of Azerbaijan (IBA)'s mandated consultants are finalizing a report on the development of Islamic banking in the country, after which the bank expects to apply to the Central Bank of Azerbaijan to commence Shariah compliant services.

The consultants, comprising Dar Al Sharia Legal & Financial Consultancy, KPMG, law firm Pinsent Masons and Salans have completed the first phase of the project, which assessed which Islamic banking tools could be introduced without changing the country's current legislation.

The specialists identified around 50 Islamic banking instruments, mainly aimed at the corporate sector, with the country's legislation allowing for the introduction of six tools in the first stage of the Islamic banking project, provided that the central bank approves IBA's application to conduct Islamic banking.

"In the future, on the basis of practice of applying the first six products, we will work on the second stage of the project, within which a legislative change initiative can be proposed," said Behnam Gurbanzadeh, the head of Islamic banking at IBA.

Working group for Islamic finance

AZERBAIJAN: The CIS Financial & Banking Council (FBC) has suggested the setting up of a working group to apply and develop Islamic banking in the CIS states.

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Central bank looks to allow trade of Sukuk for reverse repo operations

INDONESIA: Bank Indonesia, the central bank, is planning to allow the trade of Sukuk for its reverse repo operations, as the country's Islamic bond market moves towards maturity.

According to Halim Alamsyah, its deputy governor, the central bank is now preparing the draft rules for the Sukuk trading, which could be effective next year.

Its reverse repo operations aim to take up excess liquidity from the financial system. The move to allow the trading of Sukuk for its reverse repo transactions represents another step in a market that has been developing quickly this past year.

The government auctioned US$1 billion-worth of a seven-year global Sukuk in November at a low price of 4%, backed by investor optimism on the country's economy; and it now aims to sell retail Sukuk next year.

Indonesia's ratings are also expected to be promoted to investment grade soon, and the central bank's plans to allow trading of Sukuk for its reverse repo could further attract foreign investors to the country, who have previously shied away from the local Sukuk market.

According to the latest data from the government, foreign investors held just 6% of total Sukuk outstanding as at the 18th November, compared to around 30% investment in conventional government bonds.

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Anatoliy Kazakov, the chairman of the FBC's coordinating council, said that the council has proposed that the International Bank of Azerbaijan establish and lead the working group, while the council has identified Azerbaijan as a hub to introduce Islamic finance in the CIS region.

He also said that that an Islamic investment bank could be established in the CIS region, citing that the bank could invest in infrastructure, industrial and refining projects. He added that such a bank would help attract investments.

He commented that the FBC will seek to establish Islamic banks in Russia and Azerbaijan through VTB Bank and the International Bank of Azerbaijan.

SECP gives green light for fees

PAKISTAN: The Securities and Exchange Commission of Pakistan (SECP) has issued a circular allowing Mudarabah firms to charge management fees from the companies' annual net profit.

This follows a consultation with non-banking financial institutions (NBFIs) and the Modaraba Association of Pakistan, with the new Circular No.15 of 2011 to replace Circular No.2 of 1995, which forbids Mudarabah companies to charge management fees unless they clear any accumulated losses.

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Market awaits Tamweel's Dubai Islamic Bank-guaranteed Sukuk

UAE: The issuance of Tamweel's Sukuk, announced at the end of September this year, is inching closer to fruition with the commencement of its roadshow on the 1st December.

Dubai Islamic Bank (DIB), which owns Tamweel, has mandated Citibank, Standard Chartered and itself to arrange the roadshow for the sale, which will begin in Kuala Lumpur before moving to Singapore on the 2nd December, the UAE on the 4th December and London on the 5th December.

"Following the meetings, a DIB-guaranteed issuance may be executed, subject to market conditions," said DIB.

With concerns that there may be insufficient investor appetite to mop up yet another issuance from the Gulf, especially following the sale of Qatar's US$5 billion sovereign bond on the 29th November, the guarantee from DIB is seen as key to spurring demand for Tamweel's offering.

"Without the guarantee, it would fall into high yield space," said Ahmad Alanani, the senior executive officer at investment firm Exotix's Dubai office. He added that sentiment regarding Tamweel has improved following its takeover by DIB at the end of 2010.

Varun Sood, the acting CEO of Tamweel, previously announced that the firm is planning to issue between US$300-500 million-worth of Sukuk, which could be denominated in US dollars or Malaysian ringgit.

The impending issuance has already been assigned a '(P)Baa1' senior secured debt rating by Moody's, a higher rating than the provisional '(P)Baa3' rating assigned to Tamweel Funding III's Sukuk program, due to the unconditional and irrevocable guarantee from DIB.

"This issuance benefits from a specific DIB guarantee. Hence the '(P)Baa1' rating assigned is at the same level as the long-term local and foreign-currency issuer ratings of DIB ('Baa1'). This program allows for future issuances without a DIB guarantee, which would be rated at the ('Baa3') program level," noted Moody's.

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The decision was made by the SECP after the NBFIs and the Modaraba Association of Pakistan highlighted the problems created by the existing regulation.

Financing property developments

MALAYSIA: Property developer Selangor State Development Corporation (PKNS) will likely use the proceeds from its proposed RM700 million (US$221 million) Sukuk to fund its projects and acquire land.

Othman Omar, the general manager of PKNS, said that the funds generated from the issuance are expected to allow the firm to develop two or three projects of its RM14 billion (US$4.47 billion)-worth program of new developments to be implemented in the next two to five years.

Financing in hand

AZERBAIJAN: Unileasing Leasing Company has received a US$3.5 million line of credit from the International Islamic Trade Finance Corporation (ITFC), a subsidiary of the IDB.

The facility will be used to fund the firm's financing projects in the area of small and medium-sized businesses.

Unileasing is a local leasing firm which follows the principles of Islamic banking. Its shareholders are Unibank (66.67%) and the European Bank for Reconstruction and Development (33.33%).

StanChart plans Bangladesh investments

BANGLADESH: Standard Chartered Bank (StanChart) is optimistic on the growth of its presence in the country on prospects of the issuance of draft Islamic banking regulations from the central bank, Bangladesh Bank.

Its Shariah compliant subsidiary, Standard Chartered Saadiq, is planning to commence project and trade financing in Bangladesh next year, after offering consumer banking in the country for the past five years.

Afaq Khan, the CEO of Standard Chartered Saadiq, commented that clear and transparent regulations for the industry will spur the development of the market in the country.

Jahangir Alam, a spokesman for the central bank, said that it will consider proposals from parliament's finance committee to issue more Islamic banking licenses and establish an Islamic money market. Islamic banks in the country are currently governed by the Bank Company Act.

Positive growth

MALAYSIA: Net income from Hong Leong Bank's Islamic banking business doubled to RM96.03 million (US$30.12 million) in its first quarter ended the 30th September this year, compared to the same period last year.

Its parent, Hong Leong Bank, reported a net profit of RM407.11 million (US$130 million) during the period, 58.28% higher than in the previous corresponding period, following the consolidation of earnings from its acquisition of EON Capital's assets and liabilities, including EONCap Islamic Bank.

US$80 million deal

AZERBAIJAN: The IDB and the Azerbaijan government have signed a financing agreement for flood protection and the modernization and expansion of irrigated areas in the Nakhchivan Autonomous Republic.

The project, which will receive US$80 million in financing for four years, includes the strengthening of the Araz River banks and the construction of auxiliary canals and other facilities.

The agreement comprises US$9.5 million-worth of financing on beneficial conditions for 19 years at a rate of 2.6% and a US$55.33 million tranche on commercial conditions for 14 years with a swap rate.

Boosting global reach

MALAYSIA: The International Shari'ah Research Academy for Islamic Finance (ISRA), the Shariah research entity of the central bank, Bank Negara Malaysia, has embarked on its strategic plan for 2012, which focuses on strengthening its global reach, enhancing the quality of its activities and increasing its connectivity with market players and industry stakeholders.

ISRA is also preparing to move to its own campus and headquarters in the city of Petaling Jaya, just outside of Kuala

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Basel III irrelevant to Islamic finance?

GLOBAL: With the global financial industry preparing for the phased implementation of Basel III, targeted to begin in 2012, some Islamic finance players see the reforms as irrelevant to the Shariah compliant financial industry.

Abdulkader Thomas, the president and CEO of SHAPE™ Financial, noted that the Islamic financial sector requires independent and robust business models, with the proposed Basel III reforms widening the differences between conventional and Islamic banking.

The reforms were developed to strengthen the regulation, supervision and risk management of the banking sector; improve the sector's ability to absorb shocks from financial and economic stress; improve risk management and governance; and strengthen banks' transparency and disclosures.

However, with the main thrust of the new rules made up of higher requirements for bank capital and liquidity, Islamic finance industry players argue that the framework does not apply to the Shariah compliant space as the industry already practices such requirements.

"The Basel III framework does not work for Islamic banking," said Abdulkader, who also noted that the size of Islamic banks' balance sheets is limited, while interaction between Islamic and conventional banks when engaging in syndications is also restricted.

Meanwhile, the Qatar Central Bank (QCB), which issued its directives on the separation of conventional and Islamic banking earlier this year, also appears to believe that Basel III is not applicable to Islamic banks. Among its directives include a statement on the capital adequacy requirements of banks, with rules to differ between conventional and Islamic institutions.

According to the QCB, conventional banks will have to follow Basel II and Basel III requirements, while separate capital adequacy rules will be developed for Islamic banks.

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Lumpur, in early 2012; to build its own identity and separate itself from its sister organization, the International Centre for Education in Islamic Finance (INCEIF).

Eyeing the Gulf Sukuk market

MALAYSIA: CIMB Group is seeking to form partnerships in the GCC next year as part of its plans to expand in the Persian Gulf's Sukuk market, said Badlisyah Abdul Ghani, the executive director and CEO of CIMB Islamic, a subsidiary of CIMB Group.

He said that this because the banking group is preparing to target the market in a more "aggressive" manner.

Significant role

PAKISTAN: Dubai Islamic Bank Pakistan is planning to expand its branch network in the country next year and introduce more Shariah compliant products in the future, said Junaid Ahmed, its CEO.

EUROPE

French keen on Islamic finance

FRANCE: French academics have shown an interest in utilizing Saudi expertise and experience in Islamic banking and finance, said Muhammad Ismail Al-Asheikh, the Saudi ambassador to France.

He also said that Saudi represents a good reference for Islamic banking and finance, expressing hope that the newly launched "Financial morals and principles: Islamic banking as a model" academic chair, established in Sorbonne University as a joint research project with Jeddah's King Abdulaziz University, will support the French economy with new research on Islamic finance.

New Islamic mortgage product

UK: Islamic Bank of Britain (IBB) has launched a variable rate buy-to-let purchase plan aimed at landlords, for a portfolio of up to five properties. The product offers a rental rate of 5.49% with an arrangement fee of 1%.

The maximum financing size is up to GBP500,000 (US$783,605) per property and GBP750,000 (US$1.18 million) for properties in London.

GLOBAL

GCC banks diversifying

GLOBAL: Banks in the GCC are targeting to increase financing to small and medium-sized enterprises (SMEs) and focus on the youth and women markets to increase returns, according to a survey by global management consulting, technology services and outsourcing company, Accenture.

Amr El Saadani, the managing director of Accenture's financial services practice, said that while the government sector has dominated economies in the GCC, a move by the governments to diversify their economies has led banks to expand their businesses.

Data shows that financing to the SME sector accounts for 2% of overall financing in the GCC, while more than half of the GCC population are less than 30 years old and assets held by women in the region are expected to grow to US$800 billion by 2014 from USS$500 billion in 2009.

Accenture's study also showed that banks in the GCC plan to reduce their cost-to-income ratio to 35% from an average of 36% to boost returns on equity to 20% from 16% by 2015.

Investor appetite limited?

GLOBAL: The sale of Qatar's US$5 billion sovereign bond on the 29th November has raised concerns that the issuance may be among the last this year that investors are capable of taking up, following a flood of offerings that have come to market in the fourth quarter of this year.

"With Qatar having printed a huge US$5 billion deal and additional supply from Taqa (Abu Dhabi National Energy) looking imminent, clearly there's a risk of investor fatigue, especially in light of the time of year; hence making it more challenging for other issuers to squeeze in a deal before the year-end," Chavan Bhogaita, the head of the market strategy unit at National Bank of Abu Dhabi, was quoted as saying.

Taqa is expected to launch a Sukuk following the completion of its roadshow in the first week of December, with the pipeline of Islamic debt expected by the end of this year also including

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Abu Dhabi real estate market headed the way of Dubai?

UAE: Even as Dubai's real estate market continues its recovery from the 2008 financial crisis, concerns have now been raised that Abu Dhabi's property sector may follow the same path.

With Islamic banks in the Middle East, including the likes of Abu Dhabi Islamic Bank, famously invested in real estate and operating property development companies; and conventional banks with Shariah compliant units, such as Abu Dhabi Commercial Bank, showing a growing portfolio of investment properties, could it be a matter of time before a financial fallout in Abu Dhabi along the same lines as Dubai materializes?

A number of lawsuits have reportedly been filed over stalled projects, with delays said to have prompted more than 100 buyers for Hydra Properties' Hydra Village, Hydra Avenue and Golf Walk developments to commence legal proceedings to demand refunds.

Buyers for Tameer Towers, a US$1.9 billion development on Al Reem Island, are also said to be moving towards legal action due to construction delays on the project, which was slated for completion in June this year.

"You would have thought Abu Dhabi would have learnt from the mistakes Dubai made," said Paul Preston, the managing director of Elysian Real Estate.

Handover to buyers have also been stalled, with the first large-scale handovers of freehold homes in Abu Dhabi only beginning this year, while an oversupply of residential units has also sent rent in the emirate plunging more than 40% since its peak in 2008.

However, the issues currently faced by Abu Dhabi could just signal that its market is maturing, with the market seen as still in its infancy compared to Dubai's.

Meanwhile, with the UAE market awaiting clarification of new regulations on real estate laws, there may be hope yet for Abu Dhabi's property sector to avoid the same fate as its sister state.

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offerings from Al Hilal Bank, Emirates NBD, Majid Al Futtaim and a potential sale by Islamic mortgage company, Tamweel.

IDB says yes to US$4.2 billion financing

GLOBAL: The IDB has approved a record US$4.2 billion-worth of financing for projects globally this year.

Funding includes US$105 million for a power generation; transmission and distribution program in Mauritania's capital, Nouakchott; US$53 million for the Saudi Arabian SME Fund; and US$11 million to support the second phase of a road project in Morocco.

Dr Ahmad Mohamed Ali Al Madani, its president, said that the IDB also approved the launching of five IDB pilot gateway offices in Egypt, Turkey, Indonesia, Bangladesh and Nigeria to follow up on the implementation of the IDB projects.

He added that similar offices could be opened in the future, if the progress of these offices is positive.

Better ties needed

GLOBAL: Countries and banks in Southeast Asia and the GCC should build deeper relationships to increase cross-border transactions and increase competitiveness of the two regions, which are both Islamic finance hubs, said Hussain Al Qemzi, the group CEO of Noor Islamic Bank and Noor Investment Group.

He also suggested the setting up of a joint Malaysia-UAE Shariah board, comprising Shariah scholars from both countries, responsible for finding common ground between the two schools of Islamic thought practiced in Malaysia (Shafi'i) and in the UAE (Mālikī).

Boosting cooperation

GLOBAL: The World Congress of Muslim Philanthropists (WCMP) and Pakistan-based Farz Foundation have signed a MoU to strengthen their partnership in developing products.

Both parties will also be involved in designing strategies to execute the products' operations, while WCMP will replicate Farz Foundation's microfinance methodology in Pakistan and abroad, particularly in less-developed Muslim countries.

WCMP is a Chicago-based organization focusing on global philanthropy.

EDs gets second public hearing

GLOBAL: The Islamic Financial Services Board (IFSB) will be holding the second public hearing for two of its newly issued exposure drafts (EDs) in Bahrain on the 14th December 2011.

The EDs comprise drafts of guiding principles on liquidity risk management (Exposure Draft 12) and stress testing for institutions offering Islamic financial services (Exposure Draft 13).

The public hearings are being held within the IFSB's three-month public consultation period ending on the 12th January 2012, with the first carried out in Malaysia on the 16th November 2011, and form part of the board's due process for the development of standards and guiding principles.

Negative impact

GLOBAL: The insolvency of Islamic financial institution UM Financial could hamper the development of Shariah compliant finance in North America, where the industry has been slow to take off.

UM Financial's case has highlighted the uncertainty over the legal treatment of Islamic mortgages in default and raised questions over the transparency and oversight of small Islamic financial institutions, with industry experts noting that this could make investors in Canada and the US cautious of Islamic finance going forward.

However, Shaikh Muddassir Siddiqui, a Shariah scholar and partner at legal firm SNR Denton in Dubai, has commented that the failure of an Islamic financial institution should not immediately be seen as a failure of Shariah-based financing.

Nonetheless, he pointed out that insolvency could give Islamic finance a bad name, should the Canadian legal system determine that Islamic mortgage holders were not the ultimate owners of the property for which they had been paying.

Costs for GCC Islamic debt hover at highest level in over a year

GLOBAL: The glut of Sukuk sales that have come to market since October this year has led costs for Islamic debt from the GCC to hover at the highest level since May last year.

According to data from the HSBC/Nasdaq Dubai GCC US Dollar Sukuk Index, the average yield on Sukuk from the region rose 59 basis points (bps) to a seven-week high of 4.46% on the 25th November, as Sukuk offerings during the month brought issuances for the year to US$6 billion, 59% higher than in the same period last year.

Latest transactions from the GCC include benchmark-sized issuances from Abu Dhabi Islamic Bank and Abu Dhabi Commercial Bank (ADCB), both amounting to US$500 million; and a US$750 million sovereign offering from Bahrain.

The recent rush of issuances has been attributed to demand for quality issuers and comparatively better pricing for Islamic offerings due to the Eurozone's debt woes, although Adnan Haider, the head of fixed income and equity at ADCB, noted that the number of sales has pushed Islamic borrowing costs higher in line with other debt.

Yields on Dubai government Sukuk have also risen, with its 6.4% papers maturing in November 2014 rising to 109 bps in November, their highest for two years, while spreads between Dubai's Sukuk and Malaysia's 3.92% Sukuk maturing in June 2015 widened 84 bps to 335 bps.

Meanwhile, spreads between Libor and the average yield for Sukuk grew 48 bps to 326 bps on the 25th November. Usman Ahmed, a fixed income fund manager at Emirates NBD Asset Management, is quoted as saying that the sell-off in Islamic debt is attributed to the increased supply of Sukuk and investors switching out of existing to new issuances, in addition to the jitters of Europe's market.

Towards a common cause

GLOBAL: Malaysia and Qatar will establish a RM6.2 billion (US$2 billion) joint venture investment fund in order to boost investment in both countries and in Asia.

Najib Razak, the prime minister of Malaysia, said that each country will contribute US$1 billion to the fund, adding that details including where and what assets it will invest in will be revealed later.

Feeling the impact

GLOBAL: The Eurozone sovereign debt crisis is adversely affecting the IDB's member countries, especially in the Mediterranean, such as Turkey, Morocco, Tunisia and Algeria, as they are major traders with Europe, said Dr Ahmad Mohamed Ali Al Madani, the president of the bank.

MIDDLE EAST

More job cuts for SHUAA

UAE: SHUAA Capital has commenced a redundancy program that will see the downsizing of 29 employees in its first phase.

"Markets have been challenging for the entire industry in 2011 and we expect conditions to be much the same for the next few quarters," said the bank, which is moving away from the retail brokerage business and instead focusing on its asset management and advisory business in Abu Dhabi, Saudi Arabia and Kuwait.

It added that the job cuts will take "a number of weeks" to complete.

NCB renews Al-Khodari financing

SAUDI ARABIA: National Commercial Bank (NCB) has signed an agreement with contracting company Abdullah A M Al-Khodari Sons (Al-Khodari) to renew the company's existing Islamic financing facilities, amounting to SAR1.07 billion (US$285.31 million).

In a statement to the Saudi stock exchange, Al-Khodari said that the credit agreement is renewable at its expiry date of the 31st May 2012, although the credit limits extended by NCB will mature over the remaining life of the respective financed projects, ranging between 12 and 57 months.

The credit facilities, comprising Tawarruq, progress payments, Sukuk, documentary credit and Murabahah financing, are being utilized to provide bonding commitments and to fund the company's capital requirements as well as working capital needs.

Islamic financing for cable plant

UAE: The AED500 million (US$136.12 million) Ducab-HV cable plant owned by Dubai cable manufacturing company Ducab, and part-financed by Noor Islamic Bank, began production on the 29th November.

According to Ahmad Al Shaikh, the chairman of Ducab and Ducab-HV, 60% of the plant's establishment was funded through bank financing, mainly from Noor Islamic Bank, with Ducab's shareholders funding the remainder.

Faring well

SYRIA: Al Baraka Syria, which commenced operations early this year, will continue expanding despite continued unrest in the country.

The bank will open three new branches and expects to break even this year, said Mohammed Halabi, its CEO.

He also said that the bank is faring well in spite of the current situation in Syria, with customer deposits growing to US$7 billion and total assets reaching US$9 billion at the end of the third quarter of this year.

Emaar turns to Islamic financing

UAE: Land and real estate developer Emaar Properties has reportedly agreed on an Islamic financing facility worth US$800 million with Dubai Islamic Bank, Standard Chartered Bank and National Bank of Abu Dhabi.

The deal, reportedly priced at 3.5% more than the UAE's benchmark overnight repurchase rate of 1%, is expected to include a five-year bullet loan and an eight-year amortizing facility.

The financing is backed by Emaar's flagship property, Dubai Mall.

RATINGS

Stable ratings

MALAYSIA: MARC has affirmed its 'AAA/S' rating for the outstanding RM55 million (US$17.5 million) of IJN Capital's Series 1 RM100 million (US$31.83 million) Sukuk issued under its RM209 million (US$66.52 million) Sukuk Musharakah program. The rating carries a stable outlook.

Solid position

MALAYSIA: MARC has affirmed CIMB Islamic's long-term financial institution rating at 'AAA' and concurrently affirmed its rating on the bank's tier 2 junior Sukuk program at 'AA+IS'.

Positive outlook

UAE: Moody's has assigned a provisional '(P)Baa3' senior unsecured debt rating, with a stable outlook, to Tamweel Funding III's Sukuk program. The ratings agency also assigned a '(P)Baa1' senior secured debt rating to the upcoming US dollar trust certificate issuance under the program, which has been rated higher as it benefits from an unconditional and irrevocable guarantee from Tamweel's majority shareholder, Dubai Islamic Bank, rated 'Baa1'.

Firm support

MALAYSIA: MARC has assigned a preliminary rating of 'AAAIS' to Projek Lebuhraya Usahasama 's proposed RM23.35 billion (US$7.5 billion) Sukuk Musharakah program, under which the company is to issue a senior secured Sukuk pending final documentation review.

On the right foot

MALAYSIA: MARC has assigned a preliminary rating of 'A+IS(cg)' to KMCOB Capital's proposed RM343.1 million (US$109 million) Sukuk Mudarabah medium-term notes program with a stable outlook.

Consistently strong

MALAYSIA: RAM has reaffirmed RHB Islamic Bank's respective long- and short-term financial institution ratings at 'AA2' and 'P1'. The long-term rating has a stable outlook.

Strengthening cross-border ties

QATAR: Qatar Islamic Bank (QIB) has signed a MoU with the Export-Import Bank of Korea (KEXIM) aimed at providing companies in Qatar and South Korea with a competitive advantage via the mutual exchange of information and project cooperation.

The agreement is also expected to support and co-finance the growing trade flows of capital and goods between the two countries.

In addition, QIB and KEXIM will seek to propose individual projects in which the two parties may use their respective resources for mutual benefit, while the two banks have also agreed to consider accepting trainees or the secondment of staff.

Ready for Islamic banking

OMAN: Oman Arab Bank (OAB) is prepared to offer Islamic banking products through two of its branches once the regulatory framework on Islamic banking has been announced by the Central Bank of Oman, said Abdul Kader Askalan, its CEO.

He added that OAB's partner Arab Bank, which offers Islamic banking products, will be helping the bank to frame procedures for such products.

However, Abdul said that the bank is awaiting the central bank's decision on whether Islamic windows can operate through existing branches or via newly-established, dedicated branches.

Seeking US$400 million from Sukuk

SAUDI ARABIA: Almarai Company, a local dairy food producer, is reportedly planning to raise SAR1.5 billion (US$400 million) through its riyal-denominated Sukuk sale next year.

The maximum size of the program, the structure of which is still being completed, is SAR2.3 billion (US$613 million). According to Paul-Louis Gay, the chief financial officer of Almarai, proceeds from issuance will be used to replace existing debt and fund the company's capital requirements.

Sukuk yields surge

UAE: The yields on Dubai's non-rated 6.4% Sukuk maturing in November 2014 climbed 84 basis points (bps) to 6% in November, in the second-largest month-on-month increase since Dubai World sought to delay payments on US$25 billion-worth of debt in November 2009.

According to Hong Kong-based SJS Markets, the Europe crisis has led banks to tighten financing, lifting borrowing costs in emerging markets.

Average yields on GCC Sukuk also rose in November, climbing 55 bps to 4.42%, the HSBC/Nasdaq Dubai GCC US Dollar Sukuk Index showed.

Bad news in store for banks

UAE: Bad debt at Dubai banks is expected to peak at between 15-16% in

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MOVES

RASMALA INVESTMENT BANK

UAE: Rasmala Investment Bank has hired **Zaid Ghoul** as its new head of investment banking, effective the 1st December.

Zaid was previously a partner at PwC Bahrain.

BURJ BANK

PAKISTAN: Burj Bank has appointed **Ahmed Khizer Khan** as its president and CEO.

Khan was previously the chief operating officer of the Islamic Corporation for the Development of the Private Sector.

STANDARD CHARTERED BANK

BAHRAIN: Standard Chartered Bank (StanChart) has appointed **Hassan Jarrar** as its new CEO for Bahrain.

Hassan was previously the managing director and the head of origination and client coverage, wholesale banking, at StanChart's UAE office.

DUBAI GROUP

UAE: Dubai Group, the financial services arm of Dubai Holding, has appointed **Trevor Regan** as its chief investment officer.

Regan has held senior roles in several international banks, including as director of capital market investing at Citibank, chief investment officer at Standard Chartered Bank in Singapore and global chief investment officer at Al Rajhi Bank.

EMIRATES NBD

UAE: Emirates NBD has appointed **Douwe Oppedijk** as the interim CEO of Dubai Bank.

Oppedijk was formerly the CEO of Commercial Bank International. He replaces Giel-Jan Van Der Tol, who has been appointed the group head of wholesale banking at ENBD.

DEUTSCHE BANK

GLOBAL: Deutsche Bank has appointed **Salah Al Jaidah** as its chairman of Islamic finance.

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2013, with bank provisions to cover the non-performing financing expected to rise to record levels in the next two years.

The amount is an increase from 4.8% in 2009 and 11.3% in 2010, according to investment bank Exotix.

Gus Chehayeb, an associate director of research at Exotix, explained that this is because Dubai government-related debt restructurings still need to work their way through the banking system.

The 50-60% decline in Dubai property prices is also expected to contribute to rising non-performing financing in the next two years, with the increase likely to limit bank lending and profit growth in the short-term.

Meanwhile, Moody's has said that provisions are expected to reach between 13-16% in 2012, with Rasmala Investment Bank also expecting bad debt to peak next year.

Regulations coming up soon

OMAN: A new set of rules and regulations for Islamic banks is expected to be completed by the end of December this year, according to Hamood Sangour Hashim Al Zadjali, the executive president of the Central Bank of Oman (CBO).

Hamood Sangour also said that Ernst & Young, which has been appointed as consultant to advise the CBO on formulating Islamic banking regulations, is evaluating aspects such as financing limits and the writing of rule books, procedures for the reporting structure of Islamic banks and the formation of Shariah boards.

He added that the central bank is not expected to form a national Shariah board, with each institution intending to offer Islamic banking likely to have individual Shariah boards instead.

New Sukuk program

UAE: Islamic mortgage provider Tamweel has established a US$1 billion Dubai Islamic Bank-guaranteed Sukuk program, according to a base prospectus.

The Sukuk is expected to be issued soon, following the completion of its investor meetings in London on the 5th December.

Standard Chartered Bank, Citi and DIB are the arrangers and dealers for the transaction.

Game-changer in Qatar

QATAR: The Qatar Central Bank's rules on the abolishment of Islamic banking windows has created opportunities for licensed Islamic banks to increase customers and face reduced competition, said Amjad Hussain, a partner and the head of Islamic finance at legal firm Eversheds.

Stable outlook

SAUDI ARABIA: The outlook for the kingdom's banking system remains stable due to the country's benign operating environment and expected decline in bad debt, said Moody's.

GFH's moves hinge on political outcome

SYRIA: Bahrain-based Gulf Finance House, which has submitted a plan to the Syrian Central Bank to set up a unit in Syria, is awaiting the resolution of the country's political conflict for it to resume its proposals.

No deadline yet

UAE: Nakheel has not set a deadline for issuing the second tranche of its AED3.8 billion (US$1.03 billion) Sukuk program, estimated to be valued at AED1 billion (US$272.22 million), as it awaits the settlement of contractor claims.

Coming up...

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Meet the Head
Ventje Rahardjo, CEO, Bank BRISyariah

Features
Islamic finance in Palestine: By Dr M Hisham Jabr, associate professor of finance and banking at An-najah National University.

Kabul Bank crisis - An appraisal from an Islamic banking perspective: By Saif Ur Rahman Khalid Ahmadzai, chartered Islamic finance professional holder, International Center for Education in Islamic Finance.

Suitability and risk - A cyclical approach: By Daryl Roxburgh, global head of BITA Risk.

Bermuda seizes Takaful opportunity: By Cheryl Packwood, CEO, Business Bermuda.

Moves continued...

Salah, who is a board member of a number of Islamic financial institutions in the Middle East and Southeast Asia, will also continue as the chief country officer of Deutsche Bank in Qatar and the vice-chairman for the MENA region.

The bank has also named **Ibrahim Qasim** as the head of Islamic finance structuring. Ibrahim has over nine years of industry experience in structuring and executing transactions in the global capital markets.

OCBC BANK

SINGAPORE: Oversea-Chinese Banking Corporation (OCBC Bank) has appointed **Darren Tan Siew Peng** as its chief financial officer and executive vice-president.

Tan was previously the deputy chief financial officer at the bank.

STANDARD CHARTERED BANK

GLOBAL: Standard Chartered Bank (StanChart) has appointed **Khalid Elgibaly** as its head of consumer banking for the Middle East and UAE.

Khalid replaces Chris de Bruin following his appointment as the head of consumer banking at StanChart in Korea.

Islamic Finance *news* Awards
Best Service Providers Poll 2011

The results for the 2011 Islamic Finance *news* Service Providers Poll have been announced and we can now reveal that The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has won the *Most Outstanding Standard Setting Body* award.

The much anticipated Islamic Finance *news* Best Service Providers Poll takes a thorough view at recognizing the best supporting providers to the Islamic financial services industry, as voted by our readers. Those polled include finance institutions, issuers, investors and government bodies from around the world.

AAOIFI beat the Islamic Financial Services Board as the industry's most influential standard setting body in light of its growing number of accounting, auditing and Shariah governance standards, which are followed by over 200 institutions across 46 of its member countries. Although AAOIFI has come under scrutiny particularly from the accounting fraternity, which is hardwired to follow IFRS accounting standards, the institution's standards and publications are still heralded as a general benchmark in an industry which is still struggling to achieve all-encompassing standardization.

Dar Al Sharia won the *Best Islamic Consultancy Firm* and *Best Shariah Advisory Firm* awards for 2011; a reflection of the firm's commitment to the industry, diversity in the services it provides in the Shariah, financial and legal sectors, and its growing popularity amongst industry players and law firms as the consultancy of choice. Testament to its increasing foothold in Islamic finance, the firm was recently selected by the International Bank of Azerbaijan to work alongside big-name global consultancies including KPMG and Pinsent Masons to set up the bank's Islamic banking capabilities. Amanie Business Solutions came in at a close second in the same category.

A growing consciousness among industry players to further boost secondary market movement makes the *Best Islamic Index Provider* and *Best Interbroker for Islamic Transactions* awards particularly significant. Its winners, Dow Jones Islamic Index and DDCap, faced tough competition from runner-ups FTSE and Eiger Trading, and we expect to see increased competition in the years to come as investor demand soars for liquidity management and equity-based products.

RAM Ratings bagged the *Best Islamic Ratings Agency* award due to its continued focus on the Islamic finance industry: covering an impressive range of Islamic banks and institutions, as well as providing comprehensive reports on the industry via its monthly Islamic finance bulletins, thus making it a favorite among Islamic finance practitioners. Moody's Investors Service, which already has a foothold in Europe and Americas, came in second as it continues to expand on its Islamic finance capabilities.

For the *Best Islamic Research Firm* category, KFH Research, which covers a gamut of sectors and provides comprehensive coverage of the commodities and equities areas as well as in-depth country and sector reports, emerged the clear winner, beating last year's favorite, the International Shariah Research Academy (ISRA). However, the ISRA looks set to bounce back with a vengeance in 2012, having recently announced 27 new research initiatives and completing 14 research projects initiated in 2010, making next year's fight one to watch. The academy is also said to be taking a more autonomous and independent approach in the coming year, distinguishing itself from INCEIF, another academic-based institution set up by Bank Negara Malaysia.

Industry players selected Path Solutions as the *Best Islamic Technology Services Provider*. The firm has revealed expansion plans into emerging markets including Africa. Global IT giant Oracle Financial Services was the runner-up. CIMB, with its constant regional and services expansion, was chosen as the *Best Islamic Wealth Management Provider*, while Takaful Ikhlas and MNRB Retakaful came up top trumps in the *Best Islamic Takaful Provider* and *Best re-Takaful Provider* categories respectively.

Winners will receive their awards during two gala awards ceremonies in early 2012. The first will take place in the evening of the 15th February in Malaysia, followed by Dubai on the 29th February.

Most Outstanding Standard Setting Body
AAOIFI

Best Islamic Consultancy Firm
Dar Al Sharia

Best Islamic Wealth Management Provider
CIMB Islamic

Best Islamic Takaful Provider
Takaful Ikhlas

Best re-Takaful Provider
MNRB Retakaful

Best Islamic Index Provider
Dow Jones Islamic Index

Best Interbroker for Islamic Transactions
DDCap

Best Islamic Ratings Agency
RAM Ratings

Best Islamic Research Firm
KFH Research

Best Shariah Advisory Firm
Dar Al Sharia

Best Islamic Technology Provider
Path Solutions

About the IFN Awards:
Launched in 2005, the Islamic Finance *news* Best Islamic Banks Poll has grown rapidly to become widely recognized amongst industry players as the one to win. Each year, in tandem with the growth of the industry, new categories have been added, and by 2009 the poll had developed to recognize two very distinctive groups: the banks and the service providers. This year, we also introduced two new polls, the Law Poll and the Funds Poll, both spin-offs from the Best Service Providers Poll, reflecting the growing prominence of these sectors in driving the industry to new heights.

Methodology: A total of 865 votes were cast during November 2011. Of these, 210 were disqualified due to irregularities discovered during the due diligence process. Therefore, 655 votes counted towards the 2011 results.

All votes were screened and only those passing the strict due diligence process were counted. Voters could not vote for themselves or associated organizations, and could only vote once.

Qatar: Envy of the east

At the end of last month, Qatar issued its much-anticipated 144a/RegS Global Bond at US$5 billion over three tranches. The sovereign priced US$2 billion of 3.125% January 2017 notes at US Treasuries plus 225 basis points (bps), US$2 billion of 4.5% January 2022 bonds at plus 262.5bps, and US$1 billion of January 2042 paper at plus 287.5bps, and received a total of 450 orders worth US$9.5 billion: almost double its final issuance price. HSBC, Citigroup, JP Morgan, Mitsubishi UFJ, QNB Capital and Standard Chartered were the deal's lead arrangers.

Although some analysts deemed Qatar's move risky considering the current consternation in the Eurozone and a general reluctance amongst investors to part with their cash, others see the global issuance as a beacon in the economic gloom. A source close to the deal revealed: "After a fairly quiet period for MENA issuance, Qatar was exactly the right name to come to market in size. The transaction was not without its detractors, however, with some bankers arguing that Qatar gave up more than it might have done in terms of pricing. In truth though, any emerging markets transaction that raises the amount that Qatar did in such volatile markets has to be deemed a big success. Yet again they have executed the biggest deal of the year and set the benchmark for the region."

Although the sovereign issuance was conventionally structured, the country had also previously made its mark on the Islamic bond front in 2003, with the issuance of the US$700 million Qatar Global Sukuk. Industry players expect the country's Islamic secondary market to open up on the back of its recent sovereign success. Those based in the Middle East are also recognizing the fiscal power of Qatar, with a Bahrain-based investment banker revealing a growing interest among Middle East investors to explore Qatari investments due to its high yields from increasing oil and gas prices and its robust banking sector. "Qatar's LNG sector is expected to grow by an additional US$19 billion by next year. There is also much room for infrastructure spending in the country, and this is obviously an opportune time for it to grow its Islamic finance sector. Highly rated sovereign issues such as Qatar and Abu Dhabi are in favor for international bond managers at the moment, and not only emerging market specialists," he said.

Qatar, which recently had its 'AA' rating affirmed by global credit rating agencies, is expected to continue on a positive growth trajectory in the coming years, buoyed by its growing LNG sector, increased infrastructure spending - in part due to its upcoming role as the 2022 World Cup hosts - and relative political stability in the region. *— NH*

An interdisciplinary approach to Islamic finance

Professor Dr Volker Nienhaus of the Qatar Faculty of Islamic Studies has suggested that invoking the principle of public good in Islamic finance is for the benefit of all involved. He postulates that by looking at the industry through a multi-disciplinary approach, Islamic finance and its risk sharing principles can become a transformative process that can be grown into a fully developed system. Nienhaus further adds that: "There is a considerable role for institutions of higher education in directing the cause of Islamic finance in promoting the public good."

Risk sharing cannot be an end in itself; but it can serve different aims and objectives such as avoiding risk concentration and achieving justice through the avoidance of negative externalities through risk allocation. In society and the economy as a whole, Islam has to give answers to pressing economic questions: Zakat, hedging and guarantees to name but a few. In many instances, what we are currently engaged in is the shifting and re-allocation of risk, and we cannot allow this to become ingrained or systemic. In order to come up with judgments and explanations we need an understanding of the economic factors at play.

We must consider Shariah as an objective: the fundamental principles of economic order. These can only be attained through the integration of the social sciences, economics and religion. When we talk about understanding, we are talking about knowledge. We are in the process of creating an Islamic economic system. The application of Shariah and its epistemological background and relevance has to be turned into action and policy considerations.

In terms of extending and deriving terminology that can be applied via reason, Nienhaus suggests that: "We need to create guiding principles, that can be acted upon consistently and that are derived from the original sources of Islam." This promotes abstract thinking, as specifics would not transcend time and place. It also encourages understanding of the methodology of the changes and the adaptations made; in order to create a holistic guidance-centric approach. Economics and Islam need to be interdependent. While economic knowledge is central, Islam provides the foundation on which this additional knowledge can be based.

Islamic finance currently has an over-reliance on Shariah scholars. Shariah scholars simply deem products to be either permissible or non-permissible. According to Nienhaus: "It is extremely rare to receive a fatwa with a rationale in the context of the final decision." This makes it difficult from an economic perspective to ascertain the full judgment or to understand what economic considerations were taken into account.

> ***"We need to create guiding principles, that can be acted upon consistently and that are derived from the original sources of Islam"***

Limited downside risk from a Shariah perspective in regard to participatory finance and voluntary risk sharing

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contracts have also hindered the development of contracts that could move a more inclusive system forward. However, it is success and the lure of greater profitability that provides the greatest challenge to permissibility and public good in Islamic finance. Many are willing to share risks but are unwilling to distribute their profits accordingly.

> **“*Let's find courses that Shariah scholars and economists can work on together*”**

The current situation is that Islamic finance is working within a system of workarounds and compromises. This was an economic imperative in the early days of Islamic finance, with many compromises having been justified by Shariah scholars and bankers with reference to the public good. This opens up the opportunity for an integrated approach between the laws of Shariah and the benefits of financial inclusion.

A joint effort from scholars and bankers is needed, to work together in identifying the economic needs, commercial interests and legal options available for the design and implementation of instruments and their application within the market as a whole.

Econometric analysis of information is still very western-centric and based on conventional financial approaches. “This is beautiful statistically, but entirely irrelevant to Islamic economics,” says Neinhaus, meaning that the relevant material for the promotion of the industry goes unrecognized in academic and economic circles.

Nienhaus recognizes that an interdisciplinary approach for Islamic finance is an ambitious project and believes that universities are a central aspect of this. “Let's find courses that Shariah scholars and economists can work on together.” From joint evaluation of case studies, to looking at the successes and failures in product development; by taking note and commenting on these factors from both perspectives, we can create a culture of cross-literature review. “Let's start writing books and essays together,” suggests Nienhaus.

Dialogue is central to any further promotion of Shariah standards, joint research and open debates. More can and should be done to overcome the challenges facing the Islamic finance industry through an interdisciplinary approach.

In Islamic society, finance is available only with shortcomings: in approaching these challenges from every angle we are trying to redress these shortcomings one step at a time. — *SW*

New heights of investor interest in the GCC

Growing GCC interest in Shariah compliant investment opportunities is contributing to make Islamic finance a priority for many investors in the Middle East. This is helping to drive intra-regional investment in relevant areas like real estate, infrastructure development and, more recently, equities and financial products.

The expanding role of Islamic finance has begun to serve as a conduit for trade and capital flows between its Asian and Middle Eastern centers, boosting cross-border growth opportunities and a greater internationalization of the region's financial industry.

Sustained economic growth in the GCC, buoyed by government spending, has provoked intense interest in the region; particularly in the emergent Islamic finance industry. The story of the rise in prominence of the six-member Gulf Cooperation Council (GCC) is by now well known: the region sits on some of the world's largest hydrocarbon reserves and has used its massive influx of revenue to fund large-scale infrastructure development and, more recently, economic diversification strategies.

New markets are being sought around the world for a growing range of non-oil goods and services while, on the investment side, both the well-capitalized sovereign wealth funds and an increasing array of private investors have built up wide-ranging investment portfolios.

Multinationals operating in the Middle East already use the GCC as a base for their regional operations, but the GCC also has opportunities to further develop as a base for their expanding operations in Africa and South Asia; especially when doing business in countries with weaker infrastructure and higher political risk.

The GCC is therefore geographically well positioned to act as a trading hub between the east and the west: expanding on a role that it played for centuries before the discovery of oil.

According to Jakob Beck Thomsen, CEO of Saxo Bank's Dubai office: “There's a big local appetite for international equities and products; from both private and institutional clients.”

Overall, the GCC's trade, investment and political ties with emerging markets are expected to develop over the next 10 years. With new partnerships comes the opportunity to explore new methods of financing, and the increasing trade volumes and investment inflows into the region are likely to prove a significant boon to the nascent Islamic finance industry.

“Islamic finance is still in its infancy,” says Thomsen. However, he acknowledges that: “[While] there is still a lack of standardization and agreement of investment rules, the market is growing at some 25% a year. Middle Eastern flows are growing strongly and it comes as no surprise that Islamic finance is one of the fastest-growing sectors in the world today.” — *SW*

The importance of Islamic banking laws

BANGLADESH

By M Shamsuzzaman, IFN Correspondent

The Islamic banking industry in Bangladesh has been functioning for almost three decades without any legislative support, although it has already captured 20% of the country's money market.

Presently there are seven fully-fledged Islamic banks with 615 branches across the country. There are also 16 conventional banks that provide Islamic financial services through 22 branches.

For the first time, the parliamentary standing committee of the finance ministry, the apex body for regulating and monitoring the banking industry, comprising members of parliament and chairmen and managing directors of all Islamic banks including conventional banks with Islamic banking windows, organized a meeting on the 20th November 2011. Top officials of the central bank also attended.

The parliamentary committee expressed their satisfaction over the performance of the Islamic banking system in the industry, mentioning the present flexibility for the maintenance of investment deposit ratios (85% for Islamic banks and 90% for conventional banks); and statutory liquidity ratios (11% for Islamic banks and 19% for conventional banks).

According to Bangladesh Bank, the central bank, Islamic banks are comfortable with their surplus liquidity of BDT46830 million (US$625 million) while conventional banks are currently under liquidity pressure.

The committee discussed the potential formulation of separate laws for Islamic banks; the establishment of an Islamic money market for deployment of surplus funds in a Shariah compliant way; the formation of mutual funds for investments in infrastructure development; a waiver of tax for Zakat funds; the building of an apex training center; and the formation of a commission on Islamic banking to oversee the regular activities of banks.

The parliamentary committee believes that there is the potential to develop a national Islamic infrastructure in Bangladesh and to transcend it into an Islamic financial hub like Malaysia. A delegation of parliamentary and bank officials will soon visit countries where Islamic banking has progressed to learn about their approach to Shariah laws.

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Shariah compliant investments in Chinese real estate

HONG KONG & CHINA

By Anthony Chan, IFN Correspondent

With interest in Chinese real estate increasing despite continuing Chinese government austerity measures to cool the popular real estate market, it is worthwhile considering the entry requirements in this sector that Shariah compliant funds may face for China. There are currently opportunities for Shariah compliant investors to establish joint ventures or otherwise cooperate with Chinese developers exposed to credit owners. Chinese developers in any event need to find new avenues for fundraising, and Shariah compliant capital has become a major consideration.

The four key regulatory provisions affecting foreign (including Shariah compliant) investors in Chinese real estate are as follows:

- Opinions on regulating the entry into the administration of foreign investment in the real estate market (Circular 171): jointly issued by the ministry of construction, the ministry of commerce (MOFCOM), the National Development and Reform Commission (NDRC), People's Bank of China, the State Administration of Industry and Commerce and the State Administration of Foreign Exchange (SAFE) on the 12th July 2006.
- Notices governing further strengthening of the regulating approvals and supervision of direct foreign investment in the real estate sector (Circular 50): jointly issued by MOFCOM and SAFE in May 2007.
- Circular of the general affairs department of SAFE on the distribution of the list of the first group of foreign-invested real estate projects which have filed with the ministry of commerce (Circular 130): issued by SAFE on the 10th July 2007.
- Notice of the ministry of commerce on filing for foreign investment in real estate industry (Notice 23): issued by MOFCOM on the 18th June 2008.

In summary:

- Under Circular 171, foreign investors are required to set up Chinese-incorporated foreign-invested real estate enterprises to engage in Chinese real estate development. MOFCOM takes an active role in supervising foreign investment in real estate by scrutinizing the establishment of foreign-invested real estate enterprises (FIREEs) and preventing local governments from approving arbitrary foreign investment projects.
- The total amount of investment from offshore must be determined when setting up a FIREE. Depending on the size of investment, a certain portion should be contributed as registered capital. As 50% of the investment must be reserved as registered capital, foreign investors have to lock in a substantial proportion of their project costs as registered capital.
- In order to obtain land-use rights in China, investors have to pay the local government a land grant fee. Under Circular 171, a FIREE is prohibited from obtaining loans if its registered capital has not been fully paid in or if it has not received the required land-use certificate. Circular 50 requires investors to first obtain land-use rights before getting approval

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for FIREE formation. This means investors have to obtain the land-use rights using their own capital.

In China, foreign exchange and foreign debt transactions are subject to SAFE supervision. Under Circular 130, SAFE will not process any foreign debt registration for FIREEs established after the 1st June 2007. This means that FIREES can no longer borrow from offshore entities (including their shareholders) and funds can only be directly invested as registered capital.

- According to Circular 171, foreign investors who wish to acquire existing real estate projects must provide to MOFCOM letters of guarantee of performance in respect of the land grant contract and of planning permits and proposals. Moreover, the acquisition price of the existing project has to be paid in one lump sum rather than by installments.

In order to successfully absorb Islamic funds into the real estate market in China, it is necessary to have a proper structure for Shariah fund management that does not violate Shariah law or Chinese land law. In addition, the age-old question of tax efficiency continues to remain an issue in China. However, the strength and resilience of China's real estate market and the high returns from Chinese real estate compared with many other jurisdictions around the world still make Chinese real estate a viable investment.

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Uncertain future for banks in Qatar

QATAR

By Amjad Hussain, IFN Correspondent

Howard Kitson, the country head of Mashreqbank Qatar, recently raised the question of whether there are simply too many banks in the country. From the basic figures the over-provision does not appear too bad, given the wealth of the population. There are 16 banks (both conventional and Islamic) for a population of 1.7 million.

However, the issue with a country like Qatar is that a large segment of the population are on low incomes and are not bankable — i.e. they are not particularly attractive customers. Wealth is concentrated in a relatively small number of hands. Kitson estimates that only around a third of the population is actually bankable.

This leaves 16 banks servicing around 600,000 clients. Combined with the increasing regulatory restrictions on lending, consolidation may well be necessary. However, the real appetite for change is uncertain — a recent attempt by the International Bank of Qatar to acquire Al Khaliji Bank failed despite being strongly encouraged by the government.

Of course, the Islamic finance marketplace has already been subject to consolidation, both from the one acquisition this year (Barwa Bank's acquisition of International Bank of Qatar, Al Yusr) and from the number of Islamic windows that have either closed or must close by the year-end.

There are also major opportunities for financing, both in relation to planned infrastructure investment of more than US$150 billion over the next five years, and the increasing issues of liquidity in the conventional marketplace.

Despite this, the word on the street is that competition for the larger financing deals is still very tough. Islamic banks have also traditionally found it difficult to attract conventional banking customers, meaning they are drawing from a much smaller pool.

The capacity of the Islamic finance market to fund even a significant minority of the expected fundraising is also in question.

The state of Qatar itself has just raised US$5 billion from the biggest bond sale in the Gulf this year and is likely to have resorted to the conventional market. One of the reasons must be that the conventional market offers access to a far larger number of potential investors.

There are currently four Islamic banks operating in Qatar. It is essential to balance any attempts to consolidate further against the need for true competition in order to enhance product development and customer service.

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Next Forum Question:

"What is the outlook for cross-border financing in 2012 given the prevailing volatility in the global economy and markets?"

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 16th December 2011.

IDB continues to expand reach in 2011

As the premier Islamic financier of development projects the world over, the IDB continued to register a busy year in 2011; even as the year comes to a close and credit conditions tighten due to the ongoing crisis in Europe.

By the end of November, the bank had recorded an unprecedented level of financing for the year: amounting to US$4.2 billion. The bank's machinery has also yet to shut down for the year, with the bank continuing to sign agreements in December to provide funding for various projects in its 56 member countries.

Of note this year is that the IDB has expanded its presence in non-member countries, while also partnering with non-Shariah compliant banks such as the Asian Development Bank (ADB). With the bank also looking to increase its footprint in its member countries, the IDB appears set to continue to play an integral role in the development of the global Islamic finance industry.

Record levels of financing

As at the 27th November this year, the IDB's approved funding for projects exceeded US$4.2 billion, its highest level recorded within one year; and excluding financing by other IDB Group entities. The figure saw the bank surpass its financing target of US$4.1 billion for 2011 and exceed last year's approvals of US$3.72 billion.

On top of this, the bank approved a further US$236.98 million-worth of financing for another 15 projects. This includes US$105 million for a power project in Mauritania, US$11 million in support of Morocco's national rural roads program and US$5.3 million to contribute to the capital increase of Saudi Arabia's Allied Cooperative Insurance Group.

Its financing this year will also include a US$250 million allocation in support of Arab countries undergoing political transition, such as Tunisia, where the IDB has approved a US$50 million Mudarabah financing facility and a US$320,000 grant for a youth employment support program.

The IDB has also played a role in furthering the development of the industry in the fledgling markets for Islamic finance, such as by taking up US$6.5 million-worth of equity in Nigeria's first fully-fledged Islamic bank, Jaiz International (currently under formation); providing a US$290,000 technical agreement to the government of Gambia (which is planning to issue its first sovereign Sukuk); and assigning a US$75 million line of financing to Turkiye Finans Participation Bank to provide long-term financing opportunities to small and medium-sized enterprises, as part of the IDB Group's Member Country Partnership Strategy (MCPS) program for Turkey.

In November the IDB also signed a technical assistance agreement with Tajikistan's central bank to develop the legal, regulatory and supervisory framework for Islamic banking in the central Asian country.

An inclusive approach

In addition to its support for the growth of Islamic finance and economic development in its member countries, the IDB has also sought to reach the Muslim communities of non-member countries. Under the IDB Waqf Fund it has channeled funds to the likes of Latvia, Ecuador, Mauritius and India; and interestingly, US$350,000 to a school in Tennessee, US.

Furthermore, while the bank already has a relationship to co-finance projects with the ADB (which does not have a Shariah compliant division), at the end of November this year it signed a US$6 billion framework financing agreement (FCA) to step up co-financing operations.

"The FCA aims to promote IDB-ADB cooperation in their common member countries in such areas as agriculture, food security, rural development, human development, education and health, private sector development and insurance.

"The two global development partners expect the ongoing cooperation to expand to cover institutional frameworks, knowledge management, regulatory frameworks, policy development, procurement and training, in addition to issues on integrity, experience in decentralization of regional and country offices, Islamic finance and the harmonizing of documentation and microfinance," said the IDB.

A growing footprint

In the year ahead, the IDB's resources are expected to continue to focus on human, agricultural and rural development and infrastructure.

"In line with IDB's vision for the year 2020 to become a world class organization and with the objective of improving IDB's presence in its member countries, the board also approved the launching of five IDB pilot gateway offices in Egypt, Turkey, Indonesia, Bangladesh and Nigeria to follow up implementation of IDB projects and activities therein. If the evaluation that will be made on these offices in three years is positive, similar offices could be opened in the future in other member countries," it said.

Headquartered in Jeddah, Saudi Arabia, the bank currently also has four regional offices in Kazakhstan, Malaysia, Morocco and Senegal.

However, one concern that has been raised regarding the IDB's activities is the under-utilization of funding, with Karnaen Perwataatmadja, the former executive director to Indonesia at the IDB, noting that the absorption of IDB funding by the Indonesian private sector is lower than in other member countries.

Meanwhile Adriyanto, the deputy director of the fiscal policy board's Investment Trend Changes and Multilateral Center in Indonesia, said that between 2005 and March this year IDB funds disbursed via the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the IDB, only amounted to US$26.8 million - comprising around 1% of the bank's commitment to the country. He believes that the low absorption of IDB funding in Indonesia is due to the slow approval process.

Nonetheless, the IDB appears to remain committed to its member countries, while also providing support to communities in non-member countries and strengthening its partnerships with non-Shariah compliant institutions. With its inclusive approach towards developing economic growth, the bank appears on course to continue its key role in the integration and expansion of Islamic finance. — *EB*

Murabahah as a trade finance technique

Murabahah in its various forms is a convenient and straightforward vehicle for financing trade, asset acquisition and as a means to raise working capital. PETER MEASURES explores.

Trade is the lifeblood of nations and it has been said that the case for trade is not just economic but also moral. Principle among the many Islamic finance instruments used to finance trade (whether purely domestic or export/import financing) is the Murabahah contract.

AAOIFI defines Murabahah (in FAS No. 1) as:

"Sale of goods with an agreed price upon profit mark-up on the cost. There are two types of Murabahah sale. In the first type, the Islamic bank purchases the goods and makes them available for sale without any prior promise from a customer to purchase them. In the second type the Islamic bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Islamic bank purchases the goods only after a customer has made a promise to purchase them from the bank."

We will focus on the second of these arrangements, known as Murabahah to the purchase orderer. This type of Murabahah is often referred to as 'cost plus' or 'mark-up' financing and is the most popular method by which Islamic financial institutions (IFIs) provide trade finance facilities.

As a Murabahah is intended to be an arrangement involving the sale of a commodity or an asset (and therefore distinguishable from a loan as such) it is important that the arrangement contains certain key elements and complies with certain conditions. These elements and conditions are set out in the AAOIFI accounting, auditing and governance standards (for IFIs) and Shariah standards 2010, and include the following:

1. **The commodity/goods**: The commodity or goods which form the subject matter of the sale must exist at the time of the sale. An attempt to sell a commodity or goods that do not exist at that time, even though the transaction is by mutual consent, will be void according to Shariah law. The oft-quoted example of a void sale arrangement would be where A purports to sell an unborn calf to B. Additionally, the commodity/goods in question should (a) be identified to and known by the purchaser and (b) not fall into the category of prohibited goods (such as pork or alcohol) or goods which could be used for a prohibited purpose.

2. **Ownership and risk**: The seller (in this case, the IFI) must be the owner of the commodity/goods in question. This means that the seller must acquire the title first and only sell thereafter. If the seller purports to sell before acquiring the title (from the supplier/manufacturer) the sale will be void. In addition, the seller must have assumed all the concomitant risks up to the point of delivery to the purchaser, including carriage risk. If the seller insures against loss or damage it must bear the cost of doing so. The parties may, however, agree to an exemption from liability on the part of the IFI for pre-existing latent defects. The point at which title and risk are transferred to the purchaser must be clearly specified in the contract.

3. **Possession**: The commodity/goods must be in the physical or constructive possession of the seller at the time of sale to the purchaser. A seller will be in 'constructive possession' of the commodity/goods where, although it does not have physical possession, it has control over them following receipt of a bill of lading, and all the rights and liabilities have been passed to the seller by the supplier/manufacturer, including the risk of loss on destruction. Physical delivery made to an agent appointed by the seller (IFI) to take delivery on its behalf would fall into category of 'constructive possession'.

4. **Contract formalities**: It is a requirement that there be an offer and an acceptance (see paragraphs (iii) and (iv) below) which specifies such matters as the price, the place of delivery and the date for payment (which will usually be deferred). The purchase price must be fixed and cannot be expressed to be variable or calculated at a later date. The sale must be unconditional and take place immediately.

5. **Fees and expenses**: Generally the IFI cannot charge any of the usual facility fees (whether a commitment or flat fee) in respect of a Murabahah facility that a bank would charge for a credit facility. Expenses will usually be borne equally by the parties unless the customer/purchaser agrees to pay and the expenses are proportionate to the work carried out. An arranger of a syndicated facility, may, however charge the participants an arrangement fee.

6. **Independent transactions**: It is important that all elements of the Murabahah (the appointment of the purchaser, usually, as agent for the seller; the purchase of the commodity/goods by the seller from the supplier/manufacturer; and the sale of the goods to the purchaser on deferred payment terms) are independent of one another and there is therefore no element of conditionality.

7. **Compensation for default**: If the purchaser fails to make a payment or is otherwise in default under the terms of the Murabahah agreement the agreement can provide for the payment of compensation (which can be calculated by reference to Libor as would be the case with default interest) provided that the amount is paid to charity.

8. **Security**: The IFI is permitted to take security for the obligations of the purchaser and will usually do so. The security can take any form including a cash deposit retained to cover any loss in whole or in part. Security may be expressed to be enforceable on acceleration of the deferred payment amount where the Murabahah agreement provides that the amount will be become payable immediately upon the occurrence of a specified event of default. Another option may be for the IFI to enter into an urboun transaction where the purchaser makes

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a (non-refundable) down-payment towards the purchase of the commodity/goods, in effect as part security for the purchaser's performance.

9. **Sale or return**: The commodity/goods can be purchased on this basis by the IFI which would enable the IFI to return the commodity/goods if the purchaser fails to purchase them.

10. **Buy-back**: A sale and re-purchase arrangement is not permitted. Goods already owned by the IFI's customer (i.e. the purchaser under the Murabahah transaction) do not qualify for a Murabahah transaction as they have to be acquired by the IFI from a third party (supplier/manufacturer) and then sold on to the customer/purchaser. An existing contract between supplier and customer may not be narrated to the IFI.

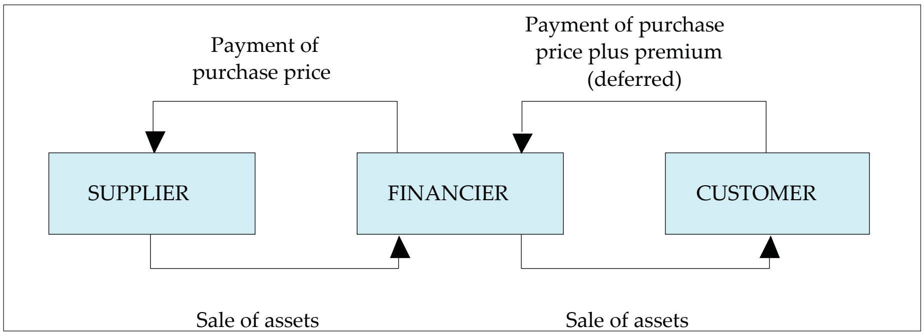
A trade-related Murabahah is usually entered into on a short-term basis (i.e. between 180 and 360 days) although there is nothing to prohibit or prevent such arrangements from being entered into for longer periods and even on a revolving basis. Procedurally, a Murabahah transaction will broadly involve the following elements:

(i) A person (the 'customer') wishing to acquire manufactured goods (or existing commodities) will approach the IFI with a request for finance;

(ii) The customer will identify the supplier/manufacturer and the goods or commodities in question and will inspect them to make sure that they are satisfactory;

(iii) The IFI will enter into a Murabahah agreement with its customer to document the arrangement by which the customer will offer to enter into a sale and purchase agreement in relation to the goods or commodities on specified terms (as mentioned above);

(iv) Following acceptance by the IFI of the customer's offer, the IFI will appoint the customer as its agent to purchase the goods or commodities on its behalf from the supplier/manufacturer (usually as an undisclosed principal but not necessarily so);



(v) The goods or commodities will be purchased under a contract with the supplier/ manufacturer and the cost price paid by the IFI (possibly in settlement under an issuance letter of credit it issued previously at the customer's request). Title to the goods will immediately vest in the IFI; and

(vi) The IFI will then sell the goods to the customer for immediate delivery but on deferred payment terms (at, say, 180 or 360 days). The sale price being the original price paid to the supplier/ manufacturer plus an agreed mark-up.

In theory, the mark-up is supposed to reflect risk (e.g. credit risk, payment risk and the risk of the goods being defective) and could be adjusted to allow for a further profit share if the goods financed are on-sold. In practice, the mark-up will bear comparison to the current market rates of interest (which are used as a benchmark) as IFIs will not wish to price the financing in a manner which is wholly out of step with widely used 'conventional' pricing (e.g. based on Libor).

Murabahah arrangements can be structured for one-off deals or as a master revolving Murabahah agreement under which transactions (e.g. for oil or aviation fuel purchases) can be entered into up to a specified limit, and each transaction having a specified maturity date. Such revolving arrangements are often renewed periodically although are usually entered into initially for about 12 to 24 months.

It is not uncommon for the IFI to take security from its customer or possibly a guarantee from a third party. This will, of course, reduce risk for the IFI and should be taken into account when agreeing the profit element/pricing.

This is the most popular method of Islamic financing (accounting, it has been said, for over two-thirds of all Islamic financing transactions) but it is also, in some respects, the most controversial (from an Islamic purist's perspective) since it bears many of the hallmarks of a conventional financing arrangement.

English law may be chosen by the parties as the governing law of the Murabahah transaction documents but it should be noted that in two recent cases in the English courts (Islamic Investment Company of the Gulf (Bahamas) v Symphony Gems NV & others (2002) All ER (D) 171; and Shamil Bank of Bahrain v Beximco Pharmaceuticals and others (2004) 4 All ER 1072, both concerning Murabahah transactions), the English courts have stated that where there is an apparent conflict between Shariah law and English law then the latter (as the national system of governing law chosen by the parties) will ordinarily prevail.

Conclusion

It is important to note that the Murabahah contract can be, and is frequently, used for purposes other than the financing of trade. Other adaptations of the Murabahah, including the Tawarruq, or reverse Murabahah, and the Bai al Inah, are used as liquidity management tools. Commodity Murabahah transactions are very popular (often using the reverse Murabahah) for raising funds to finance the acquisition of assets such as ships and aircrafts, and in the case of such big ticket items the facility is often syndicated using a Mudarabah as the syndication method. In short, the Murabahah in its various forms is a convenient and straightforward vehicle for financing trade, asset acquisition and as a means to raise working capital.

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Mixed capital of Islamic financial institutions: Is it Islamic?

DR ZAHARUDDIN ABD RAHMAN analyzes whether Islamic banks and Takaful operators can be truly Islamic when their capital is not completely halal.

One of the most debated issues in the Islamic finance industry concerns the initial capital of Islamic banks and Takaful companies, especially when initiated by a conventional parent company. Some people doubt the purity of the capital in Islamic banks and Takaful operators.

Hence, can Islamic banks and Takaful operators be truly Islamic if their capital is not completely halal?

The answers are as follows:

a) Money itself is not unlawful, but becomes prohibited through the way it is procured (i.e. if it is not in line with Shariah laws). Thus, sin does not move with the money from one party to another. This is unlike an item that is physically prohibited, such as pork or liquor. Regardless of whether the pork is already mixed with other items, it is still prohibited in and of itself and will contaminate other permissible items by any contact or convergence.

b) Capital earned by the parent company of Islamic banks may not be entirely derived from prohibited businesses. Part of the capital is sourced from individuals and permissible government and private organizations. Therefore, it is possible that the funds originated only from permitted sources, even if they are combined with prohibited income. Nonetheless, the initial capital of Islamic banks and Takaful should be confirmed as being from permitted and halal sources.

There are differences of opinion among scholars regarding this issue. The majority of Hanafi scholars, including Ibn Qasim from the Maliki sect, Hanbali and Ibn Taimiyah, are of the opinion that it is permissible to do transactions with the owner of mixed capital when the majority of the capital comes from permitted sources. Ibn Nujaim is reported as saying: "When the majority of the total capital or its income is permitted, there is no problem in accepting their gifts and food as long as there is no clear sign showing that it is prohibited. Conversely, when the majority of the capital or its income is prohibited, then any gift or food from them is not permissible except after it is confirmed as clean (permissible)."

Ibn Qudamah alternatively said: "When you know (or are told by people whose income is mixed) that the commodity, supply or food comes from permissible sources, thus they are permissible."

> *"Capital earned by the parent company of Islamic banks may not be entirely derived from prohibited businesses"*

Mixed transactions

A few prominent scholars, such as As-Syawkani and al-Muhasibi, are also of the opinion that it is permissible to perform transactions with the owners of mixed funds, regardless of whether only a minor portion of it is permitted. Their supporting arguments are:

a) The Prophet and his companions performed transactions with the Meccan people before Hijrah, when most of them were non-believers. There was never a mention of the Prophet prohibiting any form of transaction with them, even though most of their wealth came from prohibited sources.

b) The Prophet also had financial dealings with the Bedouin Arab community during a journey to Madinah. Their wealth was known to originate from prohibited sources as well.

c) During the migration of the Prophet, he transacted with the Jews from amongst the people of Madinah and the Bedouin Arabs, who permitted that which was prohibited in Islam. If those transactions were prohibited, the Prophet would have disallowed it from the very beginning.

d) The Prophet's endorsement, through letting his companions trade and enter into financial transactions with a merciless group of people, is also evidence.

e) When Islam allows financial transactions with non-believers, this means Islam also allows financial transactions with Muslims whose wealth is a mixture of permissible and impermissible.

f) The companions of the Prophet also dealt with robbers of Madinah at the time of Yazid Muawiyah, and none of them forbade it.

g) When such transactions are impeded, problems will arise, especially in a time where it is difficult to locate a company with 100% permissible income. We can also consider the stand of Abdullah Ibn Mas'ud on dealings with a company or an individual whose wealth is mixed:

"It was said that a man came to Abdullah Ibn Mas'ud and said, "I have a neighbor and I know nothing of his wealth except it is soiled and prohibited, and he invited me to his house. I feel reluctant to accept and reluctant not to". Abdullah Ibn said: "Accept and attend to his invitation, verily sins (from the prohibited wealth) are (solely) on him." (Narrated by Al-Baihaqi, 5/335; Al-Baihaqi is of the opinion that this narration is frail).

Imam Al-Ghazzali used to say: "Verily, if prohibited wealth is widely spread within an area and it is difficult to move out of it (the area), thus it is permissible to have deals (with it) even beyond the

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emergency boundaries, because if the people were limited to only emergency boundaries, thus human life will end, systems will be damaged and at that point religious affairs will also be damaged and Islam will collapse (because nothing can be done without the role of wealth)."

> ***"The capital in a conventional bank cannot be regarded as prohibited in its totality and must not be rejected as the initial capital for Islamic banks and Takaful"***

Capital of a conventional bank

Therefore, the capital in a conventional bank cannot be regarded as prohibited in its totality and must not be rejected as the initial capital for Islamic banks and Takaful. Of course it is better for banks to ensure that only the permitted portion is used and separated specifically for Islamic banks, Takaful or its Islamic banking department. Even so, it is not compulsory to do so.

If a small portion of prohibited capital exists within the total capital used as the initial capital for an Islamic bank, I believe it is Qard Hasan from the conventional parent company to its subsidiary. The majority of contemporary scholars are of the opinion that it is not a problem for a parent company to provide financing to its subsidiary with the condition of repaying the financing later.

In fact some scholars, such as Dr Zaki Badawi, have issued a fatwa that it is permissible even if it is an interest-bearing financing. This is because they are considered as one company and the funds are simply moving from one pocket to another.

Even if the opinion of prohibition is used, Islamic banks can still cleanse the doubtful capital by repaying the financing and giving a portion of its profit to charity. The transition and strengthening process of the Islamic financial system must be supported. It is impossible for a conventional bank or company to shift to an Islamic system without the aid of sufficient capital or finance. Therefore, in line with the objectives of Shariah, this process must be allowed to enable the transition process, notwithstanding the use of a portion of the capital that is obviously prohibited.

Profit from permitted businesses and capital from stolen sources are being used by Shariah scholars to discuss rulings over the various ways the capital was stolen or prohibited.

In this matter, Imam Malik, Imam As-Shafie, Imam Abu Yusof and Sheikh Zufar Huzayl agree that the thief has a right to the profit earned by his permitted investment even if the initial capital was prohibited; but nevertheless he must return the stolen money (money used as his business or investment capital) to the rightful owner. Based on this, we assume that Islamic banks should take the profit from their business or investment even if the capital used was initiated from prohibited sources. However, this is a worst case scenario, since the actual circumstances are not necessarily this extreme.

Conclusion

This issue should be clearly understood, since confusion on this matter could make Islamic banks look un-Islamic or even worse, look similar to conventional banks.

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International Financial Reporting Standards for Islamic finance: Benefits and challenges

SUTAN EMIR HIDAYAT provides a comparative analysis on the benefits and challenges in applying the International Financial Reporting Standards for Islamic finance.

Islamic banking and finance has experienced a tremendous evolution from the 1960s to the 2000s. The spread of Islamic banking and finance across the Muslim world has created the need for an accounting standard for Islamic financial institutions (IFIs).

The turning point came in the 1990s, when AAOIFI was established as a standard setting body of accounting, auditing, ethics, governance and Shariah compliance for IFIs. Since the 2000s, Islamic banking and finance has been integrated into the mainstream financial market, with the emergence of Sukuk in the capital and money markets. The period also witnessed the involvement of major conventional financial institutions in the industry, through the opening of Islamic subsidiaries and windows.

> *"The IFIs, shareholders and investors of accounting information have a primary objective of entailing compliance with the precepts of Shariah law in conducting their financial activities"*

Now, modern Shariah compliant products have come to cover the full spectrum of banking, capital markets, asset management and Takaful business. As Islamic banking and finance moves into the mainstream, a key challenge is identifying a suitably relevant and intelligible accounting framework that is comparable with conventional finance without tainting compliance with Shariah. This challenge is even more vital for global financial services groups that include Islamic finance among their diverse services (e.g. HSBC).

As a result, there is a call within the Islamic finance industry to apply the International Financial Reporting Standards (IFRS) for IFIs in order to align accounting practices.

Table 1

Issues	IFRS	Islamic principles
Deposit contract	Conventional banks generally rely on a contractual liability plus interest for their deposit contract. Therefore, all deposits are treated as a liability under the IFRS. Contractual obligations to pay depositors will clearly be liabilities of the institution.	Islamic banks use Mudarabah for structuring their deposits. Mudarabah is not a liability since the bank (Mudarib) is not obliged to guarantee the capital and the return to the depositors. Treating the deposit as a liability to some extent will eliminate the essence of Shariah.
Ijarah Muntahia Bittamleek - Financial Lease	Ijarah Muntahia Bittamleek is a lease contract that ends with the transfer of ownership. Under the IFRS, this contract falls under the category of financial lease. Under a financial lease, the inherent risks and rewards associated with the asset have been transferred to the lessee, who in substance is deemed to be the owner. Financial leases are reported as receivables/loans on the bank's book and an ownership interest recorded by the lessee	Shariah requires Ijarah assets to be reported in the lessor's (bank) books. All ownership risks such as maintenance costs are borne by the lessor (bank) during the lease term. The presentation of the lease as a loan/receivable on the bank's book and an ownership interest being recorded by the lessee (as practiced under the IFRS) clearly contradicts the principles of Shariah. Shariah stresses that asset ownership rests with the lessor throughout the lease term.
Recognizing a sale of goods with deferred payment (Murabahah)	The IFRS requires the reporting for all Islamic financial transactions as financing transactions. In addition, the international accounting standard requires the difference between the fair value and the nominal amount of consideration in a sale of goods to be recognized as interest revenue.	The treatment of Murabahah as a financing transaction is opposed by at least two accountant associations in the two biggest Muslim countries (Indonesia and Pakistan). The Indonesian Accountant Institute states that: "According to Shariah rules in Indonesia, Murabahah cannot be accounted for as a financing transaction. This kind of transaction should be treated as a sales transaction. Treating it as financing will eliminate the essence of the Shariah principle." The Institute of Chartered Accountants of Pakistan states that: "Deferment of profit is allowed by scholars, but it should be separately recorded as a deferred profit and not as interest."

Table continued..

1. Benefits of applying the IFRS for IFIs

The application of the IFRS for IFIs obviously will generate some benefits.

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Table continued..

Issues	IFRS	Islamic principles
Takaful	Under the IFRS, the premium received is treated as the part of the insurance company's revenues.	Takaful is not insurance as it is a mutual protection scheme where the underwriting fund does not belong to the Takaful company but to the policyholders. Hence we actually have two accounting entities. Therefore, the Takaful company must segregate between shareholders' funds and policyholders' funds in its financial report. Implementing the IFRS will not fully cater for the contractual relationship between the operator (Takaful company) and policyholders.
Conceptual aspects	Substance over form principle. This principle recommends recording a transaction according to its reality (what is) not to its legal form (what ought to be).	From an Islamic point of view, although reality (what is) should be taken into account in deciding strategies, it cannot be a substitute for what ought to be. The reality may reflect a deviation from normative precepts of Islam.

Among the benefits are: (1) Enhancement in transparency and international comparability; (2) International recognition and usage; and (3) Cost efficiency.

"Despite the benefits that IFRS offers, applying these standards to IFIs will to some extent inevitably eliminate the essence of Shariah principles"

Firstly, using a common framework to account for Islamic and conventional products and transactions would enhance the transparency and international comparability of financial reporting for Islamic finance and hence provide an important boost for further investment in, and the development of, the sector. Once a universal accounting standard is achieved, the users of accounting information will be able to make an effective comparison with minimum accounting risk.

Secondly, applying the IFRS would give the benefits of international recognition and usage, making it the most suitable framework for global institutions with Islamic and non-Islamic products and multinational stakeholders. The application of the IFRS is also expected to increase the confidence of more market players to take part in the Islamic finance industry. This is due to their familiarity with the accounting and reporting standards that will help them make an effective decision.

Lastly, since the IFRS focuses on the economic substance of a product or transaction rather than its legal form, the standard can easily be applied in any jurisdictions, thus minimizing the cost of financial reporting for global financial institutions with Islamic and non-Islamic products. The cost efficiency can be achieved since the IFRS principles rather than the Islamic legal form will ultimately determine the accounting treatment. As a result, there is no need for global financial institutions to prepare a separate section or statement for their Islamic finance activities.

However, there are challenges in applying the IFRS for IFIs.

2. Challenges in applying the IFRS for IFIs

There are two major issues in applying the IFRS for IFIs:

1. Differences in the objectives between the users of IFIs' and the users of conventional financial institutions' (FIs) accounting information.
2. Differences in the contractual relationship between the IFIs and their clients as compared to the contractual relationship between conventional FIs and their clients.

Differences in the objectives between the users of IFIs' accounting information and the users of conventional FIs are due to the differences in their world view. The IFIs, shareholders and investors of accounting information have a primary objective of entailing compliance with the precepts of Shariah law in conducting their financial activities. In fact, the original wisdom behind the establishment of IFIs is to realize the objectives of Shariah. On the other hand, the ultimate purpose of conventional financial accounting users is to efficiently allocate scarce resources to their most efficient and profitable uses based on an informed decision.

The differences in the objectives of the users have resulted in various consequences. Firstly, the types of information identified. Conventional accounting concentrates on identifying economic events and transactions (financial information). On the other hand, the users of IFIs are not only interested in financial information, but are also interested in non-financial information such as Shariah compliance, specific religious requirements and the discharge of social responsibilities.

Secondly, the way that assets, liabilities and equities are measured, valued, recorded and communicated. Conventional accounting mainly uses historical cost (or lower) to measure and value assets and liabilities. Although the idea of introducing fair value measurements is there, its implementation is quite difficult due to its complexity and presumed lack of verifiability. On the other hand from an Islamic point of view, at least for the computation of Zakat, current valuation is obligatory.

Another major issue is the differences in the contractual relationship. IFIs have different contractual relationships

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with their investors, depositors and customers compared to the relationships which exist between conventional financial institutions and their investors, customers and depositors. Conventional FIs mostly use loan-plus-interest contracts when they deal with their clients. In comparison, IFIs use various forms of Islamic commercial contracts. For example, IFIs use the profit sharing contract Mudarabah in the case of deposits mobilization; and other instruments such as Murabahah, Ijarah, Istisnah, Salam and Musharakah in the case of customer financing.

As a consequence of the differences, there are some potential issues that have been identified when the IFRS are applied for IFIs. Table 1 describes the issues.

In addition, there are some accounting issues that an IFI needs to disclose which the IFRS does not address. Among them are:

1. Income incidentally generated from transactions or relationships, which contradict Shariah (e.g. late penalty). The users of IFI accounting information may be interested in more details about the causes of such earnings, their sources, how they are disposed of and procedures established to prevent entering into transactions prohibited by Shariah.

2. Funds paid out as Zakat and/or charity. The users of IFI accounting information may be interested in additional analysis of sources of Zakat funds, methods of collection and uses.

3. Restricted investment accounts. Islamic banks raise deposits through restricted profit sharing contracts (Mudarabah Muqayyadah). In this kind of contract, Islamic banks don't have full control over the funds since the depositors (Rab al maal) put restrictions on where the money should be invested. As a result, the funds from this contract cannot be treated as an asset. A separate statement to disclose the transactions using this contract is needed.

4. Socially responsible financing (i.e. Qard Hasan) is not catered for by conventional accounting standards. One of the important functions of IFIs is social services. Failure to perform this function essentially renders the IFIs capitalist financing institutions. Even the IFRS in this case does not encourage the FIs to put any corporate social responsibilities in their additional note.

The IFRS may disclose the above transactions on additional notes. However, the additional notes will not provide the details of those transactions as required by the IFIs' accounting information users.

Conclusion

Despite the benefits that IFRS offers, applying these standards to IFIs will to some extent inevitably eliminate the essence of Shariah principles. Compliance with Shariah is the main reason for the IFIs' existence. The full application of the IFRS will also hold back our progression in developing accounting standards that adequately cater for Shariah compliant transactions, thus ignoring the significant contributions made by AAOIFI.

The IFRS were written with conventional products and operations in mind. When they are applied to Islamic products, typically they will treat the products, in economic substance, as equivalent to their conventional counterparts. Therefore, obviously, there are huge impediments in fully applying the IFRS for IFIs. However, a broad harmonization can be reached by the application of the relevant aspects of the IFRS, as long as they do not conflict with Shariah.

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Microfinance: Indonesia's Islamic financing in 2012

TONY HIDAYAT deals with the emerging Islamic microfinance sector in Indonesia, particularly rural banks and financial cooperatives, and the prospects for growth compared with conventional institutions.

In Indonesia, the performance of the Islamic banking industry has been robust. The central bank, Bank Indonesia, states that the average growth of the Islamic banking industry has been 40% per year over the past four years, while the average growth of the Islamic banking industry in other countries is only 10-15% per year. In October 2011, the assets of the Islamic banking industry in Indonesia reached IDR129 trillion (US$14 billion), an increase of 50% compared with the same period last year.

By the end of 2011, Bank Indonesia is targeting the assets of the Indonesian Islamic banking industry to reach IDR140 trillion (US$15 million). In 2012, according to Bank Indonesia, the assets of Islamic banks could grow by up to 45%. This means that Islamic banking assets in 2012 have the potential to reach IDR203 trillion (US$23 billion).

For the last few months, the Islamic banks in the country have been planning their targets for 2012: such as asset growth, and the strategies to reach those goals.

The financing business segmentation of Islamic banks in Indonesia is divided into three sectors: consumer banking, business banking and trade finance. The business banking sector can be divided into microfinancing, small and medium-sized enterprises (SME) financing and commercial banking.

Microfinancing includes transactions between IDR25 million (US$2,744) and IDR500 million (US$54,000). SME banking is business financing of amounts between IDR500 million and IDR5 billion (US$548,000); and commercial banking is business financing of amounts of more than IDR5 billion.

Some Islamic banks providing microfinancing products have seen significant growth in the sector. For example, BRI Syariah's microfinancing business increased by 176% in 2011 compared with 2010.

The star of the show

It is predicted that microfinancing could become the star of Islamic banking products in 2012. The reasons are as follows:

a) Islamic microfinance has the largest customer base compared with other financing sectors. In 2010, based on data from the National Bureau of Statistics Indonesia, from the 51 million micro, small, and medium businessmen in Indonesia, about 98.8% are micro-businessmen. However, only 18% of micro-businessmen use banking services. Hence, Islamic banks have the potential to fulfill a niche market, which has not yet been tapped by conventional banks.

b) The microfinance banking sector has a high resistance to the financial crisis as it can adapt to the fluctuating economic conditions. Hence the micro sector is more immune to high inflation and depreciation of domestic exchange rates.

c) Microfinancing does not possess a high risk to the capital of Islamic bank.

d) The financing of Islamic banks in the micro sector can produce higher returns than financing in other sectors. So far, funding in Islamic banking is still dominated by expensive funds such as time deposits. Islamic banks' funds must be placed in the sector that can generate the highest returns: and the micro sector could be the answer.

The model for microfinancing

In microfinancing, Islamic banks can use various models, such as:

a) Opening a microfinancing division under the management of Islamic banks. For example, BRI Syariah has its own microfinancing division.

b) Launching a separate microfinancing banking unit under the Islamic bank. For example, Bank Mega Syariah has opened Mega Mitra Syariah.

c) Being an agent of a government microfinancing program. For example, Bank Syariah Mandiri has become an agent for the Rural Business Credit program.

d) Implementing a linkage program. This means that the Islamic bank collaborates with micro-financial institutions to distribute microfinancing to micro-businessmen. The micro-financial institutions are Baitul Maal Wat Tamwil, Sharia Cooperative, Baitul Qiradh, Pegadaian and Rural Islamic Financing Bank.

Microfinancing in 2012

In 2012 many Islamic banks in Indonesia will expand into micro-business financing with their own microfinancing divisions. To succeed, there are a number of strategies they must apply:

a) Preparing the human resources. Bank employees have to be trained to specialize in microfinancing. Also, Islamic banks could collaborate with academic institutions to build microfinancing academies.

b) Launching financing products that are acceptable to micro-businessmen. The majority of Islamic banks use Murabahah contracts. However, when Islamic banks want to finance intangible goods, they use Mudarabah and Musharakah contracts.

c) Providing an efficient service to micro-businessmen. The approval process for micro-banking has to be quick as well.

d) The Islamic bank must collect the installments on a daily basis. Hence a specific agent must be appointed for this daily task.

e) The location of each micro-business branch has to be strategically placed. Each microfinance unit must have its own mapping area and be restricted by radius. This is to avoid direct competition with another micro-business unit of the same bank.

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Islamic Investor

PRUDENTIAL AL-WARA' Asset Management

Vol 8 Issue 48

A conservative yet attractive option

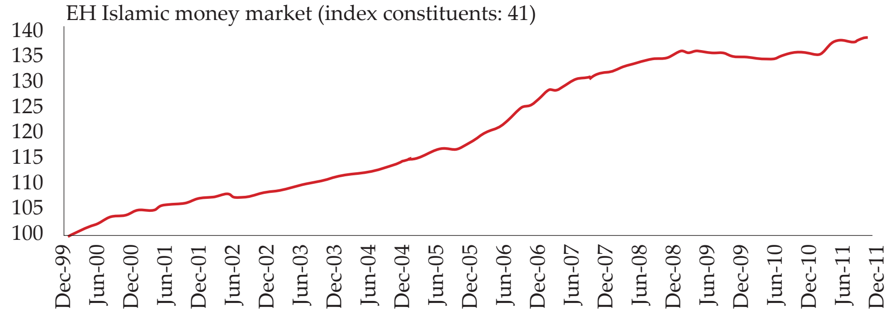
Cover Story

The recent announcement of Emirates NBD Asset Management's Shariah compliant money market fund surpassing US$100 million is an achievement of sorts in the Islamic finance industry. Despite the volatile climate, the fund has succeeded in garnering interest from institutional and retail investors alike.

According to the asset management house, the fund was launched to provide conventional and Islamic investors a liquid strategy that is daily-dealing and captures the higher profit rates offered by Islamic banks. Deon Vernooy, its senior executive officer, said that the broad investor base and growing international distribution showed that investors want their cash to be professionally managed. Vernooy attributes the success of the Emirates Islamic Money Market Fund to a number of investment parameters that ensure suitability of return and liquidity. "Insurance companies and Takaful operators have been one group of investors drawn to the fund's liquid and simple strategy," he said.

Market data listed a total of 75 Islamic money market funds globally in 2010. Saudi Arabia had the highest number of funds in this asset class with 36, while Malaysia was reported to have 26. Several new funds in this asset class were also launched in 2011, particularly in Malaysia and Kuwait. The latest data as at the 31st September reveals that the number of Islamic money market funds in Malaysia, the largest issuer of Islamic funds, has increased to 31.

The popularity of money market funds in Saudi Arabia perhaps reflects investor preference for short-term placement funds that are highly liquid. This is reflected in a typical Islamic money market or trade finance fund that has a majority of the investments in Murabahah transactions (either with the parent bank or with other Islamic financial institutions) with a maturity within three and 12 months, as well as Islamic placements and notes with other Islamic banks. There are currently still no laws regulating the Islamic funds industry in the kingdom.



Source: Eurekahedge

As a comparison, Malaysia's Islamic money market is more progressive, providing fund managers with more products and instruments to invest in. Aside from Sukuk, Islamic money market funds are also generally invested in Mudarabah interbank investment, government investment certificates, Islamic Accepted Bills, Islamic negotiable instruments of deposits and Islamic repurchase agreements (Repo-i) as well as in any other Shariah compliant fixed income instruments and placements of Shariah compliant deposits with licensed Islamic financial institutions, all of which are also highly liquid but - unlike in Saudi Arabia - have a longer maturity period of more than 365 days.

Eurekahedge Islamic money market index shows a yield-to-date return of 2.28. Islamic money market funds have experienced a relatively less volatile run compared to equity funds, particularly in the wake of the recent Eurozone crisis, due to the nature of the asset class. Generally, the instruments in the money market sector provide low returns because they are low risk and have a high liquidation feature, with the majority maturing in less than 120 days. Most of the transactions in the money market are for large amounts.

For investors who are seeking lower risk capital appreciation as well as returns on their investments that are competitive with either conventional or Islamic short and medium-term financial instruments available in the market, Islamic money market funds could prove an attractive option. — RW

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Healthy dividends

MALAYSIA: Public Mutual has declared distributions for five of its Islamic funds. It has declared a distribution of 2 Malaysia sen (0.63 US cents) for its Public Islamic Sector Select Fund, 0.75 Malaysian sen (0.23 US Cents) for its Public Islamic Alpha-40 Growth Fund and Public Islamic Asia Leaders Equity Fund respectively, 1 Malaysia sen (0.31 US Cents) for its Public Islamic Balanced Fund as well as 2.5 Malaysia sen (0.79 US Cents) for its Public Islamic Infrastructure Bond Fund.

Yeoh Kim Hong, its CEO, said that the company was able to declare distributions despite the current challenging market conditions.

As at the 31st October 2011, the total net asset value of the conventional and Islamic funds managed by Public Mutual stood at RM43.7 billion (US$13.9 billion), up RM2.4 billion (US$760 million) from the previous month.

Target markets remain

UK: Commodities institution Source has no plans to actively promote its exchange-traded commodity (ETC) product to investors outside its core markets of Europe and the Middle East.

Michael John Lytle, the managing director at Source, said that the company is aware of investors outside its target geography. "Our gold fund is Shariah compliant and there is certainly interest in the Middle East. Any demand that might exist outside Europe and the Middle East is a happy coincidence," he said.

Source currently owns the world's sixth largest physically gold-backed ETC product, which it first launched in July 2009. The company is jointly owned by Bank of America Merrill Lynch, Goldman Sachs, JP Morgan, Morgan Stanley and Nomura.

ETC issues debt securities, or certificates, that are backed by the physical metal, and investors are exposed to the price of the underlying asset. However, its structure differs from an exchange-traded fund, which issues shares.

Ambitious plan

MALAYSIA: Bank Simpanan Nasional (BSN) seeks to grow its wealth management division aggressively by tapping the Takaful market.

Winston E Jeyaprakash, the deputy chief executive of credit management and business support at the bank, said that it is targeting the wealth management division to contribute between 12-15% of the bank's revenue by the end of 2012.

The evolution of Islamic finance in Pakistan and its impact on the region

Pakistan's vibrant Islamic funds industry is reflective of a healthy Islamic finance industry. AYAZ MUSTAFA ZUBERI gives his insight into the country's development thus far.

Pakistan's identity as an explicitly Islamic republic has always made the country more inclined towards economic reforms geared towards greater Shariah compliance. Efforts to Islamize the economy of Pakistan started in the mid-1960s.

A significant attempt was made in the mid-1980s to convert the banking system to an Islamic banking system. It was a bold and comprehensive exercise, making Pakistan one of the few countries in the world to try to implement interest free banking at the national level. However, it was not successful due to certain constitutional and regulatory constraints at that time.

Nonetheless, that attempt was a significant step in the evolution of the Islamic banking system in the country. Technically, it was the most advanced model compared to any other model being practiced any where in the world at that time, and provided an important reference point for other countries looking to introduce Islamic banking systems.

In 2002, policymakers and stakeholders decided to try again to re-launch Islamic banking in Pakistan, taking into account not just the lessons learnt from the failure in Pakistan in the 1980s, but also the experiences of other countries currently known for their lead role in Islamic finance sector.

The State Bank of Pakistan's drive to promote Islamic banking as a parallel system, operating on a level playing field with conventional banking, is aimed at building a broad-based financial system in the country to enable all segments of the population to access financial services and play their due role in the overall economic development.

The authorities in Pakistan focused upon two key elements as the building blocks of Islamic finance's success in the country. Firstly, a sound regulatory framework that is flexible, market-driven and in line with best international practices. Secondly, a sound Shariah compliance mechanism which is comprehensive, flexible, multi-layered and acceptable both locally and internationally.

This Islamic system was first implemented, then tried and tested, and it proved its merit. The roll-out was market-led rather than through legal means or as a religious dictate.

Despite the financial crisis, the fundamentals of the Islamic finance sector have remained strong. Islamic finance represents a small but growing segment of the finance industry worldwide.

> *"A common view is that the difference in opinion among scholars is a blessing that promotes ultimate progress"*

Pakistan's performance compared to other global players has been favorable. The regulatory agencies are constantly striving to develop Islamic banking as banking of first choice, capable of providing leadership to the global Islamic finance industry and facilitating equitable economic growth.

There have been significant positive developments in Pakistan during the last five years, including growth in the number of institutions and market share; expansion of branch networks; an increase in total assets, deposits and profits; and a decrease in non-performing financing. The growth experience to date has been quite remarkable.

A growing trend of movement towards fixed/term deposits compared to traditional savings accounts shows that customers are now entering into long-term relationships with Islamic financial institutions in Pakistan, evidencing the industry's credibility and reputation.

On the other hand, Islamic banks prefer low-risk modes of financing, i.e. those which usually generate a stable return. Among these, Murabahah (cost plus mutually agreed profit margin), Ijarah (leasing) and diminishing Musharakah are the most attractive and popular modes of financing.

However, lately the share of Mudarabah, Istisnah and Salam has also shown growth at a satisfactory pace, leading towards diversification of the Islamic banks' financing portfolios. In Pakistan, Islamic financial institutions are also very aggressive in the capital markets.

A common view is that the difference in opinion among scholars is a blessing that promotes ultimate progress. The scholars get rewarded for their honest efforts, even if their views turn out to be inappropriate and need to be revisited.

This offers much greater flexibility for Islamic banking transactions. However it also highlights the need for standardization/harmonization of Shariah rulings, especially where cross-jurisdiction acceptability is concerned.

To introduce world class regulations in Pakistan and be part of the global Islamic banking industry, regulators along with Shariah scholars and experienced professionals are constantly coordinating and moving towards integrating the regulations of Islamic finance industry across all areas and sectors of this industry: including banks, Takaful companies, mutual funds and other Shariah compliant institutions.

This creates uniformity in the market and aligns it with international best

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practices, thus making our policies acceptable internationally. Pakistani Shariah scholars are very well known for their contributions in Islamic finance and are positioned in various reputed Islamic financial institutions not only in Pakistan but all over the world.

Bankers view Islamic finance as a major growth area, although they acknowledge that it's not for everyone. Some investments still have no interest-free equivalent or have certain Shariah restrictions: such as derivatives employed by conventional banks for risk reduction, hedging and speculation, and involving forwards/futures, options, and swaps, which may slightly inhibit the sector's growth.

Plus, while profit margins on Shariah compliant products are comparable with interest rates on non-Islamic investments, they often cost more to set up. However at the same time, given a choice, many Muslims do opt for Shariah compliant banking. This may eventually eat into traditional financial services, which is one reason western banks are very active in the Muslim world and are so eager to enhance their Shariah credentials.

Despite several challenges within Islamic finance, it is believed that Islamic banking can grow at a much faster pace than conventional banking. The comforting and encouraging fact is that the Islamic world has collectively launched Islamic finance with a considerable degree of commitment and with adequate capital backing.

In Pakistan, all regulatory agencies and qualified professionals are currently playing a vital role in the development of the Islamic finance industry globally, and the country is becoming one of the main hubs for attracting international Islamic investments.

The 2008 global financial crisis has also precipitated a shift from conventional to Islamic banking. The Islamic industry certainly has funds. Islamic investors are cash-rich and the Sukuk market remains both resilient and relatively stable. Assets held by Muslims, led by Arabs, in all banks - Islamic and otherwise - are growing at a rapid pace, and are likely to see a further significant boost due to volatility in international oil prices.

Similarly western banks, no longer content to leave the market to Islamic lenders, are competing for a slice of the business. Most of them have now trained their staff to provide Islamic mortgages and other products to Shariah-conscious clients.

The Islamic investment opportunities usually available to investors are bank deposits, direct investment in Shariah compliant equities and investment in various categories of Shariah compliant mutual funds.

> ***"The industry offers a complete product suite for wholesale, consumer, corporate and SME segments. A few banks are also offering Takaful plans and Islamic credit and debit cards"***

In Pakistan, besides the above, there is also more to Islamic finance than alternatives to simple products such as home loans, savings, current and term accounts. The industry offers a complete product suite for wholesale, consumer, corporate and SME segments. A few banks are also offering Takaful plans and Islamic credit and debit cards.

In addition, commodity Murabahah, Wakalah, Salam, Musawamah and short-term Sukuk (an Islamic alternative to commercial paper) are also very acceptable in the market. Islamic banks are also very aggressive in foreign exchange and money markets including debt and Sukuk.

The government and corporate sectors in Pakistan have also issued significant medium to long-term maturity Sukuk. Some of the more sophisticated Islamic debt investments include asset-backed securities. Another product now available is a convertible bond that morphs into shares of Shariah compliant companies at a given strike price.

In Pakistan, Islamic banking and finance has moved into the mainstream. Pakistan has several comparative advantages in the Islamic banking space. We have a large population of over 180 million people with approximately 97% population being Muslim. This provides a huge domestic market base.

However, Pakistan's Islamic banking offering has also received international acceptance, as evidenced by the oversubscription of Sukuk floated in the international market and the number of international investors who have applied for Islamic financing licenses in the country: including multinational banks, investment and Takaful companies.

The Islamic banking system of Pakistan is constantly offering opportunities for financial innovation and flexibility in order to structure different types of financial products. This is also encouraging a shift from a debt-based financial system to an equity-based partnership system.

Islamic finance has the potential to channel wealth through alternative avenues for savings and investments, as well as offering the financial inclusion of devout Muslims. This argues well for establishing Pakistan as a good destination for belief-sensitive foreign direct investment, especially from countries with significant Islamic finance-conscious investors.

Ayaz Mustafa Zuberi is the fund manager of Faysal Asset Management, and has over 14 years experience in the financial sector. He also holds a post-graduate Diploma in Islamic Banking & Finance from the Center for Islamic Economics. He can be contacted at ayazzuberi@faysalfunds.com or ayaz_zuberi@hotmail.com.

Libra ASnitaBOND Fund

Libra ASnitaBOND Fund is Shariah compliant and aims to provide capital preservation with regular income by investing in Sukuk and Shariah compliant fixed income instruments. The fund is benchmarked against Maybank six-month GIA (General Investment Account).

What led to this fund being launched?
Libra Invest identified the enormous potential presented by a thriving Sukuk market in Malaysia, and hence decided to share the opportunity with our clients.

Why has this particular asset class been chosen?
The Sukuk market in Malaysia in particular has experienced rapid growth over the past decade and presented excellent investment opportunities for investors looking for Shariah compliant products.

What are the key factors that drive the fund's performance?
The fund's performance has been driven by careful credit selection with strong emphasis on cashflow consistency, stringent structure and experienced management teams. We also consistently monitor global economic trends and financial markets to enable a swift response to changing market environments.

Who are your investors?
A combination of institutional and retail clients as well as high net worth individuals from Malaysia and East Asia.

What specific risks does the fund take into consideration? And why?
The fund is exposed to, among others, global interest rate risk and Sukuk credit risk. It is well positioned to take advantage of a neutral to declining global interest rate environment. Credit risk is mitigated by prudent selection of Sukuk with robust cashflow-generating abilities and good corporate governance.

What are the sectors are you heavily invested in and why?
Currently we are heavily invested in the energy sector due to the mounting demand for energy-producing assets.

What are the sectors you have recently exited and why?
We have not exited any particular sectors but have trimmed down our exposure in the finance sector as it may underperform given the global economic slowdown.

How has this change affected your portfolio of this fund?
The fund has continued to produce outstanding returns and the resultant re-investments are poised to yield greater upside.

What is the rate of return of this fund?
On average, the fund has returned 6.85% per annum over the past three years.

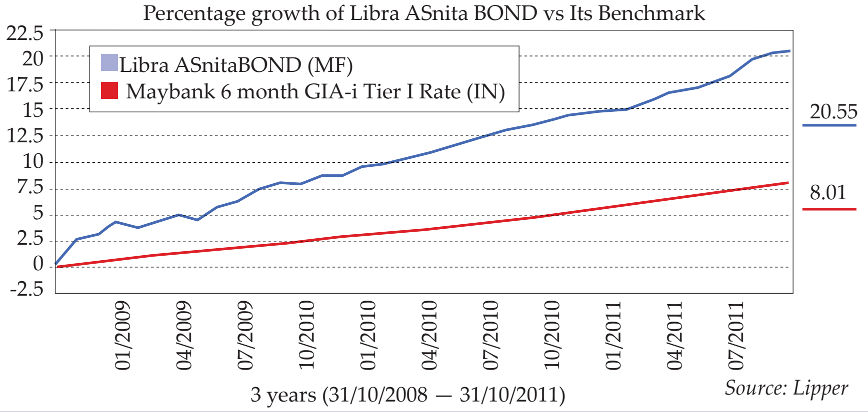
What is the market outlook for this fund?
The fund has a very positive outlook given the credit quality of its portfolio holdings and continuous growth of the Malaysian Sukuk market.

How has this fund performed compared to your initial expectations?
The fund has exceeded our initial expectations, consistently outperforming the benchmark by an admirable margin.

Fact sheet	
Fund Manager	Mohd Fadzil Mohamed
Trustee	HSBC (M) Trustee
Shariah Advisor	Islamic Banking and Finance Institute Malaysia (IBFIM)
Benchmark (Index)	Maybank six-month GIA (General Investment Account)
Domicile	Malaysia
Inception date	18th March 2005
Fund characteristics	**Fund Size** RM71 million (US$22.7 million) **NAV per share** RM0.6174 (US$0.1976) **Dividend policy** Semi-annual **Minimum Investment** RM5,000 (US$1,600.72) **Management Fee** 1.15% p.a. of the fund's NAV

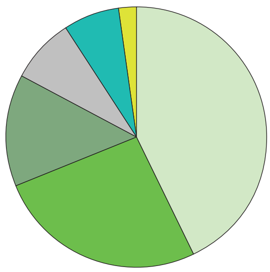
Performance summary	
YTD return	5.68%
Return since inception (annualized)	4.79%
Cumulative return since inception	32.06%

***Comparison graph**



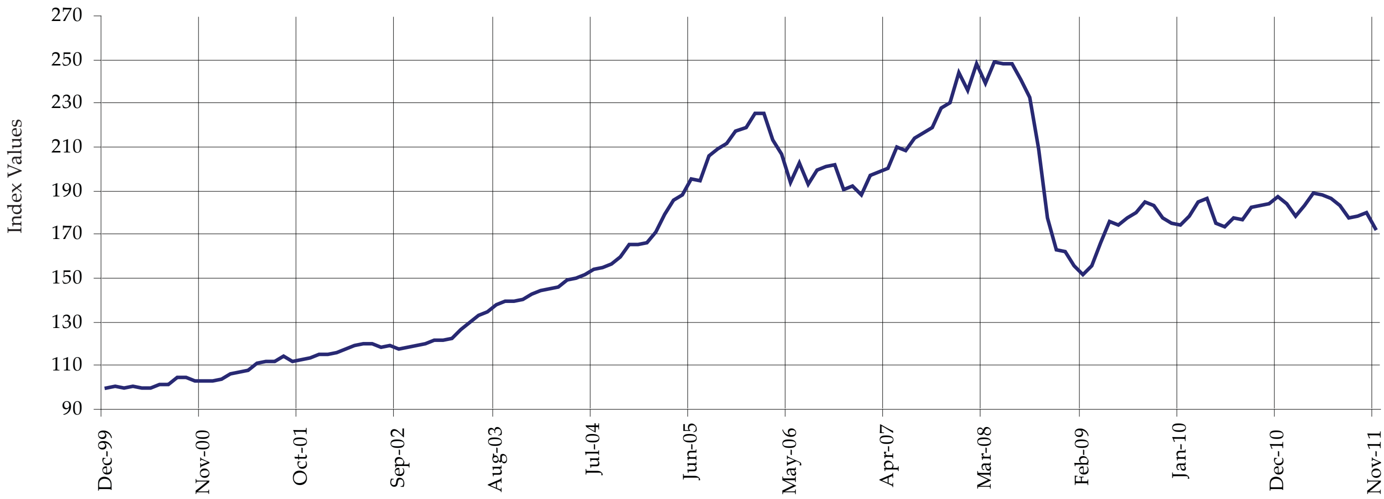
Source: Lipper

***Asset allocation**



Energy	43%
Oil & gas	26%
Toll roads	14%
Cash	8%
Finance	7%
Plantation	2%

Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 Monthly returns for Asia Pacific funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	CIMB Islamic Small Cap	CIMB-Principal Asset Management	2.09	Malaysia
2	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	1.17	Pakistan
3	AmBon Islam	AmInvestment Management	0.76	Malaysia
4	CIMB Islamic Balanced Growth	CIMB-Principal Asset Management	0.54	Malaysia
5	CIMB Islamic Sukuk	CIMB-Principal Asset Management	0.35	Malaysia
6	Atlas Islamic Income	Atlas Asset Management	0.28	Pakistan
7	ASBI Dana Al-Fakhim	BIMB UNIT Trust Management (BUTM)	0.27	Malaysia
8	CIMB Islamic Enhanced Sukuk	CIMB-Principal Asset Management	0.25	Malaysia
9	Atlas Pension Islamic- Money Market Sub	Atlas Asset Management	0.25	Pakistan
10	AMB Dana Arif	Amanah Mutual	0.23	Malaysia
	Eurekahedge Asia Pacific Islamic Fund Index		**-1.27**	

Based on 31.37% of funds which have reported November 2011 returns as at 6th December 2011

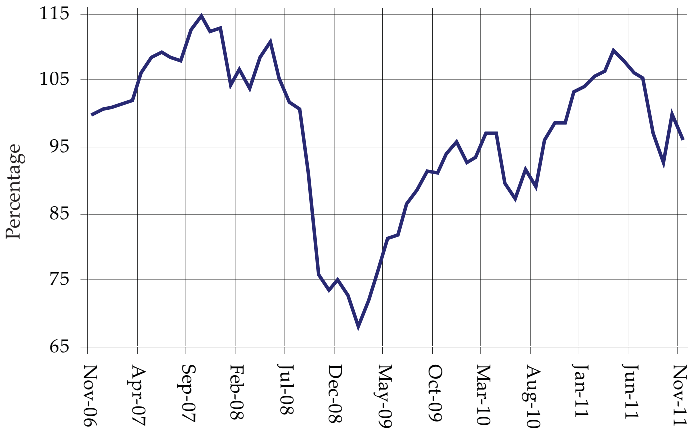
Top 10 Monthly returns for Middle East/Africa funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	-0.70	Saudi Arabia
2	Al Rajhi Local Shares	Al Rajhi Bank	-2.44	Saudi Arabia
3	Al Rajhi Multi Asset Growth	Al Rajhi Bank	-2.47	Saudi Arabia
4	Jadwa Arab Markets Equity	Jadwa Investment	-2.69	Saudi Arabia
5	Al Rajhi GCC Equity	Al Rajhi Bank	-2.69	Saudi Arabia
6	Jadwa Saudi Equity	Jadwa Investment	-2.90	Saudi Arabia
7	Jadwa GCC Equity	Jadwa Investment	-2.98	Saudi Arabia
8	Al Rajhi Petrochemical and Cement Equity	Al Rajhi Bank	-4.25	Saudi Arabia
9	Jadwa Africa Equity Freestyle	Jadwa Investment	-7.23	Saudi Arabia
10	Al Baraka	Hermes Fund Management	-7.53	Egypt
	Eurekahedge Middle East/Africa Islamic Fund Index		**-4.08**	

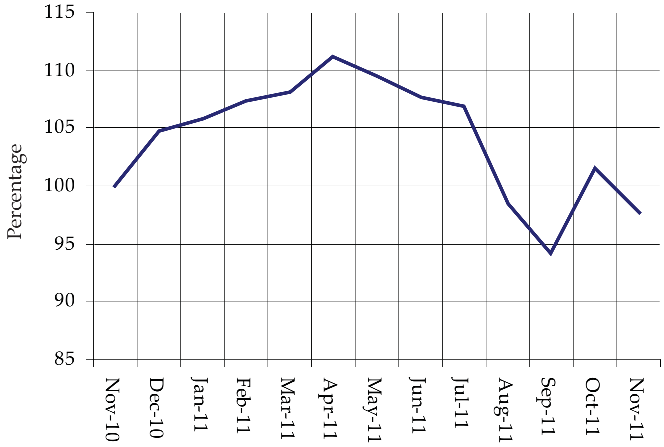
Based on 10.53% of funds which have reported November 2011 returns as at 6th December 2011

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 Equity Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Returns for Islamic Equity Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Atlas Islamic Stock	Atlas Asset Management	5.86	Pakistan
2	CIMB Islamic Global Equity	CIMB-Principal Asset Management	5.77	Malaysia
3	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	5.44	Pakistan
4	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	4.09	Pakistan
5	Al Meezan Mutual	Al Meezan Investment Management	4.09	Pakistan
6	Meezan Islamic	Al Meezan Investment Management	3.95	Pakistan
7	Amana Growth	Saturna Capital Corporation	3.49	United States
8	Amana Income	Saturna Capital Corporation	3.14	United States
9	AmOasis Global Islamic Equity	AmInvestment Management	3.11	Malaysia
10	CIMB Islamic DALI Equity Theme	CIMB-Principal Asset Management	3.02	Malaysia
	Eurekahedge Islamic Fund Equity Index		**-0.95**	

Based on 26.90% of funds which have reported November 2011 returns as at 6th December 2011

Top 10 Returns for Islamic Globally Investing Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	CIMB Islamic Global Equity	CIMB-Principal Asset Management	5.77	Malaysia
2	AmOasis Global Islamic Equity	AmInvestment Management	3.11	Malaysia
3	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	0.99	Malaysia
4	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	0.32	Saudi Arabia
5	Watani KD Money Market	National Bank of Kuwait	0.27	Cayman Islands
6	Al Rajhi Commodity Mudarabah - SAR	Al Rajhi Bank	0.26	Saudi Arabia
7	Watani USD Money Market	National Bank of Kuwait	0.21	Cayman Islands
8	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.18	Saudi Arabia
9	Jadwa Saudi Riyal Murabaha	Jadwa Investment	0.07	Saudi Arabia
10	Jadwa USD Murabaha	Jadwa Investment	0.04	Saudi Arabia
	Eurekahedge Global Islamic Fund Index		**-1.97**	

Based on 36.62% of funds which have reported November 2011 returns as at 6th December 2011

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

EUREKAHEDGE

Creating a culture of Takaful

Cover story

MicroTakaful offers tremendous potential from a social and business perspective, not to mention holding a considerable amount of value and unlocked potential for the global Takaful market, particularly in underdeveloped Islamic finance markets and Muslim majority nations.

The global micro insurance market in terms of size is predicted to have the potential to reach out to an estimated four billion people. According to Swiss Re's Sigma report this translates to a potential policy uptake in excess of two billion, with an estimated market value of approximately US$40 billion. Unfortunately, the current market size for micro insurance is only 2-3% of this total, standing at between US$8 million and US$1.2 billion, and thus representing a huge market potential for both conventional micro insurance and Takaful.

While no global figures currently exist for the size and extent of global microTakaful uptake and penetration, leading Takaful providers have recognized the potential on offer, particularly the benefits in diversifying their portfolio and services to meet the needs and demands of those requiring affordable protection.

Social value

Cooperative values of self help, solidarity and social responsibility are the cornerstones of the Takaful industry. Susan Dingwall, a partner (Takaful) at Norton Rose, suggests that: "One has to look at the microTakaful market not only as a business opportunity but also as a civic duty to help those less well off." As well as addressing the needs of those on low incomes, a Takaful operator can leverage off these qualities to create a strong brand image, enhance its reputation and built a significant loyal customer base in emerging markets.

MicroTakaful has grown exponentially in the last few years, in line with the success of the Islamic finance. Market development does however depend to a significant extent on the amount of support offered by governments, many of which have mandatory micro insurance provisions in place. Lower income families by nature of their situation require higher value protection and broader coverage than is made affordable. Broad-based coverage with few exclusions and limited small print needs to be a central tenet of this philosophy.

Challenges to face

Although the levels of growth present in microTakaful are encouraging, with a greater range of opportunities comes an equal number of challenges. Dingwall suggests that there are three challenges currently present in the microTakaful space:

1. Cultural recognition of microTakaful's benefits;
2. Innovation; and
3. Regulation.

Creating a culture to recognize the value of microTakaful products and changing the mindset of those involved is key. The target market for microTakaful has little knowledge or understanding of the Takaful proposition and therefore does not always see the benefits. However, microTakaful's sheer simplicity in structuring can prove beneficial to the operators in this instance, by rethinking each of their offerings to provide a needs-based product rather than a scaled-down version of what is currently available.

Innovation needs to be at the forefront of product design. Simplicity and innovation needs to guarantee uptake with minimal input and transactional costs. Increased efficiency and technology are again central but require a large operation and customer base to justify the outlay to the operator.

Balancing regulation

It is necessary to find a balance in the regulation of microTakaful. "There is a fine line between stifling the microTakaful market and protecting the consumer," says Dingwall, adding that: "Good microTakaful regulation will build on current Takaful regulation with a focus on solvency and making sure that consumers are protected from market abuse."

Regulators have recognized that having a one-size-fits-all system does not always work, and an idea that is gaining traction is that of a tiered system of regulation that can grow in step with the expansion of the market. As businesses grow and achieve greater economies of scale, regulation can be enforced commensurately. — *SW*

In this issue...

Re-strategizing for volatility

GLOBAL: Takaful operators must focus on underwriting quality, cost management and investment discipline as the current volatile investment environment presents a challenge to financial performance, say industry players.

Marcel Omar Papp, the head of re-Takaful at Swiss Re, said that Takaful firms have to rely more on underwriting profit due to low investment returns under the prevailing economic conditions. This is especially as Takaful operators tend to invest mainly in equity and real estate, which are more volatile than other investments.

Papp said that the volatile capital markets may leave Takaful operators over-exposed to religiously acceptable but potentially illiquid assets, while the capital needs of the Takaful firms may increase in the short to-medium term.

However, he said that with rising equity costs and limited Islamic debt instruments, re-Takaful may emerge as a viable option to meet growing capital needs. He also noted that on the underwriting side, firms are at risk of increasing their businesses too much as premiums stop rising and claims catch up.

Brandon Bruce, the senior executive officer of assurance at Ernst & Young, noted that the shortage of Shariah compliant capital market instruments has also put pressure on investment returns.

Meanwhile, according to a report by AM Best, most Takaful companies are highly capitalized with sufficient levels to achieve operational maturity, although this may change with the expected growth of the firms and due to new risk-based capital regulations.

Insuring Maldivians

MALDIVES: Three firms including Amana Takaful have applied to provide universal health insurance to Maldivians under public-private partnerships, said Saami Ageel, the director general of the country's finance ministry.

The other companies are Allied Insurance and Sri Lanka Insurance.

Shortlisted companies, which will partner with the government to insure all Maldivians by January 2012, were asked to submit a proposal by the end of the first week of December.

Developing insurance in Pakistan

PAKISTAN: The introduction of Takaful in Pakistan is necessary for the development of a sustainable insurance sector in the country, said Pervaiz Ahmed, the CEO of Pak-Qatar Family Takaful.

The penetration rate of Pakistan's insurance market constitutes just 0.7% of GDP, according to Muhammad Asif Arif, the commissioner of insurance at the Securities and Exchange Commission of Pakistan (SECP), with the SECP targeting to double the penetration rate in three years.

Hajj product for PruBSN and BSN

MALAYSIA: Prudential BSN Takaful and Bank Simpanan Nasional have launched their latest Family Takaful product, called Giro Takaful Hajj.

Available since the 8th August 2011, the Giro Takaful Hajj plan assists participants in fulfilling their religious obligations as well as providing personal protection and savings.

According to Azim Mithani, the CEO, the product marks the fifth Takaful product collaboration between the two companies, and he believes that: "This protection cum savings plan answers the call for the Takaful industry to innovate and provide a different product which truly meets the needs of the local Muslim population."

Requesting feedback

UK: AM Best Europe — Rating Services is requesting comments from the insurance industry and other interested parties on a draft of its methodology, 'Rating Takaful (Shariah compliant) Insurance Companies'.

The draft criteria report updates its existing rating methodology on Takaful firms issued in 2008 and takes into account changes reflected in the Takaful market, particularly regarding the development of the regulatory framework within certain countries and the key issues relating to Takaful operating structures.

The Islamicizing of marketing campaigns for Takaful

Takaful has very little penetration in Pakistan, but like conventional insurance, it has immense potential. SYED ADNAN HASAN shares his views on the challenges of the Takaful industry in the country.

The importance of marketing increases when your product is new and unprecedented. Similar is the case with Islamic financial institutions. They are offering a conceptual product, with an ideology behind it. Whenever a financial institution introduces a new product or service, it becomes the responsibility of their marketing department to explain the product to the masses.

The marketing of financial products, therefore, becomes challenging because your team has to be well versed in the field of finance as well as in marketing. In the case of Islamic financial products the skillset increases, as it also requires grounding in Shariah principles. It is difficult to find people who possess knowledge in all three fields, which is an essential combination for a successful and articulate marketing strategy.

Another challenge is to liaise with ad agencies that have people willing to distinguish between conventional and Islamic financial products. Agencies also have to work with constraints when it comes to Islamic financial institutions: such as not using human faces in any marketing collateral, as it is against Shariah. Agencies fall into trap of 'Islamicizing' marketing campaigns to a greater extent than is necessary. It becomes the responsibility of marketing departments to ensure that they are selling products/services, and not Islam itself.

Islamic versus conventional

A stark difference between the marketing of Islamic and conventional financial products is that in the case of conventional products, consumers are not interested in knowing the back-end functionality. However, many Islamic financial institutions' clients want to know how things work — for example, showing interest in the details of legal contracts involved in financial products.

Conventional financial institutions do not have to promote anything beyond their products or services. However in Islamic financial products, the added unique selling point of Shariah compliance needs to be communicated.

Marketing efforts

Considering the effects of the recession the present situation seems bleak.
The first thing that gets affected in an economic recession is marketing. The budget allocated for marketing activities and services is the first to be slashed in the case of any adverse conditions.

However, the problem goes deeper. It is not recession that affects marketing activities but the general attitude towards marketing in the insurance industry. Insurance is considered a sales-based industry, as opposed to a marketing-based industry, in countries like Pakistan, India and Bangladesh.

Business strategies of insurance companies include massive sales teams spread nationwide, with a limited role for marketing. Marketing departments have been restricted to the production of brochures and fliers, with no role in the company's direction or business strategies.

However, a shift has been seen in India, where private companies have taken the lead to convert the industry into a more marketing-driven one. Private companies in India, in order to compete with giant companies like Life Insurance Corporation of India, have initiated a series of aggressive marketing and promotional activities.

A similar mentality needs to exist in Pakistan, where the insurance industry heavily relies on sales and completely sidelines marketing activities. This could offer a unique opportunity for Takaful companies. They have the option to take the lead in the industry with aggressive marketing targeted towards product penetration. Currently, the life insurance penetration in Pakistan is 0.3%, leaving a massive untapped market for Takaful companies.

Marketing strategies

With a traditional mindset towards insurance or Takaful, it is not possible to increase penetration without a change in strategy. A field sales force, even one with few thousand agents, will remain limited, whereas effective marketing strategies have the potential to reach out to millions.

Some Takaful companies, such as Pak-Qatar Family and General Takaful, have taken the lead in this paradigm shift; whereby the companies have developed their marketing and corporate communications departments and populated them with seasoned marketers.

There are also efforts being carried out under the umbrella of the Takaful Association of Pakistan to promote Takaful as a brand. Such measures will help promote Islamic financial institutions as separate entities with their own brand identity and niche market. A similar project could be initiated on a global level, where marketing experts from the Takaful industry sit together and devise a plan for future growth and awareness. It could be named the World Takaful Association.

Challenges

There are quite a few challenges, including poor customer service and bad claim handling experiences. Moreover, many people do not know about the importance of insurance and there is a misconception among many that insurance is haram.

However sometimes what is a strength can actually become a weakness, and vice versa. The fact that people are not educated about Takaful means that it has to be branded as an entirely new category. Furthermore, there is still skepticism about the authenticity of the industry. Opinions are divided among religious scholars as well. The profound understanding of Takaful requires a

continued...

Continued

serious investment of time and effort. It cannot be explained in just a few words.

Target audience

In marketing, the target audience is important. The success of every marketing campaign is dependent on whether the target audience was correctly identified and the message was effectively communicated. Unfortunately, from a personal point of view, I think that Islamic banks in general have not done very well in identifying their target audience. Sometimes your target audience may not necessarily be potential consumers.

There is a unique industry around being Shariah compliant. Shariah compliance is a sensitive issue which resonates with 97% of the population, and this can be both an advantage and a disadvantage. It is an advantage if you meet their expectations. Next, we must identify the people who influence their opinions. And finally, develop effective communication materials which can deliver the message.

Insurance basics in Pakistan are still not right because of the fatwas which are occasionally published against its practice, which in turn means that confusion still remains. This stems from various reasons: industry nationalization in the 1970s, Shariah objections, low market capitalization, poor industry reputation due to claims of mishandling, sales fraud and inefficient customer services. A lack of players also gives rise to monopolistic behavior, which is always detrimental to the growth of any industry.

We must understand that the Pakistanis are very sensitive about Islam and they generally do not like products or services which run contrary to their beliefs. The banking industry is in fact very much under-developed compared to other countries. Only a handful of the population in Pakistan is banked. The insurance industry has fared even worse and this is contributed to by the faith factor. There is no denying that the two existing conventional financial institutions are not offering products in compliance with Shariah.

Awareness

Raising awareness about the benefits of Takaful is a priority. Nothing constructive can be achieved unless people know and understand Takaful. As with anything else, an idea is spread through individual interaction.

We need to interact with people on a one-to-one basis. For this we have in place a well-trained sales force of 800 people. Furthermore, we take every opportunity to conduct seminars and workshops on Takaful and deliver presentations on different platforms nationwide.

Conclusion

If you really want to increase the market share of insurance or Takaful, then you need spend money on advertising: not only press or electronic, but serious investment in areas such as organizing events on a mega scale across Pakistan.

Syed Adnan Hasan is the marketing head for Pak-Qatar Takaful Group. He can be contacted at adnan.hasan@pakqatar.com.pk.

Zati Sankhavanija, President & CEO, Amanah Leasing Public Company

Zati Sankhavanija is the president and CEO of Amanah Leasing Company, a Shariah compliant auto finance house. He has been in the position since September 2010. Sankhavanija obtained a BBA, majoring in marketing, from Chulalongkorn University; and an MBA from the Thai Institute of Directors

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

I started off as an assistant manager in the consumer finance department at CMIC Finance & Securities in 1981, after which I joined Thana One Finance & Securities as an assistant vice-president of the hire purchase division in 1993. In 1998, I worked for V Conglomerate as the head of the loan recovery unit, managing over 12,000 account portfolios. The following year, I joined AIG Retail Bank as senior vice-president and the head of distribution network group.

After nine years, I moved to the Islamic Bank of Thailand as the senior vice-president of its retail banking group. I joined Amanah Leasing Public Company in 2010 and was appointed as the president and CEO.

What does your role involve?

With more than 20 years experience in retail banking, my role is to develop a trustworthy consumer finance house that provides Shariah compliant products and services as per the company's vision.

Our missions are:

1. **Financial goals**:
Increase the sustainability of the company's economic value return to all stakeholders.

2. **Customer goals:**
To achieve customer satisfaction by developing and providing Shariah products and services to all customers, with easy accessibility through our distribution channels.

3. **Internal process goals**:
To achieve trustworthiness in Shariah compliant operations by transforming all business processes to comply with Shariah principles and to create a company competitive advantage by developing lean and mean end-to-end business processes.

4. **Learning and growth goals**:
To be the employer of choice for all those who have talent and skills in consumer finance, by reversing the corporate culture and being a learning- and customer-centric organization.

What is your greatest achievement to date?

Under my leadership, the company has managed to turn around its financial performance from a loss of US$0.65 million to a profit of US$0.67 million in the third quarter this year.

I am also behind the implementation of the company's first Islamic hire purchase and leasing products and services in the country.

Which of your products/ services deliver the best results?

Our new car hire purchase financing product; which targets public license vehicles for SME's customer group with new financing of about US$22.23 million, which is 55% of total new financing.

What are the strengths of your business?

We are the first Islamic consumer finance company to service our niche market for the nine million Thai Muslims in the country.

The state-owned Islamic Bank of Thailand provides financial support. As a Shariah compliant company, we also receive financing from the Sukuk market to match our cost of funds for medium and long-term financing.

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

Our Shariah products and services differentiate the company from the conventional banks.

What are the obstacles faced in running your business today?

Due to low brand awareness, there has been a continuous difficulty for people to access our Shariah compliant products and services. Similarly, the awareness for Takaful (life and non-life) is also relatively low.

Furthermore, the country's laws and regulations do not support and develop the Sukuk market and/or any other Islamic corporate bond market.

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

There will be more Islamic financial institutions in non-Muslim countries, especially in ASEAN, which can support the growth ratio of Shariah compliant asset bases.

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

I would like to see an increase in the number of Islamic economic experts in Islamic financial institutions. I would also like to see an increase in Islamic finance educational institutions in the Asian region.

Abu Dhabi Commercial Bank US$500 million Sukuk

The 16th November saw Abu Dhabi Commercial Bank (ADCB) complete another well-received offering into the international market with its tightly priced debut benchmark US$500 million Sukuk. The issuance, along with Abu Dhabi Islamic Bank's similar issue, has set up the Gulf market for a slew of potential market offerings in the final window of 2011.

Although launched with little fanfare ADCB managed, through a five-hour window, to collect a healthy swathe of orders totaling an amount in excess of US$1.4 billion against an incredibly volatile backdrop and challenging market conditions. The Sukuk was eventually priced at the tighter end of guidance, at 275 basis points over midswaps, to achieve a profit rate of 4.071%.

Kevin Taylor, the group treasurer at ADCB, said: "The Islamic nature of the issue helped secure strong investor demand and this reflected in the pricing of the trade." He further commented that Islamic investors still have demand for debt issued by recognized and high quality companies and have in particular been very supportive of regional issuers against the backdrop of the European crisis.

Taylor further noted that ADCB has once again exhibited its nimbleness to move swiftly in volatile markets and execute a transaction reflective of investor demand.

The proceeds of the Sukuk certificates will be used by the issuer to acquire an ownership interest in a portfolio comprised primarily of real estate Ijarah assets, non-real estate Ijarah assets, Salam assets and other Shariah compliant assets. The assets will form part of Wakalah and Mudarabah portfolios which will be managed by ADCB as managing agent and Mudarib, respectively, on behalf of the issuer.

In essence, ADCB is a government-supported institution, and its rating and perceived credit quality in the international market reflects that support. Standard & Poor's assigned an 'A' rating to the proposed Sukuk, while Moody's Investors Service gave an 'A1' rating to the bonds with a negative outlook. Standard Chartered, JP Morgan, Bank of America Merrill Lynch and ADCB managed the Sukuk sale.

After a lull in credit market activity due to difficult global market conditions, several UAE companies are looking to raise debt again. However, market conditions remain difficult due to Europe's debt crisis.

ADCB successfully defied the market in choosing to issue Sukuk. The bank has not issued Sukuk previously, but is a name familiar to investors in Malaysia, one of the world's biggest Islamic finance markets, after it issued a RM750 million conventional bond to strong support last year.

The success of the issue shows that Islamic institutions still have cash to deploy, and demand for Shariah compliant assets remains robust. The Sukuk market has also proved more resilient in the marketplace due to the profile of the investors, who tend to hold the bonds to maturity, reducing the chance of big swings in secondary market prices triggered by shorter-term speculators bailing out.

"It appears markets have come to the conclusion that the Sukuk format is a better way forward for many local issuers looking to raise money," said Nick Stadtmiller, a fixed income analyst at Emirates NBD.

The bank also had a GBP500 million bond due to reach maturity on the 16th November: although the bank has the resources to meet the payment and the Sukuk was more about taking advantage of an opportunity to print, according to a source at the arranger.

The issuance announces ADCB's intention to drive its presence in the emerging Islamic finance business, having recently begun offering a complete suite of Shariah compliant services to its customers. — *SW*

Abu Dhabi Commercial Bank Sukuk

بنك أبوظبي التجاري
ADCB
LONG LIVE AMBITION.

US$500 million

16th November 2011

Issuer	ADCB Islamic Finance (Caymans)
Obligor	Abu Dhabi Commercial Bank
Issuance price	US$500 million
Purpose of issuance	General funding requirements of the bank
Tenor	Five years
Coupon rate / return	4.071%
Currency	US dollar
Maturity date	17th November 2016
Lead managers and bookrunners	Abu Dhabi Commercial Bank, Bank of America Merrill Lynch, JP Morgan Chase, Standard Chartered
Underlying assets	A portfolio comprised primarily of real estate Ijarah assets, non-real estate Ijarah assets, Salam assets and other Shariah compliant assets
Rating	'A1' by Moody's and 'A' by S&P
Structure	Combination Wakalah – Mudarabah
Tradability	Yes

ISSUER	SIZE	DATE ANNOUNCED
KMCOB Capital	RM343.1 million	5th December 2011
Emirates NBD	TBA	29th November 2011
Solum Asset Management	TBA	27th November 2011
Indonesian finance ministry	TBA	24th November 2011
Albaraka Turk Katilim Bankasi	US$200 million	21st November 2011
Majid Al Futtaim	US$500 million	21st November 2011
Bank Syariah Mandiri	IDR500 billion	18th November 2011
UEM Group & EPF	RM33 billion	17th November 2011
PLUS Expressways	RM30 billion	16th November 2011
Abu Dhabi Islamic Bank	US$500 million	9th November 2011
Emirates Airline	TBA	8th November 2011
Poh Kong Holdings	RM150 million	1st November 2011
DRB Hicom	RM1.8 billion	1st November 2011
Sabah Credit Corporation	RM1 billion	28th October 2011
Credit Agricole	TBA	27th October 2011
Anih Berhad	RM2.5 billion	24th October 2011
Axis Real estate Investment Trust	RM300 million	24th October 2011
Finance ministry of Pakistan	TBA	20th October 2011
Goldman Sachs	US$2 billion	19th October 2011
Almaraj, Saudi Arabia	TBA	16th October 2011
Mydin	RM350 million	13th October 2011
Barwa Bank	TBA	11th October 2011
Mashreq Al Islami	TBA	10th October 2011
Dow Chemical Company & Saudi Arabian Oil Company	TBA	9th October 2011
National Iranian Oil Company	TBA	1st October 2011
Qatar International Islamic Bank	TBA	28th September 2011
Tamweel	US$300-US$500 million	27th September 2011
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Bank Negara Malaysia	RM1 billion	6th September 2011
Bank Syariah Mandiri	IDR450 million	25th August 2011
Aref Investment Group	TBA	24th August 2011
Kuala Lumpur Kepong Berhad	RM300 million	22nd August 2011
Nakheel	AED4.8 billion	10th August 2011
Chemical Company of Malaysia	RM120 million	5th August 2011
Hub Power Company	PKR2 billion	2nd August 2011
KNM Group	RM1.5 billion	28th July 2011
Petronas Gas	RM1.2 billion	25th July 2011
Government of Abu Dhabi	TBA	21st July 2011
Gulf International Bank, Bahrain	US$1 billion	21st July 2011
ACWA Power International	US$300 million	9th July 2011
Al Hilal Bank	TBA	7th July 2011
Egypt	TBA	2nd July 2011
Islamic Bank of Thailand	US$150 million	29th June 2011
Islamic Bank of Thailand	THB5 billion	29th June 2011
Kenchana Petroleum	RM700 million	16th June 2011
Kenchana Petroleum	RM350 million	16th June 2011

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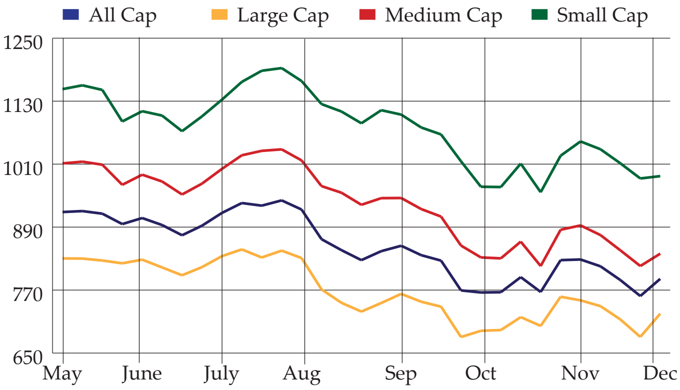
UK: Dr Natalie Schoon
Formabb
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

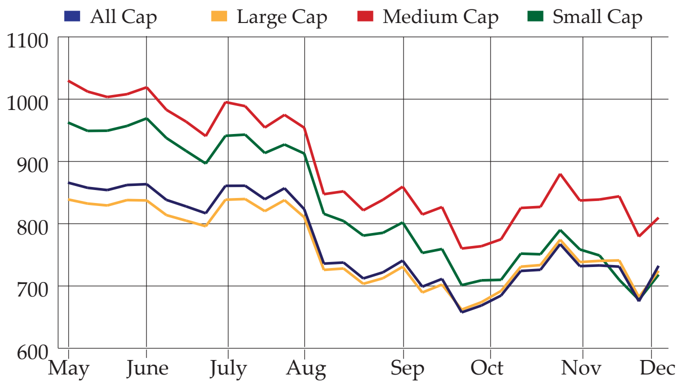
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

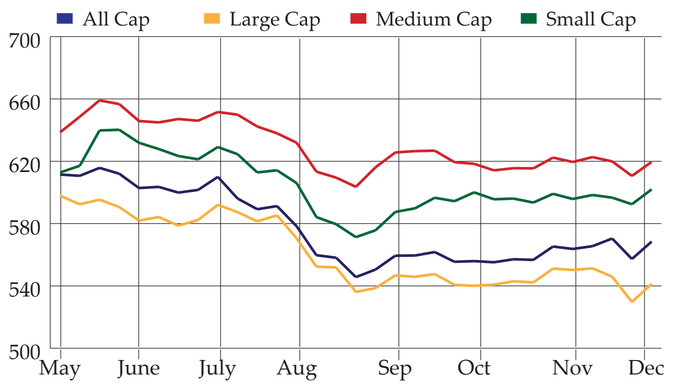
REDmoney Asia ex. Japan *6 Months*



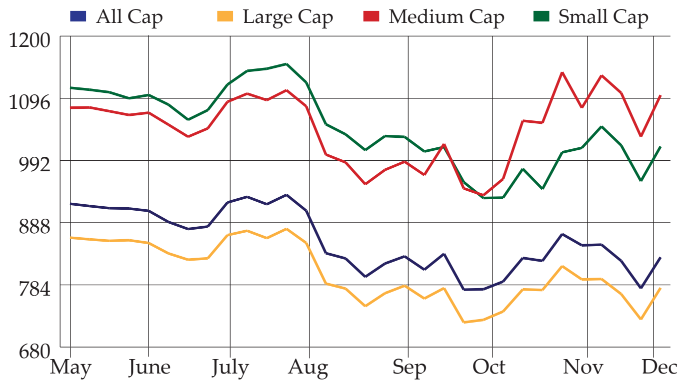
REDmoney Europe *6 Months*



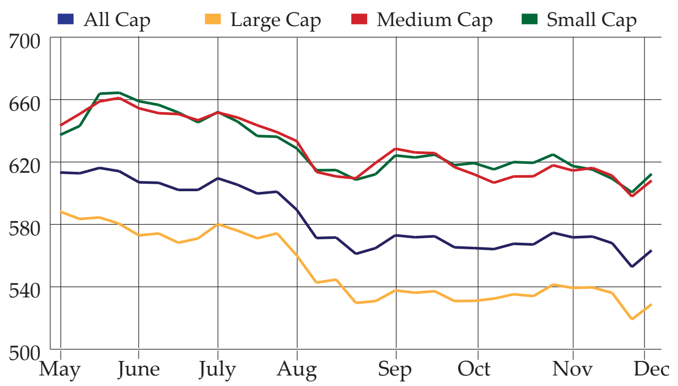
REDmoney GCC *6 Months*



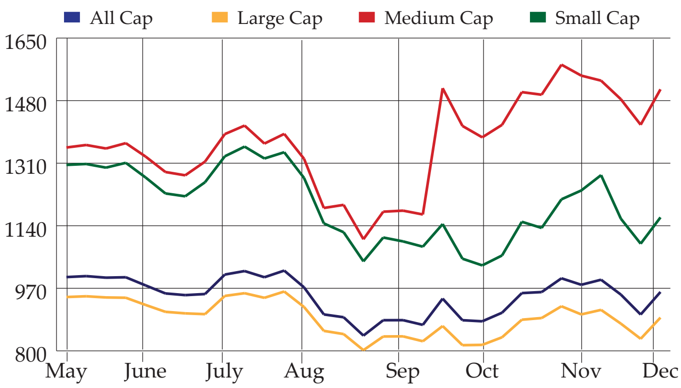
REDmoney Global *6 Months*



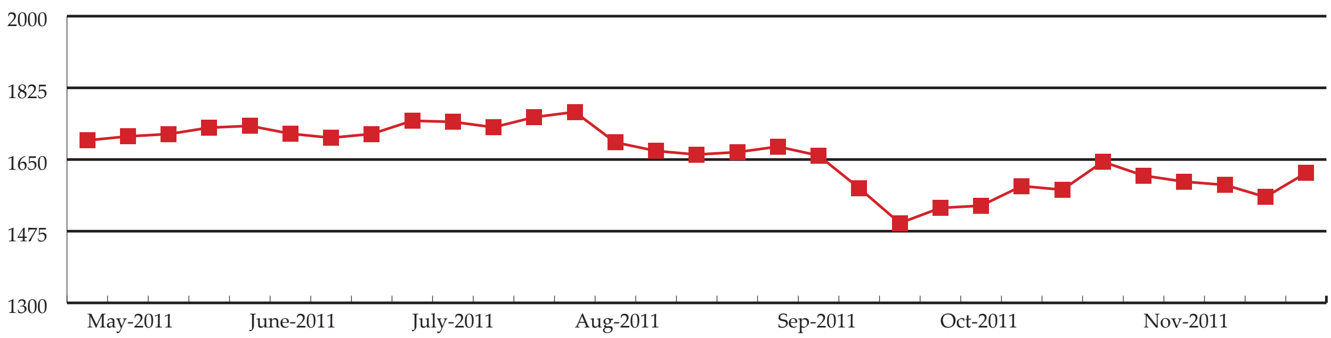
REDmoney MENA *6 Months*



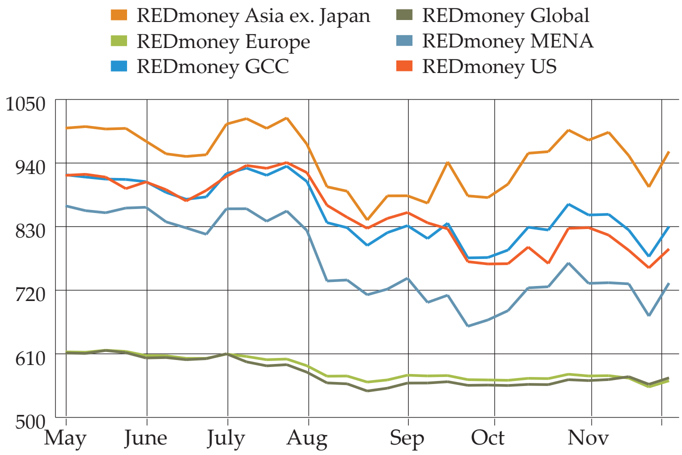
REDmoney US *6 Months*



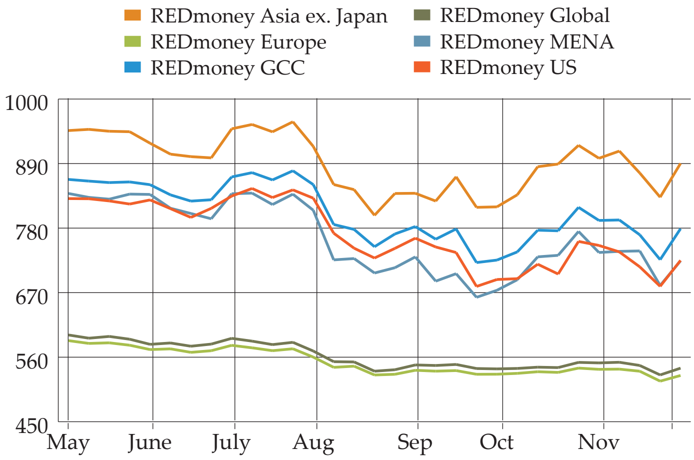
SAMI Halal Food Participation (All Cap) *6 months*



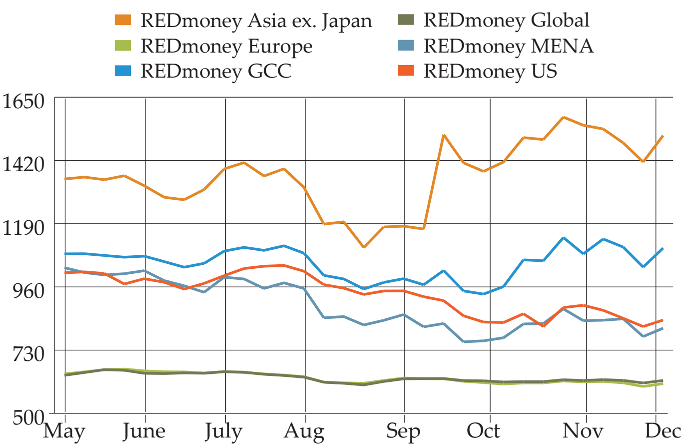
REDmoney Global Shariah Index Series (All Cap) *6 Months*



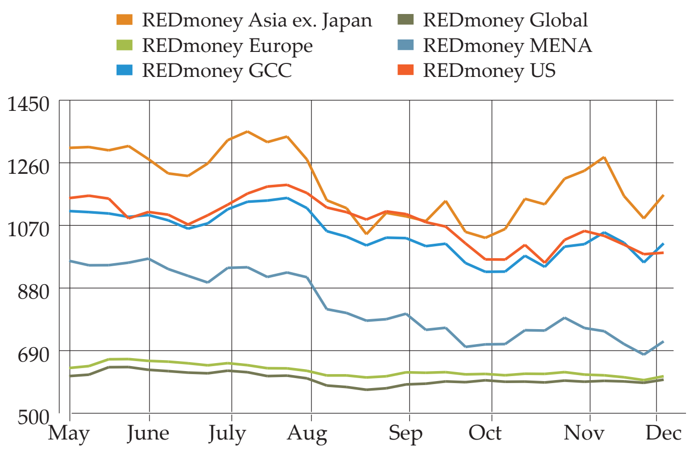
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



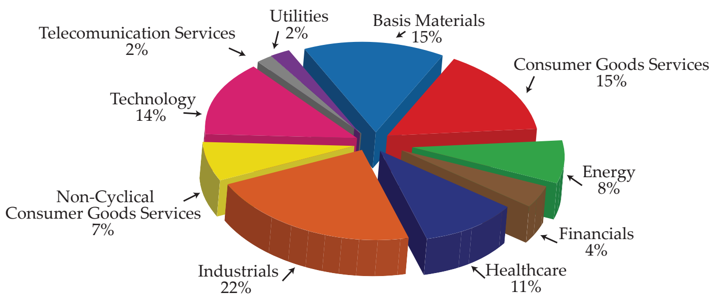
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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®

For further information regarding REDmoney Indexes contact:

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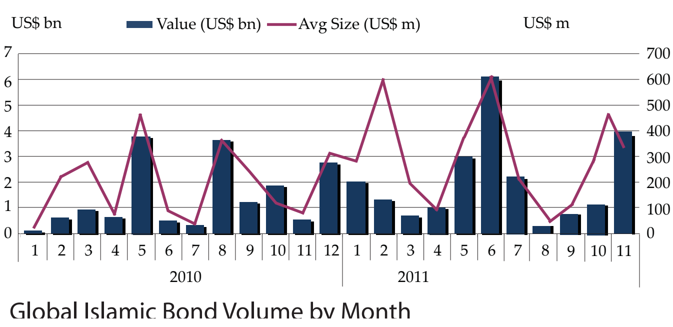
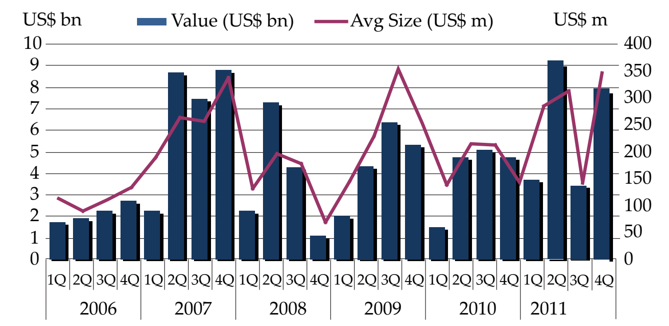
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
28th Nov 2011	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	132	Maybank Investment Bank
28th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	194	CIMB Group
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	770	CIMB Group, Maybank Investment Bank
22nd Nov 2011	Abu Dhabi Islamic Bank	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	Sukuk	Sukuk	Euro market public issue	500	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14th Nov 2011	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	Standard Chartered, HSBC, Citigroup
2nd Nov 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	139	CIMB Group
25th Oct 2011	Manjung Island Energy	Malaysia	Sukuk	Domestic market public issue	1,545	Lembaga Tabung Haji, CIMB Group
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Commerzbank Group, Abu Dhabi Investment Council
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	190	Public Bank, AmInvestment Bank
14th Sep 2011	MISC	Malaysia	Sukuk	Domestic market public issue	263	HSBC, CIMB Group, AmInvestment Bank
13th Sep 2011	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	101	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Aug 2011	Kencana Petroleum	Malaysia	Sukuk	Domestic market private placement	167	AmInvestment Bank
26th Jul 2011	Syarikat Prasarana Negara	Malaysia	Sukuk	Domestic market public issue	667	CIMB Group, Maybank Investment Bank
26th Jul 2011	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	Standard Chartered, HSBC, Citigroup
21st Jul 2011	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	AmInvestment Bank
21st Jul 2011	Besraya (M)	Malaysia	Sukuk	Domestic market public issue	233	AmInvestment 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	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	3,598	5	HSBC, CIMB Group, Maybank Investment Bank
2	Wakala Global Sukuk	Malaysia	Sukuk Wakalah	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup Maybank Investment Bank
3	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
4	Senai Desaru Expressway	Malaysia	Sukuk	Domestic market public issue	1,275	2	Maybank Investment Bank
5	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
6	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
7	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
8	ANIH	Malaysia	Sukuk	Domestic market private placement	964	2	CIMB Group, Maybank Investment Bank
9	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
9	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
11	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	732	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12	Syarikat Prasarana Negara	Malaysia	Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
13	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered Bank, HSBC, Citigroup
14	Cagamas	Malaysia	Sukuk Murabahah	Domestic market private placement	632	12	HSBC, CIMB Group, AmInvestment Bank, Maybank Investment Bank
15	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
15	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
15	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
15	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
19	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
20	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered Bank, HSBC
21	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	393	1	RBS, Citigroup
22	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Commerzbank Group, Abu Dhabi Investment Council
23	Maybank Islamic	Malaysia	Sukuk	Domestic market private placement	330	1	Maybank Investment Bank
24	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
25	Bank Aljazira	Saudi Arabia	Sukuk	Domestic market private placement	267	1	JPMorgan, HSBC
26	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
27	MISC	Malaysia	Sukuk	Domestic market public issue	263	1	HSBC, CIMB Group, AmInvestment Bank
28	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	1	AmInvestment Bank
29	Besraya (M)	Malaysia	Sukuk	Domestic market public issue	233	1	AmInvestment Ban
30	Putrajaya Holdings	Malaysia	Sukuk	Domestic market private placement	229	1	CIMB Group, AmInvestment Bank, Maybank Investment Bank
	Total				**24,836**	**91**	

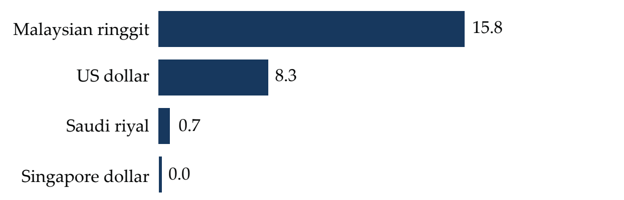
Top Managers of Sukuk — *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	5,653	28	22.8
2	CIMB Group	5,327	33	21.5
3	HSBC	3,579	16	14.4
4	AmInvestment Bank	1,923	26	7.7
5	Standard Chartered Bank	1,689	10	6.8
6	Citigroup	1,580	6	6.4
7	RHB Capital	1,018	6	4.1
8	Lembaga Tabung Haji	919	3	3.7
9	BNP Paribas	438	2	1.8
10	Deutsche Bank	427	2	1.7
11	RBS	416	3	1.7
12	JPMorgan	258	2	1.0
13	Riyad Bank	240	1	1.0
14	KFH	149	2	0.6
15	OCBC	128	5	0.5
16	Bank of America Merrill Lynch	125	1	0.5
16	Abu Dhabi Commercial Bank	125	1	0.5
18	DRB-HICOM	123	2	0.5
19	Public Bank	118	4	0.5
20	Affin Investment Bank	111	3	0.5
21	Nomura	83	1	0.3
21	National Bank of Abu Dhabi	83	1	0.3
21	Abu Dhabi Islamic Bank	83	1	0.3
24	Commerzbank Group	70	1	0.3
24	Abu Dhabi Investment Council	70	1	0.3
26	Hong Leong Bank	46	3	0.2
27	Malaysian Industrial Development Finance	40	1	0.2
28	OSK	13	2	0.1
29	Mitsubishi UFJ Financial Group	1	1	0.0
	Total	**24,836**	**91**	**100.0**

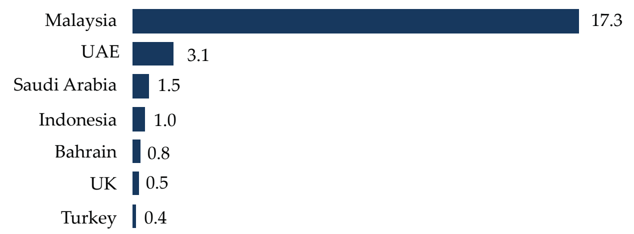
Top Islamic Finance Related Project Finance Mandated Lead Arrangers — *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	596	2	24.3
2	Arab National Bank	138	1	5.6
2	Public Investment Fund	138	1	5.6
2	Riyad Bank	138	1	5.6
5	Samba Financial Group	128	2	5.2
6	Boubyan Bank	86	1	3.5
6	National Bank of Kuwait	86	1	3.5
8	Emirates NBD	86	2	3.5
9	Al-Rajhi Banking & Investment	68	1	2.8
9	Alinma Bank	68	1	2.8
9	Bank Al-Jazira	68	1	2.8

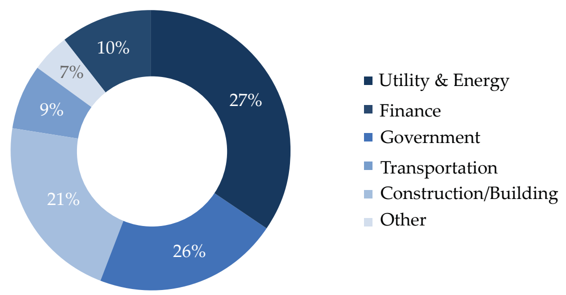
Sukuk Volume by Currency US$ (billion) — *12 Months*



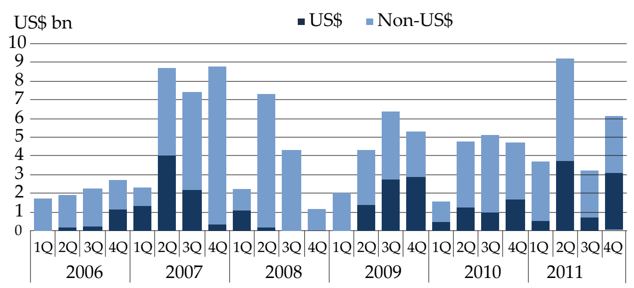
Sukuk Volume by Issuer Nation US$ (billion) — *12 Months*



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	Al-Jadaan & Partners Law Firm	1,200	1	26.3
1	Baker & McKenzie	1,200	1	26.3
1	Clifford Chance	1,200	1	26.3
4	Afridi & Angell	267	1	5.8
4	Herbert Smith Gleiss Lutz Stibbe	267	1	5.8
4	Latham & Watkins	267	1	5.8

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	887	4	14.4
2	Samba Capital	586	3	9.5
3	Citigroup	425	6	6.9
4	Maybank Investment Bank	402	2	6.5
5	Abu Dhabi Islamic Bank	398	3	6.5
6	Saudi National Commercial Bank	333	1	5.4
6	Banque Saudi Fransi	333	1	5.4
8	Standard Chartered	280	6	4.5
9	RBS	233	1	3.8
10	CIMB Group	216	2	3.5
11	RHB Capital	164	1	2.7
11	Lembaga Tabung Haji	164	1	2.7
11	AmInvestment Bank	164	1	2.7
14	Arab Banking Corporation	162	3	2.6
15	Deutsche Bank	150	1	2.4
16	Noor Islamic Bank	147	2	2.4
17	Emirates NBD	106	2	1.7
18	Bank of China	93	1	1.5
19	Bank of America Merrill Lynch	73	2	1.2
20	WestLB	70	2	1.1
21	Bank Al-Jazira	68	1	1.1
21	Alinma Bank	68	1	1.1
21	Al-Rajhi Banking & Investment	68	1	1.1
24	National Bank of Abu Dhabi	61	1	1.0
24	Commerzbank Group	61	1	1.0
26	Mizuho	53	1	0.9
27	Bank Muamalat Malaysia	52	1	0.8
28	National Bank of Kuwait	43	1	0.7
28	Boubyan Bank	43	1	0.7
30	Credit Suisse	25	1	0.4

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	25.4
2	Citigroup	524	6	8.5
3	Abu Dhabi Islamic Bank	428	3	6.9
4	Maybank Investment Bank	237	1	3.8
5	RBS	233	1	3.8
5	HSBC	233	1	3.8
7	Standard Chartered Bank	165	3	2.7
8	Bank of China	93	1	1.5
9	National Bank of Kuwait	87	1	1.4
10	Credit Suisse	50	1	0.8

Top Islamic Finance Related Loans Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2010	Saudi Electricity	Saudi Arabia	1,333
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
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	Turkey	344
14th Dec 2010	Majid Al Futtaim Properties	UAE	310
4th Apr 2011	Bank Asya	Turkey	306

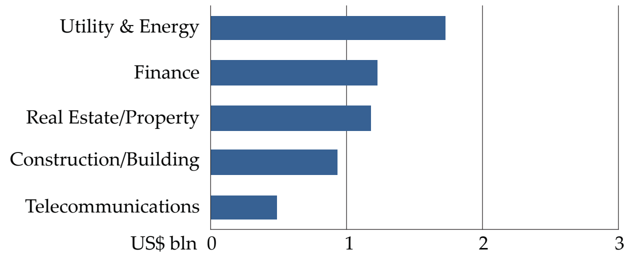
Top Islamic Finance Related Loans by Country

12 Months

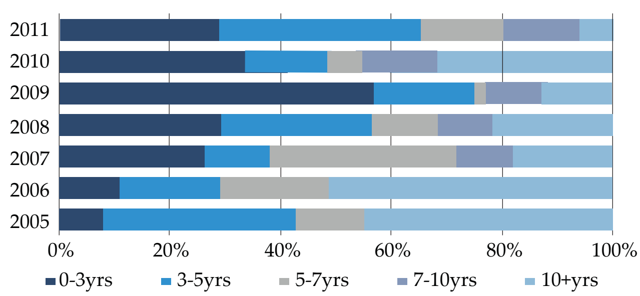
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	1,748	3	28.3
2	UAE	1,479	7	24.0
3	Malaysia	1,164	3	18.8
4	Turkey	988	5	16.0
5	Indonesia	450	1	7.3
6	China	93	1	1.5
7	Kuwait	87	1	1.4
8	Pakistan	60	2	1.0
9	Russian Federation	60	1	1.0
10	Bahrain	45	1	0.7

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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dealogic

6th – 7th December 2011
3rd Annual SE Asian Institutional Investment Forum
Kuala Lumpur (*Asian Investor*)

11th – 12th December 2011
1st Annual Project Finance and Trade Finance Summit
Dubai, UAE (*Global Islamic Finance Magazine*)

14th December 2011
Islamic Finance Breakfast Meeting: Islamic Asset Management
Kuala Lumpur (*REDmoney Events*)

17th — 18th December 2011
Oman Islamic Economic Forum
Muscat, Oman (*The Amjaad Group*)

16th — 18th January 2012
2nd Annual Middle East and Africa Insurance Summit
Dubai (*Fleming Gulf*)

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

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

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

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

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*)

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

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

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

5th – 6th September 2012
IFN Europe Forum 2012
London, UK (*REDmoney events*)

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

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

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

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

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