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## *GLOBAL FINANCE & ISLAMIC FINANCE*

### **Flaws in Islamic finance highlighted by crisis: experts**

Sunday, April 18, 2010

Islamic finance has emerged relatively unscathed from the global economic crisis and Dubai's turmoil, but experts say the dramas have exposed the need for tighter regulations and higher standards.

The Shariah finance industry, which abides by religious laws that prohibit the payment and collection of interest, is worth an estimated 800-950 billion dollars and expanding rapidly in the Muslim world and in the West.

Moody's Investors Service said earlier this month that the sector has a market potential of 5.0 trillion dollars.

However, the global economic turmoil which felled some mainstream banking institutions, and Dubai's financial fallout late last year, has highlighted the need for the industry to shore up areas where it may be on shaky ground.

Dubai stunned financial markets last November when it said it might need to freeze debt payments by its largest conglomerate Dubai World. Last month it announced a debt restructuring plan with a 9.5 billion dollar funds injection.

"What happened in Dubai is affecting both the conventional market and the Islamic market because the players in the market totally forgot proper risk management," says Badlisyah Abdul Ghani, chief executive of CIMB Islamic, a pioneer Islamic bank in Malaysia.

"A lack of framework regulations are the single biggest threat to Islamic finance growth today," he told AFP at a recent conference on Shariah finance held in the Malaysian capital Kuala Lumpur.

In Islamic finance, the customer and the institution share the risk of any investment and also divide any profits between them.

"There's nothing wrong with the Shariah structure, it's the law of the land and the regulatory framework that needs to be sorted out to ensure an Islamic financial transaction can be done effectively," Badlisyah said.

Malaysia has the world's largest market in Islamic bonds, known as "Sukuk", but it is facing rising competition from Singapore and European banking centres.

Badlisyah said Malaysia has got it right, with laws governing the types of Islamic products issued and a national Shariah council whose financial edicts are enforced throughout the industry.

However, Islamic financial advisers say most countries offering Shariah-compliant products have problems with basic elements like having enough scholars to form effective councils to guide financial dealings.

"There is fundamentally a shortage of trained Shariah scholars for the field and a means to properly integrate their views into law," says Abdulkader Thomas who runs SHAPE, a US-based Shariah financial structuring consultancy.

Criticism has also emerged that some Islamic products on offer have strayed from their roots, and increasingly mimic conventional profit-driven financial instruments.

As well as the laws which ban interest, seen as a form of gambling, Islamic financial transactions must be backed by real assets -- not, for instance, the wobbly repackaged subprime mortgages which triggered the global meltdown.

Risks are shared between the bank and depositor so there is an incentive for institutions to ensure the deal is sound.

"It's going back to basics but it's very difficult," the International Monetary Fund's former executive director Professor Abbas Mirakhor told AFP.

"The entire fiscal, monetary policy, regulatory system in Islamic countries with Islamic finance is pro-debt and anti-equity, so we have to change that, otherwise how are you going to have a system which is risk-sharing?"

The future direction of Islamic Finance, says Professor Habib Ahmed who teaches Islamic law and finance at Britain's Durham University, is still uncertain despite the lessons learned from the recent turmoil.

"The first challenge is to come out with products that reflect the spirit and form of Islamic finance and this is a challenge to financial institutions and governments to have the right laws and systems in place," he said.

"Only when this is done can we have confidence in these bankers on the supply side and educate investors on the demand side and provide them with truly Islamic financial products that will be of real benefit to all."

<http://www.zawya.com/Story.cfm/sidANA20100420T023951ZOGM69/Flaws%20in%20Islamic%20finance%20highlighted%20by%20crisis:%20experts>

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## **Muslim nations 'laughing' at EU woes, World Islamic Economic Forum chief**

Sunday, April 18, 2010

Muslim nations are "laughing" at European efforts to grapple with a debilitating debt crisis in Greece, which has serious ramifications for the world's biggest open market, the head of the World Islamic Economic Forum has said.

Former Malaysian deputy prime minister Tun Musa Hitam spoke to AFP in Brussels as European Union plans for a backstop bailout enabling Athens to refinance tens of billions of Euros of debt repayments and budget commitments were being thrashed out among Eurozone officials.

"Seen from the east, from developing countries, we're laughing because they're not doing what they taught us," Tun Musa said of the EU's decision to protect Greece rather than sending Athens to the International Monetary Fund.

"You find that a European nation has adopted anything but good practice, which has resulted in a disaster (and) now the name and the prestige of the European Union is at stake, but more importantly, its economies," he added.

"The normal way of resolving these issues is to go to the IMF. Developing countries do that, but not the EU.

"It's yes, no, maybe every day," he said.

Tun Musa was speaking before Eurozone finance ministers agreed last Sunday to pump some 30 billion Euros (41 billion dollars) into Greece's coffers this year if necessary -- at below-market rates of around five percent interest.

But in the aftermath of the accord doubts have emerged as to the readiness and scale of the financial aid, with a series of political hurdles still to be crossed before these monies can ever be handed over.

And within no time, new nationwide strikes had pushed Greek borrowing rates back through the pain barrier.

With parallel EU negotiations with the IMF under way on its involvement, and 15 billion Euros of loans anticipated in 2010 from Washington, Tun Musa maintained that the Western system where "anything goes in terms of lending and conduct" lay behind the Greek fiscal disaster.

The missing ingredients of "responsibility, transparency and accountability," glaringly absent throughout fraudulent Greek reporting to the EU, were instead to be found in Islamic finance, he argued.

"The methodology of Islamic banking will become more acceptable, even without being in Islam," he said.

He cited a surge in the numbers of specialist economic religious Ulema, who re-interpret Shariah law for expansion throughout non-Islamic territories.

Shariah prohibits interest on money and re-distributes added value based on goods not paper.

Ironically, Moody's Investors Service said earlier this month that the Islamic finance industry had a market potential of at least 5.0 trillion dollars -- more than five times its actual 2009 value.

A host of countries, led by Britain but stretching from Italy to Japan and Russia, are planning joint Islamic finance ventures, seen as filling a perceived vacuum in confidence.

The march of Islamic finance will form a major plank of the WIEF's sixth annual conference in Kuala Lumpur next month.

Tun Musa even blamed default in Dubai on the penchant in the Middle East to "look West". A heavy hit endured by Singapore during the Asian financial crisis of a decade ago, was due to the same problem, he added.

"Malaysia was hit least because we did not put our money in the West," he insisted.

In November, Iranian President Mahmoud Ahmadinejad argued before the 56 member-state Organization of the Islamic Conference, the WIEF's core backer, that the "world system based on usury has collapsed."

But anticipating criticism that a drive by Islamic finance was just another way to "ram Islam down Western throats," Tun Musa said the onus was on Europe to find the political will to face down anti-immigrant, anti-Islam extremists, otherwise it would be "sunk."

Turkey's long-stalled talks on EU accession represented the perfect test if Western and Islamic financial and economic models were to be successfully fused post-crisis.

Europe was "going to lose a huge stabilizing community that is playing a very important role as a bridge between the Muslim and the Western world," he warned of a move, led by German Chancellor Angela Merkel, to pull back from full membership talks.

"There will come a time that the Turks say 'enough is enough, we're going our own way'," and that will be to turn towards Islam, he stressed.

<http://news.malaysia.msn.com/business/article.aspx?cp-documentid=4035724>

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### **Report suggests 8 building blocks to promote financial stability**

Sunday, April 18, 2010

The "Islamic Finance: Global Financial Stability Report" presented last week in Khartoum, by its joint publishers, the Islamic Financial Services Board (IFSB), the Islamic Development Bank (IDB) and the Islamic Research and Training Institute (IRTI), suggests eight building blocks in three key areas to promote financial stability in the global Islamic financial industry.

In addition, it recommends the establishment of an Islamic Financial Stability Forum (IFSF) which would essentially "be a broad-based and constructive strategic platform for IFSB members to achieve the primary objective of building cross-border dialogue in efforts to promote financial stability within the Islamic financial system."

However, it seems that the objective of the IFSF will be confined to facilitating better understanding of emerging developments in the Islamic financial system and their implications for national and global financial stability. It would also have the "potential to promote collaboration and cooperation in remedial policies to prevent, contain and manage emerging issues in Islamic finance."

This latter aspiration could be difficult to achieve in the short term, simply because Islamic finance systems in most of the IDB member countries are either fragmented or non-existent. The overwhelming number of IDB member countries, do not have a systemic approach to Islamic finance. The approach at best is ad hoc or piecemeal.

Malaysia by far has the most advanced and holistic Islamic financial system. If there is a criticism, the Malaysian government for the last 30 years may be perceived of too much hand-holding or patriarchy of its Islamic finance industry. Some would like to see a cost benefit analysis of the Malaysian government's investment in its Islamic finance industry over the last three decades to see to what extent the Malaysian taxpayer is getting value for money.

Many key IDB members are living in denial about their Islamic financial industries. Saudi Arabia and Libya, for instance, do not have enabling legislation which recognizes the special characteristics of Islamic financial institutions in their banking legislation. Instead they insist on

either authorizing Islamic banks under general banking laws or, in the case of Libya, merely allowing Islamic financial products according to their perceived risk characteristics under the Central Bank of Libya rules. Both countries have emphatically ruled out introducing stand-alone Islamic banking enabling laws. How then can an IFSF promote remedial policies and collaboration when the very systems in place differ so radically?

This is one key feature which the report should have stressed above all.

The report, presented at the inaugural financial stability forum organized by the IFSB recently in Khartoum, was produced by a task force on Islamic finance and global financial stability, in response to the recommendations of the Forum of the Global Financial Crisis and its impact on the Islamic financial industry, which was organized by the IDB Group in October 2008.

The task force, chaired by Zeti Akhtar Aziz, governor of Bank Negara Malaysia, the central bank, includes an international group of eminent scholars, practitioners and Islamic finance experts. "As Islamic finance extends its reach to serve the global community and becomes an integral part of the global financial system," explained Zeti in the report, "it will however be increasingly tested by risks and developments in the international financial system. The Islamic financial services industry is also entering into a fundamentally different environment that will be significantly influenced by the international regulatory reform that is being undertaken in the post crisis era. For the Islamic financial services industry to thrive in this new environment and to transition to the next level of development and trend toward greater international integration, its level of resilience needs to be strengthened further".

Ahmad Mohamed Ali, president of the IDB Group, similarly warned in the report that "the global financial crisis has demonstrated that we face common challenges. In joining and sharing lessons with international organizations, we can work toward avoiding such financial crises in the future. We believe that there is much that Islamic finance can contribute to this process."

The report identifies three key areas of priority that warrant greater policy attention to further strengthen and enhance the entire Islamic finance ecosystem.

These include: i) strengthening the infrastructural building blocks of the Islamic financial services industry (IFSI) to further enhance the industry's resilience; ii) accelerating the effective implementation of Shariah and prudential standards and rules to facilitate the creation of a more stable, efficient and internationally integrated IFSI; iii) and creating a common platform for the regulators of the Islamic financial services industry to enhance constructive dialogue.

In addition the report suggests eight "building blocks" aimed at further strengthening the Islamic financial infrastructure at the national and international levels to promote resilient and efficient Islamic financial system.

These include: i) the development of a set of comprehensive, cross sector prudential standards and supervisory framework covering Islamic banking, Takaful and capital market which takes into account the specificities of the IIFS; ii) the development of a robust national and international liquidity infrastructure, which encompasses the potential for monetary policy and money market operations, and which is important not only to reduce the cost of intermediation, but also to influence the level of liquidity in the financial system; iii) the strengthening of the

financial safety net mechanism, namely, lender of last resort (LOLR) facilities and emergency financing mechanisms as well as deposit insurance, all of which need to be compatible with Shariah principles; iv) the development of a reliable crisis management and resolution framework in addition to financial safety nets, which includes bank insolvency laws and the arrangements for dealing with non-performing assets, asset recovery and bank restructuring, as well as bank recapitalization. An integrated crisis management framework is essential to ensure that any emerging crisis in the Islamic financial system will be promptly managed; v) the introduction of accounting, auditing and disclosure standards for IIFS and their counterparties, supported by adequate governance arrangements, which would enhance financial reporting to facilitate the effective monitoring and assessment of Islamic financial institutions; vi) the development of the macro prudential surveillance framework and financial stability analysis, which is an integral part of the strategy to strengthen the resilience of the Islamic financial system and to minimize the risks of financial fragility and to complement traditional micro prudential supervision of individual institutions; vii) to review the rating process for Islamic institutions or instruments by re-examining and improving the related core processes to encourage greater transparency on the risks involved; and viii) the need for international Islamic supra-nationals and developmental bodies to consider more involvement in capacity building to promote global financial stability. Islamic finance is an industry that is dynamic and complex with rapid product innovation.

The report raises several other key issues including that of harmonization of prudential standards, and the development of innovative, diversified and universally-acceptable Islamic financial instruments across jurisdictions. The report says, "This is essential as varying interpretations of Shariah in key issues in different countries or markets add to the complexity when cross-border transactions are involved. Mutual recognition of financial standards and products across jurisdictions would facilitate the integration of Islamic finance across the world and in bridging the global markets."

The task force also urges the development of a more inclusive system, within a broader Islamic financial ecosystem. In reality this means to impact Islamic finance much more on the real economy and not just high net worth individuals and institutional investors so as to help toward economic development, social improvement, financial inclusion and poverty alleviation. Perhaps equally importantly, the report's clarion call for constructive dialogue among the regulators of the international Islamic financial system may be the most difficult to achieve. It is the political will and support of governments that is crucial. There are several cases in IDB member countries where regulators are very proactive supporters of Islamic finance but this is tempered by the cynicism and inertia of their political masters especially ministries of finance. In the odd case the opposite is also true.

The report rightly berates the apparent failure of the rating agencies to assign accurate ratings on new, complex securities, before the onset of any crisis, and advises them to adopt a more holistic rating process, encompassing the fiduciary aspects and credit risk while giving due consideration to the transparency and visibility of the underlying transactions and the quality of the management. They also need to fully appreciate the unique features, characteristics and risk profiles of Islamic institutions and instruments.

<http://arabnews.com/economy/islamicfinance/article44682.ece>

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## **'Islamic finance without innovation is dead', Manfred Dirrheimer, chairman of the executive board, FWU AG**

Sunday, April 18, 2010

"There is nothing more powerful in the world than an idea whose time has come. Islamic finance is not a Muslim-only affair. It shows qualities which are beneficial to all kinds of customers. For all the Shariah-compliant products we sell in countries such as Malaysia, some 70 percent of our clients are non-Muslim," said Manfred Dirrheimer, chairman of the executive board, FWU AG, a German financial services company which has pioneered a number of Takaful products.

Dirrheimer was speaking at the Amanie-Falaika Islamic Finance Symposium held at the Jumeirah Emirates Towers in Dubai last week and attended by dignitaries such as Ahmad Hizzad Baharuddin, director of Islamic banking & Takaful, Bank Negara Malaysia; Farhan Al-Bastaki, executive director of Islamic finance, Dubai International Financial Centre (DIFC); and Nor Azamin Salleh, CEO, Asian Islamic Investment Management (AIIMAN).

Dirrheimer predicted that several Islamic financial products might become "mainstream", but warned that Shariah compatibility and integrity of these products must always be ensured. However, he ruled the fact that the product innovation process in the Islamic finance industry is much slower than in the conventional industry and warned that any "industry without innovation is dead."

The symposium exuded cautious optimism of an industry which is showing a faster rate of recovery than its conventional counterpart from the twin effects of the credit crunch and the global financial crisis that has affected the world for the last two years, albeit in a market, Dubai, that was perhaps one of the worst hit in both the conventional and Islamic space especially relating to real estate assets.

This was further manifested by the recent and imminent launch of a spate of Islamic equity and investment funds including the Amana Developing World Fund by Saturna Capital in the US; the HwangDBS AIIMAN A20 China Access Fund; Comgest Shariah Emerging Markets and the Comgest Shariah Europe Funds for Saudi investors; Crescent Investments Shariah-compliant Australian Equity Fund; LM Australian Alif Fund; BBGI Islamic Share Energy Fund in Switzerland; the Oasis Crescent Global Income Fund to be launched by Oasis Asset Management of South Africa; and the Yurie Shariah Compliant Korea Index Investment (Equity) Trust.

Perhaps the increasing confidence of the Islamic investment sector was underlined by the revelation by Khazanah Nasional Berhad, the investment arm of the Malaysian Ministry of Finance and effectively the country's major sovereign wealth fund (SWF), that Shariah-compliant investment is its mainstream activity, whereas its conventional investments comprises its alternative investment portfolio. This makes Khazanah the first and only SWF in the world whose focus is largely Shariah-compliant investments.

As far as SWFs in the Muslim world are concerned, it is usually the other way round, with most such SWFs do not even have Islamic investments on their radar. If only a small proportion, say 30 percent, of these SWF funds migrate to Islamic investment opportunities, then the sector

would receive a serious boost in terms of market size, which is currently estimated at between \$1 trillion to \$1.2 trillion.

It was inevitable that the Shariah governance process in Islamic finance should surface given recent developments in the High Court in London and also recent resolutions issued by various bodies including the one on Tawarruq by the Islamic Fiqh Academy in Makkah.

Prominent Saudi Shariah scholar Mohamed Elgari reiterated the importance of developing a scientific methodology for the Shariah governance process in the industry. He added that the process of internal compliance in Islamic Finance is extremely important to see how it is practiced by various institutions. He ruled the fact that the IDB-sponsored idea of developing a Shariah rating system which would evaluate the internal processes in institutions and for products "from innovation to litigation" did not take off. The purpose was not to decide what is halal or haram.

Elgari rejected any notion that derivatives are not possible in Islamic finance. "We should not look at derivatives like anything else in life in black and white terms. In moderation, they could be useful, especially to reduce risk on a Shariah basis. In principle, derivatives are possible in Islamic finance. There is a need for Muslims to manage risks and take a level of risk they want. This is Takaful," he added.

Daud Bakar, the well-known Malaysian Islamic scholar and entrepreneur and managing director of Amanie Islamic Finance Consultancy & Education LLC, stressed that the Islamic finance industry was allowing Muslims to rediscover their identity and Shariah advisories were the custodians of the Shariah governance process within the prescribed legal limitations.

He agreed that hedging (Tahawwut) is allowed under the Shariah although the industry wants "hedgers not speculators." Shariah-compliant hedging, he added, is not going to the market to arbitrage one against the other, but as part of good risk management, which is important to protect the interests of investors and institutions.

Earlier, Farhan Al-Bastaki of the DIFC urged the Islamic funds industry to listen more to what the clients and end users of these funds need and want; to be more rigorous in assuring that investment fund products are truly Shariah-compliant; to ensure that they are Shariah-based products as opposed to merely "Islamizing" conventional products; to promote greater consistency of Shariah-compliant funds documentation a lack of which will leave clients and the market in general in a state of confusion and uncertainty regarding how ethical their investment funds really are; and to educate clients on how Shariah funds really are fundamentally different products from conventional funds, while making sure that their own staff are properly trained in Shariah finance to adequately explain the benefits of Shariah funds to both Muslim and non-Muslim investors, who too should be considered as potential clients of such funds.

"By promoting the unification of funds documentation, we can provide a great deal of confidence in the market. Shariah scholars must focus on what's good for the industry, by which I mean they should focus more on the various areas of agreement among them, rather than their points of philosophical difference," he maintained.

*<http://arabnews.com/economy/islamicfinance/article44683.ece>*

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## **IFI assets in GCC states touch \$288 billion**

Sunday, April 18, 2010

The total assets of Islamic financial institutions (IFIs) in the GCC (Gulf Cooperation Council), according to the Bahrain-based Capinnova Investment Bank, showed a sustained growth between 2003 and 2008, representing \$288.2 billion at the end of 2008.

Capinnova, the Shariah-compliant investment banking arm of BBK, is upbeat about the Islamic finance industry in the region and predicts that it will grow more this year.

Capinnova is licensed by the Central Bank of Bahrain; the bank is well capitalized and is wholly owned by BBK. Capinnova has an authorized capital of \$500 million and paid-up capital of \$151.5 million. "The key fact that the Islamic finance industry is asset based and not debt financed has protected and prevented this sector from the crises that has brought the downfall of conventional financial giants worldwide," said Capinnova's Chief Executive Officer Jamal Hijres. "We are confident about the Islamic finance industry's future and we believe that it will grow stronger in 2010," added Hijres.

Quoting Standard and Poor's report, the bank added that the assets of the top 500 Islamic banks expanded 28.6 percent to total \$822 billion in 2009, compared with \$639 billion in 2008.

"The Islamic banking sector is considered to be one of the largest growing sectors and a major revolution for the financial industry. The growth of the Islamic banking industry in particular has been remarkable in recent years and as per published reports it is expected to touch \$4 trillion in the next five years. We aim to leverage on this exponential growth and further strengthen the Islamic banking industry in Bahrain and across the region," added Hijres.

"I would like to mention that while Islamic finance is one of the big success stories in finance today, it is worth looking at the current credit crunch in conventional finance to see how easily one problem can spiral out of control. This is something that Islamic finance practitioners need to take on board and make sure they are well prepared. Firm corporate governance programs, striking a good balance between risk and reward, achieving greater market penetration, transparency on compliance, and learning from conventional banking successes and failures are all effective goals that will help consolidate Islamic finance. The year 2010 will also be a year that surely will test the strengths of the Islamic finance industry and I am confident that the industry will deliver and further consolidate its position," added Hijres.

In January 2010, Capinnova acquired a 50 percent stake in Sakana Holistic Housing Solutions.

Bahrain-based Sakana was earlier a 50/50 joint venture between BBK and Shamil Bank. BBK took the decision to transfer the ownership of Sakana to Capinnova to strengthen and diversify the bank's investments in the Islamic financial sector while complying with the principles of Islamic law.

Capinnova aims to provide quality investment products and innovative solutions to companies, financial institutions and high net worth individuals.

<http://arabnews.com/economy/islamicfinance/article44684.ece>

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## **Muslim delegation meets MOS Finance on Islamic Banking**

Monday, April 19, 2010

New Delhi: A Muslim delegation consisting of Engineer Muhammed Saleem, President, Jamaat e Islami Hind, Rajasthan and Mr. H Abdur Raqeeb, General Secretary, Indian Centre for Islamic Finance met Naro Naramain Meena, Minister of State for Finance in New Delhi to discuss the feasibility of Interest Free Islamic Banking in India.

Mr. Engineer Saleem submitted a Memorandum on behalf of Rajasthan Muslim Forum consisting of Jamaat e Islami Hind, Mansuri Panchayath, All India Majlise Mushawarat, Progressive Muslim Front, Indian Union Muslim League, Association for Protection of Civil Rights, etc. The Memorandum requested the government to accept the recommendation of Dr. Raghuram Rajan Committee on Financial Sector Reforms to create a framework for Interest Free banking in the country.

Mr. Saleem urged that Islamic banking is not only for Muslims but also helpful for minorities and the marginalized and shared the recent statement of MS Swaminathan, Father of Green revolution that Islamic Banking can be solution for farmer's suicide in Vidarbha.

Mr. H Abdur Raqeeb added that 40% customers of Islamic banking system in Malaysia and 20% in Britain are Non Muslims. He also submitted the documents related to the methods and techniques adopted by the some other secular countries to create level playing field for conventional and Islamic Banking and argued that when London, Tokyo Singapore and Hong Kong can become hub and house of Islamic Finance why not Mumbai or Cochin?

The Minister assured the delegation that he would go through the documents in detail and will have discussion with his officials and higher authorities regarding the issue.

*TCN News*

[http://twocircles.net/2010apr19/muslim\\_delegation\\_meets\\_mos\\_finance\\_islamic\\_banking.html](http://twocircles.net/2010apr19/muslim_delegation_meets_mos_finance_islamic_banking.html)

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## **Bahrain - Islamic Finance services key priority in the Middle East market**

Monday, April 19, 2010

In a move to address the region's growing need for Islamic Finance services, Deloitte announced its Middle East Islamic Finance initiative at an industry event on April 18, in Manama, Bahrain. This new initiative represents a significant investment by Deloitte, with the appointment of dedicated Islamic Finance senior practitioners whose focus will be Islamic Finance within the Deloitte disciplines of Consulting and Financial Advisory services complementing the existing team in Assurance, Tax and Risk services. The team has the added dimension of the newly formed Islamic Finance Knowledge Centre based in Bahrain, designed to provide thought leadership and research.

“The growth and inherent potential of the Islamic Finance market means that clients are increasingly looking to tap the opportunities offered by Shariah compliant products and

services,” said Omar Fahoum, chairman and chief executive of Deloitte in the Middle East, who was one of the speakers at the launch event. “In creating the Middle East Islamic Finance Group we are leveraging Deloitte’s expertise in the Islamic finance field to ensure clients have access to exceptional depth and breadth of knowledge and industry insights.”

Other speakers at the event included Khalid Al Hamad, Executive Director, Banking Supervision, Central Bank of Bahrain, and Deloitte global and regional Islamic Finance leaders. The program included an exclusive on-line Deloitte interview with Sheikh Muhammad Taqi Usmani, Chairman of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Board.

Deloitte also announced during the event the launch of the new Deloitte Islamic Finance portal. The web portal is a resource for all participants in the Islamic Finance industry that includes insights from prominent Islamic Finance industry figures and Deloitte thought leadership publications. It will also enable interaction by users to share their views on some of the most pressing issues and challenges facing the Islamic Finance industry.

“We continuously strive to keep our clients up to speed and updated regularly on market challenges and industry issues, and to share insight that will give them the edge in their businesses,” said Joe El Fadl, partner in charge for the Financial Services Industry (FSI) at Deloitte in the Middle East “The Islamic Finance portal will showcase the research carried out by our Middle East Islamic Finance Knowledge Center, thus serving as a convenient reference point for practitioners who seek to acquire knowledge and competency in different areas of technical expertise and Islamic Finance governance.”

The Middle East Islamic Finance Group and the new portal form an integral part of Deloitte’s wider Global Islamic Finance initiative and further demonstrates the firm’s strong commitment to serving the Islamic Finance Industry and market participants in the region.

“As with all Deloitte services, regional professionals from the Middle East Islamic Finance Group enjoy the backing of a global network of industry specialists,” said David Vicary, Deloitte’s Global Islamic Finance Leader. “For our clients this translates as international capabilities combined with local delivery, giving them services tailored to their exact needs.”

In February this year, Deloitte announced the launch of its new Islamic Finance Knowledge Center (IFKC) based in Bahrain.

*Global Arab Network*

<http://www.english.globalarabnetwork.com/201004195560/Finance/bahrain-islamic-finance-services-key-priority-in-the-middle-east-market.html>

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## **Shariah friendly Italian financial instruments**

Tuesday, April 20, 2010

Studio Associate Dagradi & Soletto of Milan, has recently concluded an agreement with Erremme Business Advisors, consulting firm specialised in Islamic Finance based in Malta and working in various Gulf countries. The common goal is to provide a legal and fiscal framework of Islamic Finance assistance in the Italian jurisdiction.

The reason why Islamic finance in Italy is not as widespread as in other countries is because of the lack of legislative incentives. However the combination of expertise has allowed the design of instruments that mitigate the effect of the non-Shariah friendly legislation.

*The Malta Independent Online*

<http://www.independent.com.mt/news.asp?newsitemid=104850>

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### **Islamic finance goes “main-stream”?**

Tuesday, April 20, 2010

A major difference between mainstream and Islamic debt looks set to be removed. There will be significant winners and losers - consumers and investors, respectively - but also, possibly, a structural shift within debt markets.

Malaysia central bank is drafting rules to regulate the use of *ibra*\*, Islamic rebate, which will affect \$95bn Islamic finance assets (a fifth of total banking assets or roughly half of GDP).

In Western banking, someone taking a loan is liable for the principal and the interest as it is accrued. If the loan ends early - through default or early payment - that person is typically liable for the interest accrued to date.

Not so in Islamic financing. Under Shariah law, the debtor is liable for the entire amount of interest - both accrued and unearned. The bank can choose to rebate the unearned interest, and they often do in cases of early payment. But legal disputes can ensue.

Now (1) a Malay High Court judgment has ruled that Islamic banks ‘must grant’ a rebate even if the Bai Bithaman Ajil (BBA) contract is silent on the issue when a default occurs; and (2) researchers, backed by the Bank Negara Malaysia, have told Reuters they are drafting new rules to regulate the use of the rebate.

If *ibra* becomes law, debtors’ terms will be improved and investors’ terms worsened, overnight. In theory there would be a corresponding fall/rise in debt supply and demand. But there is a more

structural effect. Markets love clarity. Clarifying the terms of Islamic debt is a necessary - and perhaps sufficient - step in making Islamic finance more mainstream.

\* Explanation of ibra from the Malaysian central bank:

In the conventional system, customer has to pay only the outstanding principal amount and earned interest at the time when early settlement is made. The unearned interest is normally waived by the financier. Contractually, customer in Islamic financial system has to settle total outstanding selling price in the case of early settlement. However, Islamic bank normally give rebate to its customer who made early settlement. This practice of rebate is important to maintain the competitiveness Islamic banking. Therefore, the concept of ibra' which resembles the rebate payment is introduced. The concept of ibra' is more suitable for the financier who wants to surrender its right over the debt to the customers.

*Financial Times*

<http://blogs.ft.com/money-supply/2010/04/20/islamic-finance-goes-mainstream/>

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### **Islamic finance needs tighter regulations**

Islamic finance has emerged unscathed from the global crisis.

Wednesday, April 21, 2010

Islamic finance has emerged relatively unscathed from the global economic crisis but there is a need for tighter regulations and higher standards.

The Shariah finance industry, which abides by religious laws that prohibit the payment and collection of interest, is worth an estimated \$800-950 billion (Dh2.9 trillion-Dh3.4trn) and expanding rapidly in the Muslim world and in the West.

Moody's Investors Service said earlier this month that the sector has a market potential of \$5trn.

However, the global economic turmoil, which felled some mainstream banking institutions, has highlighted the need for the industry to shore up areas where it may be on shaky ground. Badlisyah Abdul Ghani, Chief Executive of CIMB Islamic, a pioneer Islamic bank in Malaysia, said: "A lack of framework regulations are the single biggest threat to Islamic finance growth today."

In Islamic finance, the customer and the institution share the risk of any investment and also divide any profits between them.

"There's nothing wrong with the Shariah structure, it's the law of the land and the regulatory framework that needs to be sorted out to ensure an Islamic financial transaction can be done effectively," Badlisyah said.

Malaysia has the world's largest market in Islamic bonds, known as "Sukuk", but it is facing rising competition from Singapore and European banking centres. Badlisyah said Malaysia has got it right, with laws governing the types of Islamic products issued and a national Shariah council whose financial edicts are enforced throughout the industry. However, Islamic financial advisers said most countries offering Shariah-compliant products have problems with basic elements such as having enough scholars to form effective councils to guide financial dealings.

"There is fundamentally a shortage of trained Shariah scholars for the field and a means to properly integrate their views into law," said Abdulkader Thomas who runs Shape, a US-based Shariah financial structuring consultancy.

Criticism has also emerged that some Islamic products on offer have strayed from their roots, and increasingly mimic conventional profit-driven financial instruments. As well as the laws which ban interest, Islamic financial transactions must be backed by real assets – not, for instance, the wobbly repackaged sub-prime mortgages. Risks are shared between the bank and depositor so there is an incentive for institutions to ensure the deal is sound. "It's going back to basics but it's very difficult," said the International Monetary Fund's former executive director Professor Abbas Mirakhor.

<http://www.business24-7.ae/banking-finance/islamic-finance/islamic-finance-needs-tighter-regulations-2010-04-21-1.191048>

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## ***ISLAMIC BANKING & INSTITUTIONS***

### **Sharjah Islamic Bank announces net profit of AED 67.5 million**

Sunday, April 18, 2010

Sharjah: Sharjah Islamic Bank announced its 1st quarter 2010 results yesterday with net profit of AED 67.5 million, compared to 85.0 million achieved in the same period last year. The balance sheet grew since December 2009 with total Assets reaching AED 16.2 billion compared with AED 16.0 billion. Total liquid assets increased by AED 365.0 million 11percent to reach AED 3.5 billion, represents 22 percent of total assets compared to AED 3.2 billion 20 percent of total assets at December 2009 and customer deposits reached AED 10.1 billion, compared with AED 9.9 billion since Dec 2009. While Net customer receivables reached AED 9.7 billion compared to AED 10.0 million in Dec, 2009. Total shareholder equity amounting to AED 4.2 billion represents 26 percent of the total assets reflecting the bank's strong capital base and strong financial position that will enable the bank to achieve its strategic objectives.

*WAM (Emirates News Agency)*

<http://www.wam.org.ae/servlet/Satellite?c=WamLocEnews&cid=1267001253068&p=1135099400124&pagename=WAM/WamLocEnews/W-T-LEN-FullNews>

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## Islamic Banking for Consumers in 'Stone Ages', Barclays Says

Sunday, April 18, 2010

Bloomberg: Islamic retail banking is in the "stone ages" as many financial institutions fail to provide services that cater to an increasing number of Shariah-compliant customers, according to Barclays Plc.

Only "handful of simple" products, such as savings accounts, Islamic loans and debit cards are available to the world's 1.6 billion Muslims, Harris Irfan, the Dubai-based head of Islamic finance products at Barclays Capital and Barclays Wealth, said in an interview last week. Barclays, the U.K.'s second-largest bank, began offering Islamic retail products such as murabahah deposits, insurance and investment services in 2009, according to the bank.

"A Shariah-compliant customer only gets a fraction of what a conventional customer has access to," said Irfan. "We're almost at that Stone Age phase of sticking your money under the mattress."

Demand for Shariah-compliant products is increasing as the wealth of Muslims rises, spurred by export-led Asian economic growth and crude oil income in the Persian Gulf. Created in the 1970s, the Islamic finance industry's assets may quadruple to \$2.8 trillion by 2015 from about \$700 billion in 2005, according to the Kuala Lumpur-based Islamic Financial Services Board.

### Rapid Growth

London-based Barclays joins Deutsche Bank AG, HSBC Holdings Plc, Citigroup Inc. and Malaysia's CIMB Group Holdings Bhd. in providing Islamic products such as bonds, loans and banking services to take advantage of the increasing popularity. HSBC Amanah, the Islamic banking arm of HSBC, offers wealth management, current accounts as well as home and auto financing, according to its Web site.

Islamic finance bans the payment of interest and stipulates agreements be based on the transfer of goods or services. To ensure compliance with Shariah, Islamic financial products must be vetted and approved by recognized scholars who are versed in its principles.

Banks should provide private equity, exchange-traded and mutual funds, along with flexible home products and retirement accounts, and not just "take it or leave it, one-size fits all products," Irfan said.

"I want a financial supermarket," he said. "There's plenty more, but we'd be getting into the realms of the really sophisticated, such as hedge funds, and I don't think that's really fair to the retail industry."

Assets of the Islamic finance industry's top 500 banks bucked the global trend and grew 29 percent to \$822 billion in 2009 from a year earlier, Standard & Poor's said in a report published

Feb. 1. From being almost non-existent a decade ago, the Islamic bond, or Sukuk, market has grown to \$110 billion, according to a report by Moody's Investors Service on April 6.

*SFGate (home of the san francisco chronicle)*

<http://www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2010/04/17/bloomberg1376-L124F50D9L35-4.DTL>

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### **A-Rajhi Q1 profit slips on provisions**

Tuesday, April 20, 2010

RIYADH: Saudi Arabia's Al-Rajhi Bank, the Gulf region's largest Islamic bank by market value, yesterday said first-quarter net profit fell 2.8 per cent, below analysts' forecasts, as provisions continue to weigh.

The Islamic bank posted a net profit of 1.684 billion riyals (100 riyals = RM87.77) in the three months to end March 31, down from 1.732 billion riyals in the year-earlier period.

The bank cited the its conservative policy for taking provisions as a reason for the decline.

Profits at most Saudi banks came under pressure in 2009 as a result of provisions against troubled Saudi firms, and first-quarter earnings were pulled down by a slowdown in lending activity.

Al-Rajhi's loan portfolio, however, rose by 6 per cent to 117 billion riyals while deposits increased 8 per cent to 129 billion riyals.

The average earnings forecast for Al-Rajhi was 1.75 billion riyals in a Reuter's survey.

The bank in the fourth quarter of 2009 booked 513.9 million riyals in provisions against loan losses.

Al Rajhi's operating income reached 2.8 billion riyals, up 3.37 per cent from the previous year, and lending income rose 9.82 per cent to 2.2 billion riyals. – Reuters

*Business Times*

[http://www.btimes.com.my/Current\\_News/BTIMES/articles/aj/Article/](http://www.btimes.com.my/Current_News/BTIMES/articles/aj/Article/)

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## **Standard Chartered launches Shariah compliant Saadiq Platinum MasterCard Credit Card**

Tuesday, April 20, 2010

Continuing to place customers first, Standard Chartered Bank in partnership with MasterCard Worldwide has launched its Shariah compliant Saadiq Platinum MasterCard Credit Card.

The addition to the Bank's existing Islamic banking offering highlights its commitment to build a comprehensive suite of products which are in line with the beliefs and values of its customers.

Cardholders will have the freedom to fly sooner on over 300 airlines to any destination by earning reward points faster,\* have access to exclusive lifestyle privileges and will not pay a first year annual fee.

Syed Hammad Haider, GM, Retail Products & Head, National Sales, Standard Chartered Consumer Bank UAE said, "As we move towards a clear strategy of customer focus, we are investing heavily in developing products and services that are specifically tailored to our customers' needs rather than adopting a one-size-fits-all approach.

The launch of the Saadiq Platinum Credit Card confirms that we value and respect our customers' and their beliefs and will continue investing in areas which research highlights will be well received."

"We are very pleased to collaborate with Standard Chartered Bank to launch Standard Chartered Saadiq Platinum MasterCard Credit Card.

MasterCard recognizes the importance of creating a local customized offering like Shariah-compliant premium credit cards.

The Standard Chartered Saadiq Platinum MasterCard Credit Card best demonstrates this commitment," said Sumit Mittal, vice president and regional account lead – Standard Chartered Bank, MasterCard Worldwide.

"MasterCard looks forward to working closely with the Bank to develop innovative, flexible payment programmes that provide exciting customer rewards, deliver real value, and meet the evolving lifestyle needs of MasterCard cardholders."

Standard Chartered now offers more than 15 Islamic retail banking products which are all formally certified by an independent Shariah Supervisory Committee.

*Business Intelligence, Middle East*

<http://www.bi-me.com/main.php?id=46095&t=1&c=33&cg=4&mset=>

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## **Ithmaar becomes Islamic retail bank**

Tuesday, April 20, 2010

Manama: Ithmaar Bank will become a retail-focused Islamic bank following approval from the Central Bank of Bahrain (CBB), effective from tomorrow (April 21).

“The CBB’s formal approval allowed Ithmaar to immediately implement its highly anticipated plans for a comprehensive reorganization with its wholly-owned subsidiary, Shamil Bank,” said Ithmaar Bank chairman Prince Amr Mohammed Al Faisal.

“The reorganisation involved both banks pooling their resources together to create a single, more efficient and significantly stronger retail-focused bank with an Islamic license under the Ithmaar brand. Although the Shamil Bank brand now no longer exists, the reorganisation is entirely seamless and there is no change, whatsoever, in customer, depositor or investor accounts or relationships,” he said.

Following the announcement, Ithmaar has appointed Shamil Bank’s Shariah Board, to serve as Shariah Advisers until a new Shariah Board is elected by the shareholders at the next general assembly. Meanwhile, with immediate effect, Ithmaar Bank has adopted Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards.

Ithmaar chief executive officer Mohamed Hussain and Shamil chief executive Faisal Al Alwan have both been promoted to Ithmaar Bank’s largest shareholder, Dar Al-Maal Al-Islami Trust (DMI Trust).

“Mohamed will act as the Ithmaar chief executive officer until a formal appointment is made for a new chief executive officer,” he said.

“We will now focus, as part of our three-year strategic plan 2010-2012, on developing our retail operations by expanding our products and services range as well as our delivery channels,” said Hussain.

“We will also work on expanding our geographical reach across the GCC region by offering a wide range of corporate banking services,” he said.

*Trade Arabia News Service*

<http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=178462>

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## **Noor Islamic Bank deploys SunGard reconciliation and exception management technology**

Wednesday, April 21, 2010

Noor Islamic Bank PJSC (NIB), a leading Islamic bank in the United Arab Emirates, has deployed SunGard's Ambit Reconciliation & Exception Management solution to support its volume growth.

Ambit Reconciliation and Exception Management will help Noor Islamic Bank to meet its growing volume requirements by automating the matching and reconciliation process across its cash nostro and cards business. It will also help the bank's financial decision-making capabilities by providing accurate reconciled data for cash flow products across its operations. The added transparency into its operations and improved process efficiency, as well as the scalability of the Ambit solution, will help Noor Islamic Bank to increase its competitive advantage in the region.

Jan Kirchhoff, chief information officer of Noor Islamic Bank, commented, "Our previous reconciliation system placed limitations on our ability to grow. SunGard is a recognized leader in reconciliation solutions, and with Ambit Reconciliation & Exception Management solution we are now able to reconcile data accurately and efficiently and keep up with our growing volumes. Noor Islamic Bank sees SunGard Ambit as a partner, rather than a vendor, that will help us to maintain our competitive edge."

Dave Barrett, chief operating officer of SunGard's Ambit Corporate Banking business unit, said, "Efficient reconciliation and exception management is becoming increasingly important as banks look to expand their operations. The biggest challenge is not market opportunity but rather their existing technology systems placing limitations on their ability to expand. Banks like Noor Islamic Bank can rely on SunGard's Ambit to help improve their ability to serve customers, support growing volumes and increase efficiencies and transparency in operations. "

<http://www.finextra.com/news/announcement.aspx?pressreleaseid=33377>

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### **Bahrain's Ithmaar says CEO Hussain to leave bank**

Wednesday, April 21, 2010

MANAMA: Bahrain-based Islamic lender Ithmaar ITHMR.BH on Wednesday said its Chief Executive Mohamed Hussain would leave the bank to join its largest shareholder firm.

"It was also announced that Ithmaar Chief Executive Officer Mohamed Hussain and Shamil Chief Executive Faisal Al Alwan had both been promoted to Ithmaar Bank's largest shareholder, Dar Al-Maal Al-Islami Trust (DMI Trust)," it said in a statement.

Shamil Bank is a fully-owned unit of Ithmaar that said Hussain would remain acting CEO until a new appointment is made.

<http://www.reuters.com/article/idUSLDE63K02Y20100421>

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### **Meezan Bank records 29% growth in profit**

Friday, April 23, 2010

Karachi: Meezan Bank, the largest Islamic Bank in Pakistan has announced the first quarter results for 2010 at its Board of Directors meeting held in Dubai. Meezan Bank continued to demonstrate good business results during the quarter ended March 31, 2010 and remains the leading Islamic Bank in Pakistan.

Gross core banking income before provisions and administrative expenses increased to Rs 1.8 billion compared to Rs 1.6 billion for the corresponding quarter last year.

The Bank showed improved performance in both funded and non-funded banking business segments.

Profit after tax of the Bank increased to Rs. 364 million as compared to Rs. 283 million during the corresponding period last year reflecting an increase of 29%.

Deposits increased to Rs 102.5 billion which is Rs 2.1 billion higher than the deposits at December 31 2009.

The favorable business volume is attributable to Meezan Bank aggressive branch expansion strategy adopted since the last 4 years.

The Paid-up Capital of the bank has increased to Rs. 6.98 billion as the 5% bonus shares approved in last Board of Directors' meeting have been issued to the shareholders.

Based on revised share capital, the Earnings per Share (EPS) for the first quarter amounted to Re 0.52 per share.

H.E. Sheikh Ebrahim Bin Khalifa al Khalifa – Chairman of the Board who is also the Housing Minister of the Kingdom of Bahrain, reiterated the commitment of the shareholders to Pakistan and said that Pakistan represents a very important investment destination for GCC investors.

Meezan Bank is currently operating with 201 branches in 54 cities.

The Bank offers a complete range of Islamic banking products and services including car leasing and home mortgages.

The Bank's retail banking network is supported by 24/7 banking services – these include over 160 ATMs, Internet Banking and a 24-hour Call Center.

The Bank has recently launched its VISA Debit card that allows its customers to shop at more than 30 million merchants worldwide and withdraw funds from their accounts from more than 1.4 million ATM's worldwide.

The Bank was also awarded 'Best Islamic Bank of Pakistan' for the fifth consecutive year in 2009 by Islamic Finance News, 'Best Islamic Financial Institution in Pakistan' in 2009 by Global Finance and 'Best Islamic Bank in Pakistan' for 2009 by ASIAMONEY.

*South Asian News Agency*

<http://www.sananews.net/english/2010/04/24/meezan-bank-records-29-growth-in-profit/>

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## *SUKUK (ISLAMIC BONDS)*

### **National Bonds Corporation targets 30% growth**

Savings scheme is to ink government staff deals.

Sunday, April 18, 2010

UAE: National Bonds Corporation (NBC), the Shariah-compliant savings scheme, is targeting a growth of 30 per cent in 2010 and is close to inking deals with some Dubai Government-related entities for enrolment with its employee savings scheme, according to the company CEO.

"We have approached the Dubai Government entities and are almost there... just a signature away with some government-related entities," Mohammed Qasim Al Ali told Emirates Business. The company is looking to open representative offices in the UAE and has signed up for the Swift platform.

"Yes, expanding globally has always been on our agenda, but we have a lot to achieve within the UAE. We have recently signed up for the Swift platform. Now anybody from Venezuela to India can buy national bonds through the Swift channel," he added.

#### *How to attract investors to the scheme?*

We are a savings scheme and not an investment tool. We are Shariah-compliant, which carries a lot of value for our customers. Besides, we are licensed and regulated by the UAE Central Bank. We even have the biggest prize draw scheme in the UAE, probably in the Middle East; offering 22,250 prizes and a Dh1 million draw every month.

We have managed to get Takaful cover for our members without the members paying any additional premium. Anybody who joins the scheme automatically gets covered as per his or her investments in national bonds. It was a breakthrough for us since Takaful has never been offered for a group scheme on such a large-scale across the Middle East.

#### *Chances of NBC profit rates pre-announcing*

Islamic banks here do pre-announce a profit rate for term deposits. The profit rates announced by Islamic banks are estimated rates. However, we are not talking about the product; we are talking about delivery – the end result. We are a highly liquid savings scheme, which means that anyone can redeem money after 30 days.

The returns that we have given in the past three years are far superior than offered by any Islamic bank on savings accounts. In some years, it was even better than the one-year rates announced by Islamic banks. For example, we gave 6.03 per cent in 2007 and 7.07 per cent in 2008. If we look at the one-year profit rate of banks, it ranges between 3.5 per cent and four per cent. And so we are far superior when it comes to delivery.

Being Shariah-compliant, we don't pre-announce profits. It all depends on the fund at the end of the year. Twenty per cent of the net profit is distributed to shareholders, while NBC keeps the remaining 80 per cent. In return, we put the prize money from our own pocket.

If you look at our performance for the previous three years, we managed to give back 16.64 per cent cumulative returns on the fund apart from the prizes. For some customers, it makes about 10 per cent in total with the profit and prize money.

#### *NBC major challenges in 2009*

Finding good investment opportunities was the biggest challenge due to the global crisis. We also did not invest any penny in the real estate. We concentrated on managing our cash [liquidity] through the Wakalas and Mudaraba, and purchased Sukuk, which give good yields [about 10 per cent on maturity].

We actually invest 50 per cent of our fund into liquid instruments and other 50 per cent in direct projects [private equity]. We do maintain a balance, but sometimes may invest 60 per cent into liquid assets.

#### *NBC targets for 2010*

The overall growth of the fund was 42 per cent in 2009 compared to 2008, while it was above 70 per cent in 2008 compared to 2007. Our customer base grew by eight per cent in 2009 compared to 2008. Since we are a little bit conservative this year, we expect growth of 30 per cent.

#### *Investment strategy*

We will continue to maintain our liquidity since cash is king. There is still a little bit of uncertainty in the global economy and so we will continue to invest in short-term instruments as we are a savings scheme. We are only four-year old and need to build up our portfolio to a certain size and then decide on investing in long-term avenues.

We will concentrate on acquiring income- generation assets. Sukuk is a very good tool for income generation. Besides, we have some inventory in Skycourts, a residential project in Dubailand, which will be used to generate income [rent].

We are not looking to invest in real estate this year. We will keep our eyes open for private equity (PE) opportunities, which could be in the consumer market, energy, and even agriculture sector. Sukuk is a good investment avenue and we will continue exploring it.

Expanding globally has always been on our agenda. However, we have a lot to achieve within the UAE. We have recently signed up for the Swift platform, which opens a huge window to the world. Anybody from Venezuela to India can now buy national bonds through the Swift channel.

We haven't put any number. Currently, we are concentrating on the UAE and that's where we are putting all the efforts. We are trying to come up with innovative ways of increasing our distribution reach. Swift is one tool, while the other one is to increase our direct sales reach.

We have a team of 100 people who go to the client and offer them personalized services. It is far more convenient as you don't need to go to money exchange or banks. They come to you and complete all the formalities.

### *Investment Avenues*

The whole country is our avenue. We have already invested in Taaleem, BCS Strata and Souq Extra and have no any plans to increase our stakes in these entities. We might exit from these companies with a profit as and when these businesses plan for an IPO.

### *Private companies' response to employee savings scheme*

It is a new initiative, which will take some time to become popular. Dubai has thousands of companies and we got to have innovative ways of reaching them. This is what our team is working on. We have visited more than 100 small and medium enterprises. Dubai Aviation City Corporation has already signed up for the scheme. Their staff has volunteered to be member of the payroll deduction scheme.

### *Plans to sign up with Dubai government-related entities (GREs)*

We have approached the Dubai Government entities and are almost there... just a signature away with some government-related entities. Today, corporations have to ensure that they have the loyalty of their staff. Unfortunately, end of service is just a book entry for most companies here and so expatriates do not enjoy any benefits, as their money remains idle with the company. But, if it is invested in national bonds, for example, they get annual profit, a chance to win prizes and Takaful coverage.

### *Plan to strengthen retail distribution channel*

We are looking at opening some of our representative branches across the UAE in Abu Dhabi, Al Ain, Sharjah, Dubai. We are working hand-in-hand with the UAE Central Bank to get approvals.

Besides, the Empost, the UAE's national courier company, sign up was a breakthrough since it was the first time a non-financial entity started selling financial instruments across the counter. They added 25 per cent extra to our reach. We are working with them [Empost] to strengthen our strategic alliance through other initiatives.

### *Plan to open branches in overseas market*

Not yet... we are trying to increase the awareness of National Bonds through international and local websites in countries such as Saudi Arabia and Kuwait.

### *Investment in Sukuk market in 2009, and any plan to invest in Dubai Government Sukuk*

I can't disclose, but it was a good number. We did buy Sukuk that were issued in late- 2009 and if there are any new issues, then we will look into it and evaluate the offer. Previously, we bought Aldar Sukuk as well.

### *National Bonds as collateral with banks*

The facility is always there from bondholders. However, it has to be done through a third party, for example, a bank or mortgage company. The need is still for customers, but third parties are not willing to sign up. We are willing for signing up with any mortgage company, but they are not, as the market is not right.

### *Investors' right to check the company's audited books*

We are a private joint stock company and so it is not mandatory for us to publish quarterly results. Besides, we have an investment and Shariah board that oversees our investments. We are 50 per cent owned by the Dubai Government and the rest by other government-related entities. We are also audited by the UAE Central Bank, which gives more assurance about our investments.

### *Pressure on redemptions in 2009*

We did see an increase in redemptions last year following the global crisis, but it settled down in the second quarter of 2009. After we declared the profit, people do like to redeem their profits.

We remain committed to paying our investors whenever someone wants to redeem their bonds. We allow Dh10, 000 per account per day as withdrawal and if they wish to redeem through money transfer or cheque, then it is done within five working days. Now, we are exploring the option of redemption through the Swift platform.

### *NBC employees' investment in National Bonds*

Almost all NBC employees' invest in National Bonds. The option of offering bonds to employees is being looked at by our human resource department. The staff, however, is not entitled to the prize draws, but entitled for the yearly profit.

### **PROFILE: Mohammed Qasim Al Ali, CEO of National Bonds**

Al Ali was appointed Chief Executive Officer of NBC in January 2008. In his capacity as CEO, he spearheads the management of the company's growing portfolio of enterprises and development of new and innovative savings initiatives. Prior to being appointed as the chief executive, Al Ali served as deputy chief executive officer in NBC for nine months. He has more than 17 years of strategic management experience in the airline and ground handling industry. He was earlier the general manager for UK and Ireland at Emirates and vice-president customer service and operations at Dnata. He commenced his career with Emirates in 1989 as overseas area manager. Al Ali holds a graduate degree in aviation management from Florida Institute of Technology.

<http://www.business24-7.ae/opinion/q-a/national-bonds-corporation-targets-30-growth-2010-04-18-1.109219>

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## **Emirates' NBD launches Emirates Global Sukuk Fund**

*High profit rate, low minimum investment,*

*Semi-annual income distribution,*

*Low management fees,*

*Award-winning team.*

Monday, April 19, 2010

Dubai: Emirates NBD announced today the launch of the Emirates Global Sukuk Fund. The fund will be managed by Emirates NBD Asset Management Limited (Emirates NBD AM), a provider of a full range of investment products and services and the asset management arm of the Emirates NBD Group, the largest banking group in the Middle East in terms of assets.

The fund is a Jersey-domiciled, US dollar denominated, Shariah-compliant open ended fund that will invest in a portfolio of Sukuk instruments issued by companies locally and globally. The fund seeks to achieve a high income as well as capital growth over a complete market cycle and is targeted at investors looking for higher yields available in the corporate space globally.

Through the fund, investors should be able to access attractive returns proportionate to risk taken. Lower lending activity, a lack of liquidity and increased selling pressure from international investors has resulted in wider credit spreads in the Sukuk market. As a result, a number of issues with sound fundamentals are offering attractive yields.

The fund will distribute income on a periodic basis. Income distributions will take place on a semi-annual basis beginning in mid-2010. The distributions will be derived from income generated by the underlying Sukuk, maturity proceeds of Sukuk and the un-invested portion of any funds generated by sales of securities.

"Our research indicates that the global Sukuk market has a low and occasional negative correlation with the global equity and real estate markets. The fund therefore represents an effective diversification tool for investors exposed to these markets. Historically fixed income markets have also been less risky than comparative equity and real estate markets," said Deon Vernoooy, Head of Emirates NBD AM.

The fund will be managed by Emirates NBD AM; a company licensed and regulated by the Dubai Financial Services Authority, and has been designed to meet the current demand for Shariah-compliant investment products with a high profit rate and relatively low minimum investment requirements. Emirates NBD AM (formerly Emirates Investment Services Ltd) recently won an award for the "Best New Entrant in the Sukuk Market" at the London Sukuk summit.

### *About Emirates NBD Group: Emirates NBD*

Group (DFM: Emirates NBD) is the biggest banking group in the Middle East by assets. At 31st of December, 2009, total assets were AED 281.6 billion with a market share of 20.5%.

The Group has a leading retail banking franchise in the UAE, with 132 branches, 705 ATMs and SDMs. It is a major player in the UAE corporate banking arena, with a market share of almost a fifth of corporate loans. It also has strong Islamic banking, investment banking, private banking, asset management and brokerage operations.

The Group has operations in the UAE, the Kingdom of Saudi Arabia, Qatar, the United Kingdom and Jersey (Channel Islands), and representative offices in India, Iran and Singapore.

<http://www.zawya.com/story.cfm/sidZAWYA20100419070124/Emirates%20NBD%20launches%20Emirates%20Global%20Sukuk%20Fund>

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### **Indonesia eyes Islamic T-bills, retail Sukuk in 2010**

Maturity still to be decided

Conventional bond issue also expected in July or August

Monday, April 19, 2010

JAKARTA: Indonesia may issue Islamic treasury bills and retail Sukuk this year to diversify funding sources, develop the Islamic debt market and finance the state budget deficit, finance ministry officials said on Monday. The ministry also said it expected to issue conventional bonds for retail investors in July or August, with maturities of up to five years.

Indonesia, the world's most populous Muslim country, has been relatively slow to develop its Islamic markets, lagging Malaysia and Singapore. It stepped up its efforts last year by eliminating double taxation of such Shariah products, as this had hampered growth of the industry.

The finance ministry currently issues conventional treasury bills, with maturities of up to 12 months -- usually at least once a month via debt auctions -- while Bank Indonesia (BI), the central bank, issues treasury bills called central bank certificates (SBIs) with a maximum maturity of six months. "We are still in talks with BI including on the maturity" of the Islamic T-bills, Dahlan Siamat, the finance ministry director in charge of Islamic debt, told reporters.

"If it can be issued this year, that will be good," said Rahmat Waluyanto, the ministry's head of debt management unit, referring to Islamic T-bills.

### **BID TO CONTAIN HOT MONEY FLOWS**

The finance ministry's decision to consider issuing Islamic treasury bills follows moves by the central bank to reduce the frequency of its SBI auctions as it tries to contain hot money flows, shift money into longer-dated paper and spur bank lending.

The central bank is in the process of changing its auction schedule. It will hold its SBI auctions once a fortnight, instead of once a week, until late May, and then once a month starting in June. Central bank officials have said they expect to rely less on SBIs for monetary operations and instead use more finance ministry debt securities.

Ministry officials also said they expected to issue Islamic debt, or Sukuk, for retail investors around November. The ministry last sold Sukuk to retail investors in February, raising 8 trillion rupiah (\$888.3 million) in a three-year issue that yielded 8.7 percent -- well above the one-year bank deposit rate of about 6.5 percent.

The finance ministry has said it plans to raise 176.2 trillion rupiah from bond issues this year, including both conventional and Islamic debt.

The proceeds would be used to finance the budget deficit, which under the approved budget is forecast at 1.6 percent of GDP this year, although under the revised budget it is forecast at 2.1 percent of GDP. (\$1=9005 Rupiah)

<http://www.forexpros.com/news/interest-rates-news/indonesia-eyes-islamic-t-bills,-retail-Sukuk-in-2010-131317>

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### **Islamic bonds stuck in limbo**

Critics worry that some proceeds could fund terrorists

Tuesday, April 20, 2010



South Korea: Lee Yul-hee, the head of the Islamic finance team at Korea Investment & Securities, a local securities firm, has to fumble for the right words whenever Muslim investors

ask when they will be able to buy Islamic bonds issued by Korean companies. Have the promised regulatory changes been made yet?

The Korean government last year promised to ease restrictions that would pave the way for the local issuance of Islamic, or Sukuk, bonds that are favored by Muslim investors because they conform to Islamic laws banning interest payments.

The questions from the Islamic investors place Lee in an awkward position. “I’m afraid that one day, they may find out what’s really going on in Seoul. I’ve been telling them for months the same story, saying the change will come soon. But I can’t field the questions this way for too long.”

The reason for Lee’s embarrassment is that the proposed changes being considered in the National Assembly are being blocked by Christian activists who claim that the Sukuk bonds are being used to finance terrorism.

“Several Protestant church groups have lobbied against the bill, claiming about 5 percent of the money involved in Sukuk sales is being used for terrorism-related funds,” said Na Seong-lin, a Grand National Party lawmaker and a member of the National Assembly taxation subcommittee that is considering the Sukuk bond proposal.

Na said he found the allegations “absolutely ridiculous” and “lacking any evidence.” But political considerations ahead of local elections in June are making it hard for lawmakers, especially those with strong backing from Protestant church groups, to deal with the Sukuk legislation, said Na and several National Assembly aides who did not want to be named.

The taxation subcommittee, chaired by Grand National Party lawmaker Lee Hye-hoon, has repeatedly delayed finishing a formal review of the Sukuk bill, explaining in a memo by the panel last November that some sentences in the bill may “give an impression that local companies have to follow tenets of a certain religion.”

The disputed bill, which was proposed by the Finance Ministry in September, did not appear on this month’s legislative agenda to be reviewed by the nine lawmakers on the taxation subcommittee, which reports to the Strategy & Finance Committee.

The legislative impasse is proving frustrating to Korean companies who want to tap into the growing Islamic bond market for new sources of capital and local financial institutions who want to collect fees underwriting the Sukuk bond issues.

“It’s embarrassing,” said a senior Finance Ministry official, who declined to be named, about the objections being raised to the legislation that would make changes in the tax code to allow the Korean issuance of the Sukuk bonds.

The official said the ministry has already devoted a great deal of time to clear up “misunderstandings about Sukuk and terrorism” among lawmakers.

“We’ve repeatedly told them that Sukuk sales have little to do with terrorist funding, and we need this bill for closer economic cooperation with the Islamic world,” he said.

The controversy has left Islamic experts dumbfounded.

“I’ve never heard this kind of ridiculous claim being made in any other country,” said Hong Seong-min, president of the Korea Institute of the Mideast Economies.

“Sukuk is just one of many financial schemes widely used around the world. I’m afraid what investors in Islamic countries will think about us if they know some lawmakers here assume their benchmark financial instrument is somehow linked to terrorism.”

A growing number of countries, including Britain and Thailand, have made legal changes to allow the issuance of Sukuk bonds and to attract wealthy investors from the Middle East and elsewhere in the Muslim world.

“More and more Western countries and companies are trying to gain access to the previously untapped pool of investors by conforming to Shariah [Islamic law] and Sukuk is one of the signature products, accounting for more than 80 percent of Islamic financial schemes,” said Kim Han-so, a research fellow at Korea Capital Market Institute.

Global Sukuk sales have grown from \$5.7 billion in 2004 to a record \$27.2 billion in 2007 and \$24.4 billion in 2009, according to Dealogic, a market analysis firm, and data compiled by Bloomberg.

GE Capital last November became the first Western multinational to issue Islamic bonds, completing a \$500 million Sukuk issuance. Japan’s Toyota Capital raised \$300 million from a Sukuk issue in 2008.

The interest of Korean companies in Sukuk bonds has grown after the difficult borrowing conditions they experienced during the 2008 global financial crisis.

“The companies are beginning to realize the Islamic world can be a good alternative financing market,” said a local brokerage representative who declined to be named. “They started to consider the option seriously since 2008, asking us about the opportunities constantly.”

Companies that are seen as the keenest issuers of Sukuk bonds include oil refiners that import crude oil from the Middle East, state-affiliated energy groups with business in the region and airline operators like Korean Air.

The legislative deadlock also is dealing a blow to Korean brokerages like Korea Investment & Securities and Daewoo Securities that want to arrange Sukuk issues and have met with potential investors in the Middle East and Malaysia, which has the world's largest Sukuk bond market.

"Islamic investors who have recovered from the Dubai World debt crisis are again on the lookout for new investment opportunities and their interest in Asian borrowers, especially from Korea and China, have dramatically increased," said Lee of Korea Investment. "This year would have been an excellent time to make a market debut."

Moreover, Korean companies worry that if the Sukuk law is delayed further they will have to contend with a crowded market for Islamic bonds in the next several years.

Standard & Poor's this month estimated that the Sukuk market could reach \$30 billion in 2010. The supply of Sukuk bonds could soon outstrip demand, which would drive bond rates higher and discourage Korean companies from tapping the Islamic market.

"The Sukuk sales plan looked quite plausible back in 2008," said an official with a local oil refiner. "But U.S. dollar financing conditions have improved and Islamic bond financing costs are probably higher than conventional bond rates. It's not worth the hassle anymore."

Nonetheless, analysts say Korean companies have to broaden their investor base to improve their access to a wide variety of financial markets. Entering a new bond market requires months, or even years, of preparation to win the confidence of investors and negotiate favorable terms. State companies like Korea Development Bank or Korea Electric Power Corp. have played such frontier roles in global bond sales, paving the way for private sector companies. "You can't complete this complicated, lengthy process when the next crisis dawns on you. It has to be done when we have the luxury of time and energy," said Lee of Korea Investment.

Kim of Korea Capital Market Institute says the political controversy over the Sukuk bonds is quite contradictory to Korea's self-proclaimed goal of becoming an Asian financial hub. "The Islamic financial market will become a major pillar of not just the Asian economy but the global economy. Yet we're having this petty, ridiculous dispute in even taking the first basic step to gain access to the market," said Kim. "This is something that makes a mockery of us to Islamic investors and they have a very good reason for thinking so."

The legislation on Sukuk bonds would make minor changes in the tax code by exempting certain taxes on transactions related to their issuance. Sukuk bonds are structured to conform with Islamic law, or Shariah, which prohibits the use of interest-bearing securities. A Sukuk bond differs from a conventional corporate bond by collecting a stream of income from a group of underlying assets instead of bearing an interest rate. Under current law, a Sukuk bond would be subject to a variety of taxes, including value-added tax and an acquisition tax, on what is considered a transaction dealing with tangible assets. These additional taxes would raise the

financial cost of Sukuk bonds by 1.5 to 3.4 percentage points above that of conventional bonds, making them unattractive to investors.

“The tax break would create a level playing field,” said Kim at the Korea Capital Market Institute. The taxation subcommittee still believes that we will definitely pass the bill, once the election is over, since consensus has been built.

*JoongAng Daily*

<http://joongangdaily.joins.com/article/view.asp?aid=2919424>

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## **Sukuk Market Recovery Expected in 2011 – 12**

Thursday, April 22, 2010

Analysts predict that now is a pivotal time for the global Islamic finance industry as Sukuk are expected to grow in importance on the radar of global investors. Industry players predict that the current year will remain static but recovery is expected in 2011-12. Qatari and Saudi Sukuk will lead the markets. “The market is changing wherein the cost of capital is becoming important. In the medium to long term, markets need a lot more funds, more listings and finally, more players to develop this market,” said Nida Raza, Senior Vice President – Capital Markets, Unicorn Investment Bank B.S.C.

According to industry players, growth of Sukuk markets will arise from solid core issues that attract solid core investors. Subsequently, a common consensus is the fact that the Sukuk market has to become competitive.

Eminent Sukuk practitioners – Khalid Howladar, Senior Credit Officer Asset Backed and Sukuk Finance, Moody’s, Nida Raza, Senior Vice President, Capital Markets, Unicorn Investment Bank, Gregory Man, Senior Associate, Clifford Chance and many more touched upon these pertinent issues concerning the industry at a ‘breakfast briefing’ on the current state of play in Sukuk.

The sessions gave a legal perspective on risk in Sukuk and explored loss given default in secured and unsecured Sukuk. It also examined the recent Dar Al Arkan issuance. The ‘breakfast briefing’ was held as a prelude to the forthcoming International Islamic Finance Forum 2010 to be held from May 16th – 19th, 2010 at The Monarch Hotel, Dubai, UAE.

Vanessa Heywood, Conference Director, IIR Middle East said, “The Islamic finance industry has faced a number of challenges in recent times. The International Islamic Finance Forum 2010 will provide a timely platform for industry leaders to actively debate critical issues and drive the Islamic finance industry forward.”

*Al Bawaba*

<http://www.albawaba.com/en/countries/UAE/315019>

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## **Investors bet on Dubai World settling \$980m Nakheel bonds**

Sukuk holders buy up paper ahead of May maturity date

Thursday, April 22, 2010

Dubai: Investors are betting Dubai World will pay off \$980 million (Dh5.5 billion) Sukuk issued by its property arm Nakheel to avoid a default as it negotiates a debt restructuring proposal with creditors worth about \$24 billion.

The Sukuk, or Islamic bond, matures on May 13 but creditors are doubtful that a debt restructuring proposal with Dubai World will be agreed on in time.

Sukuk holders are buying up the paper, betting that Dubai World will pay it off.

Nakheel's Sukuk is up 4.5 per cent since the beginning of April and closed at Dh98 on Monday.

The paper is up almost 85 per cent since the start of March, according to Zawya.com's Sukuk Monitor.

### *Repayment*

"The rally is because people are expecting repayment," said a bond trader with exposure to the Sukuk.

Dubai World, owned by Dubai's government, declined to comment on the prospects of the Sukuk being paid off.

"As long as we continue to move forward constructively on negotiations then that would be viewed as sufficient support," said a spokeswoman from Dubai's Department of Finance, which is also involved in the debt negotiations.

Last month, Dubai World offered a debt restructuring proposal to creditors.

The Sukuk due in May comes after another \$3.52 billion bond issued by Nakheel was paid off last Dec-ember.

In the weeks before that bond matured, hedge funds bought up the debt, hoping to go after the international assets of Dubai World, which had guaranteed the bond.

### *Hunt for alternatives*

National Central Cooling Company, the UAE-based refrigeration company, said the board will consider this month the "alternatives" to annual payments on Dh1.7 billion of Islamic bonds.

Board members will meet on April 25, it said in a statement to the Dubai bourse yesterday, without providing details. The company, known as Tabreed, said March 8 it is seeking approval from shareholders to renegotiate terms on a \$200 million (Dh734 million) floating-rate note and the local currency-denominated convertible Sukuk maturing in 2011.

Tabreed posted a Dh1.12 billion loss last year.

<http://gulfnews.com/business/markets/investors-bet-on-dubai-world-settling-980m-nakheel-bond-1.615894>

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## **VTB renews Sukuk plans after Dubai knock**

Saturday, April 24, 2010

Dubai: VTB, the second-largest Russian financial group, has cut its Sukuk size from an original target of \$300 million after postponing from last year, when defaults and Dubai World's woes hit the market, said a source.

VTB Bank now plans to launch a \$200 million Islamic bond in the second half, the source said.

According to a VTB document seen by Reuters referring to the original planned launch, the three-year VTB-Leasing Sukuk Ltd issue had been scheduled 'for December 6 with a view of execution in mid-December 2009'. VTB declined to comment.

The Sukuk market thrived in the run-up of the credit crisis because these vehicles, underpinned by tangible assets, were seen as relatively safe.

However, the sector was stung by the double whammy of the liquidity freeze in the financial crisis and defaults from high-profile Middle Eastern issuers Saad and Investment Dar.

State-owned Dubai World averted further havoc by promising last month to pay investors in the Sukuk issued by subsidiary Nakheel.

VTB first mooted plans for a Sukuk - to be issued by VTB Leasing (Europe) - in March 2009, and in the summer its investment banking unit VTB Capital set up an office in Dubai.

According the document related to the original planned launch, the Sukuk, to be issued through a special purpose vehicle located in Bermuda, uses aircraft held by VTB Leasing as the assets which will underpin it.

Liquidity House and VTB Capital are named in the document as joined lead managers and book runners.

<http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=178638>

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## ***TAKAFUL (ISLAMIC INSURANCE)***

### **Launch of 4th edition of World Islamic Insurance Directory shows sharp increase in Takaful contributions**

Sunday, April 18, 2010

United Arab Emirates: The 4th edition of World Islamic Insurance Directory published jointly by Takaful Re and Middle East Insurance Review showed an increase in the number of operators in the Takaful market.

The figures collated from the market demonstrated that the total contributions generated by Islamic /Takaful companies had increased from \$7.5bn in 2007 to \$9.4bn in 2008 representing a significant growth of 25% with same expect growth rate for 2009 despite global market conditions, commented Mr. Chakib Abouzaid, CEO of Takaful Re.

With the spew of dynamic changes taking place on the Takaful front, he said the World Islamic Insurance Directory (WIID) as a reference guide that keeps track of the Takaful and ReTakaful operators in the market, both old and new, has become all the more important.

The Directory based on inputs collected from the Takaful and ReTakaful operators around the world is intended to be as comprehensive as possible. The WIID has a listing of Takaful operators in 33 countries.

Figures collated show that in terms of contributions, the Gulf Co-operation Council (GCC) accounts for 39.7%, the Far East for 12.2%, and Africa 3.2% of the global Takaful contributions received. Iran alone accounts for 43.5% of the market. In term of number of players, the GCC has 77 Takaful operators, Iran 18, Far East 37 and Africa 29.

<http://www.ameinfo.com/229861.html>

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### **Munich Re seeks to enter UAE market**

Firm wants to tap opportunities in the Takaful sector.

Monday, April 19, 2010

Munich Re Re-Takaful, a unit of Germany-based Munich Re Group, is holding talks with Dubai International Financial Centre (DIFC) to enter UAE to tap opportunities in the fastest growing Islamic Insurance (Takaful) sector, a senior company official said.

"Munich Re Re-Takaful was set up in 2007 to focus initially on Malaysia and Indonesia," Chief Executive Officer Tobias Frenz told Emirates Business.

"We are already the market leader in Malaysia and now we plan to conquer the GCC market, with focus on UAE and Saudi Arabia. We actually had discussion with them [DIFC] and are looking at options for Munich Re Re-Takaful to have a physical presence here. Right now we service our clients from the Kuala Lumpur office."

The company, he said, plans to grow organically in the region through friendly partnerships and not through aggressive mergers and acquisitions.

"At Munich Re Re-Takaful, we prefer to grow organically. We have never been big into acquisitions and don't plan any acquisitions in the region. On the Re-Takaful side, companies here are too small for Munich's liking.

"We may have friendly partnerships here."

The UAE insurance market is already over-crowded with 58 insurance players fighting to get a share of the pie from a population of just six million. With the entry of Munich Re and other global players, the local insurance industry in the UAE is poised for stiff competition and consolidation.

Munich Re Re-Takaful may start its GCC operation as re-insurer than getting into direct insurance business. Frenz said: "We are very good in re-insurance. We have high hopes for family Re-Takaful in Saudi Arabia especially in family and mortgage related cover. A couple of new Takaful players are entering Saudi market and Munich Re is supporting them. The UAE and Saudi Arabia will be a key market in this part of the world."

The global Takaful market is likely to exceed \$8.9 billion (Dh32.6bn) in premium collection this year from \$5.3bn in 2008, according to Ernst and Young's latest report.

Saudi Arabia and Malaysia were the world's biggest Takaful markets in 2008 with contributions of \$2.9bn and \$900 million respectively.

The fastest-growing Takaful markets were the UAE with a compounded annual growth rate of 135 per cent from 2005 to 2008.

<http://www.business24-7.ae/banking-finance/insurance/munich-re-seeks-to-enter-uae-market-2010-04-19-1.136490>

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### **Talks on sale of insurer spark interest in Jerneh**

But no details yet on identity of Jerneh Insurance buyer, pricing

Monday April 19, 2010

PETALING JAYA: Investors have been showing keen interest in Jerneh Asia Bhd since it announced in November that it was seeking Bank Negara approval to start talks with certain parties with the aim of hiving off its insurance arm Jerneh Insurance (M) Bhd.

Jerneh Asia share price has been on an uptrend since the news broke – it traded at RM1.24 on Nov 18 and closed at RM3 on Friday, an increase of some 138%.

In addition, the spike in the share price last week has fuelled speculation the insurer is close to sealing the deal for its 80% stake in Jerneh Insurance.

Paramount Corp Bhd, which owns the remaining 20% of Jerneh Insurance, is said to be willing to sell as well.

So who are the potential buyers of Jerneh Asia's stake?

Last week, Singapore's *Business Times* reported that Jerneh Asia was poised to sell its stake to a foreign player, speculated to be the HSBC group, in a deal that could value the general insurer at RM700mil.

The HSBC group had been linked to Jerneh Insurance in the past, largely because both are shareholders of HSBC Amanah Takaful (M) Sdn Bhd.

HSBC Insurance (Asia Pacific) Holdings Ltd, a unit of HSBC, is the largest shareholder of HSBC Amanah Takaful with a 49% stake. Jerneh Asia owns 31%, followed by the Employees Provident Fund with a 20% stake.

HSBC Insurance, in 2007, also bought the non-life insurance portfolio of Jerneh Insurance (HK) Ltd, a wholly-owned subsidiary of Jerneh Asia.

Market speculation has it that Italy's Assicurazioni Generali SpA and South Korea's Samsung Fire and Marine Insurance are also eyeing Jerneh Insurance.

Jerneh Asia, which is 37% owned by business tycoon Tan Sri Robert Kuok, has partnered Generali since 1999 in tapping insurance opportunities in the region.

The partnership is in the form of a joint-venture company, Generali Asia NV.

"Jerneh Insurance is a good proxy for foreign players to enter the local insurance market. It is quite established in the industry and has branches nationwide," the analyst said.

Jerneh Insurance provides a wide range of general coverage including fire, marine, aviation, motor, engineering, household and accident, and health insurances.

The insurer, formed initially to manage the Kuok Group's insurance needs in-house, is now a specialist in the marine, industrial and engineering fields.

Bank Negara had in December last year given the green light to Jerneh Asia to start preliminary talks with parties that were interested in acquiring its entire 80% stake in Jerneh Insurance.

However, Jerneh Asia and the parties are still required to obtain prior approval from the Finance Minister, with recommendation of Bank Negara, before entering into any agreement to effect any proposal.

In response to a *StarBiz* report last week that a potential buyer may have been found for Jerneh Insurance, Jerneh Asia clarified to the stock exchange that the company was still in negotiations

and hence was unable to comment on the name of the parties, the price or the likelihood of success of the proposal.

On pricing, an analyst with JF Apex Securities said the offer price for Jerneh Insurance could possibly be based on Jerneh Asia's net tangible assets (NTA).

"This could be used as one of the possible valuation methods. Jerneh Asia's NTA is about RM2.41 per share as at Dec 31, 2009," he said, adding that the key catalyst for Jerneh Asia's share price would be the final offer price for Jerneh Insurance.

Another analyst said the price tag could range from over one to two times NTA based on recent general insurance business disposals and acquisitions.

For example, Allianz Malaysia Bhd acquired Commerce Assurance Bhd for a price-to-NTA of about 2.5 to 3 times in 2007.

Industry observers believe that the move to dispose of Jerneh Asia's insurance arm could mark another business departure from Malaysia by Kuok, the country's wealthiest man.

However, analysts pointed out that most of Kuok's sales were generally confined to those without a commanding market share or the ones he felt could not be grown regionally.

In addition to Jerneh Asia, the tycoon still has a sizeable presence in Malaysia including Transmile Group Bhd, PPB Group Bhd, Shangri-La Hotels (M) Bhd and Hexagon Holdings Bhd.

Jerneh Asia recorded a net profit of RM30mil for the financial year ended Dec 31, 2009 versus a net loss of RM3.1mil in 2008. Revenue rose 11% to RM249.7mil compared with RM224.6mil the previous year.

<http://biz.thestar.com.my/news/story.asp?file=/2010/4/19/business/6073612&sec=business>

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## **DIB named top Takaful products distributor**

Tuesday, April 20, 2010

Dubai: Dubai Islamic Bank (DIB) has won the "Best Takaful Distributor in the UAE" award for the first quarter of 2010, thanks to the continuing popularity of its Al Islami Takaful Savings Programme.

The award was recently presented to the bank by Germany's FWU AG, a global leader in Takaful product development, said a DIB statement.

Launched in 2009, the Al Islami Takaful Programme is part of DIB's comprehensive suite of Shariah-compliant wealth management solutions, which include savings schemes, mutual funds and other structured products.

This programme combines savings and investment plans with personal Takaful protection, creating a unique product that offers two key benefits – savings and protection – within the same plan.

"This recognition reinforces our belief in the strength of the Al Islami Takaful Programme. The unique combination of savings and protection has struck a chord with our customers and they are increasingly looking at such products given the fact that they are transparent and are also Shariah compliant," said Dr Adnan Chilwan, chief of Retail and Business Banking, DIB.

"We will continue to build on this recognition and are working towards introducing more Takaful products," he added.

"As a distributor for our products, DIB has consistently delivered on its commitment in the UAE. DIB's performance has been remarkable and this award for Best Distributor is richly deserved", said Huan Woon Han, head of Distribution Management, International Business, FWU AG.

The Al Islami Takaful Programme offers a range of investment options to suit different risk profiles, with flexible payment options – from monthly contributions to one-time lump-sum contributions – and flexible maturity periods.

Depending on their age, customers can choose a plan term from 7-30 years (for regular savings) and 3-30 years (for lump-sum investments). The product also offers the flexibility to increase or decrease contributions and make partial withdrawals at any time during the term.

The Al Islami Takaful Programme invests in Shariah-compliant funds that seek to generate attractive returns for participants. Returns on contributions made into the investments depend upon the performance of these funds, the DIB statement added.

*Trade Arabia News Service*

<http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=178419>

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## **Underwriting Profit Difficult to Achieve in Takaful Markets**

Tuesday, April 20, 2010

The Takaful, or Islam-based insurance industry, is expected to surpass US\$8.8 billion in contributions this year but the challenge to achieve profitable growth in its early stage of development is vexing many global operators.

Opportunities for Takaful business are plenty, and so are the risks, said Ernst & Young in its global Takaful report. Many Takaful operators are start-ups or small player which have been finding difficult to make profits in a tough financial environment.

Global contributions to Takaful, which adheres to Shariah (Islamic) insurance practices, increased 29% to US\$5.3 billion in 2008. Saudi Arabia and Malaysia were the two largest Takaful markets with contributions of US\$2.9 billion and US\$900 million, respectively.

The global Takaful sector reported compound annual growth of 39% between 2005 and 2008. The Indian subcontinent and United Arab Emirates grew fastest globally, at 135%. Indonesia achieved the quickest growth of 35% in Southeast Asia, which had a regional growth rate of 28%. The growth rate for Gulf Cooperation Council countries was 45%.

GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Although the Takaful sector's growth has remained strong, underwriting losses remains a source of worry for many operators.

"It's worth noting that most Takaful operators are yet to achieve critical business volume despite incurring substantial establishment costs over the year," said Sameer Abdi, head of the Middle East Islamic financial services group at Ernst & Young.

These young Takaful players have limited access to quality business and their primary challenge remains the shortage of skilled professionals across key functions in underwriting, risk management, claims management and technology deployment, according to Ernst & Young.

"It's important that they rethink their market approach if they want to achieve critical mass and become sustainable in the long run," said Abdi. A lot of priority should be given to controlling operational costs and creating leaner and more efficient operations, he added.

Overall, quality of underwriting is one of the key strategic issues for the Takaful industry given the challenge of complex risks and limited access to quality customers, said Ernst & Young in the report.

Investment discipline is strategically important due to limited access to Shariah-compliant capital markets. Also, the operators had high direct exposures to equity markets with an ad-hoc approach to portfolio management, according to the report.

"Globally, performance has been mixed," said Abdi. GCC Takaful operators reported comparably high yields but volatile results. Malaysian operators posted stable returns due to better underwriting results.

Takaful is at different stages of development in the GCC countries and Malaysia, and each region has faced unique challenges.

Average combined ratios of Takaful companies in GCC countries reached 72 in 2009, indicating improving operational efficiency. "While the industry may seem to be temporarily bogged down by market troughs, the long-term outlook seems very positive," said Abdi.

In the GCC, Abdi said "we expect some consolidations across several markets over the next three years, leading to the creation of financially stronger market leaders."

The global financial crisis further exerted stress on Takaful operators' investment portfolios due to volatile capital markets and distressed asset values.

The real challenge is growth with profitability given the basic underwriting capacity at many of Takaful operators and the impact of heavy investment losses. Specialization and improvement in risk analysis and pricing are essential considerations, according to Ernst & Young.

The financial crisis adversely hit the profit margin of GCC Takaful operators, whose return on equity dropped from 6.2% in 2007 to negative 5.3% and 6.5% in 2008 and 2009, respectively.

GCC operators had 97% and 80% of their net income from investment returns in 2006 and 2007, respectively, but the proportion abruptly declined to 16% in 2008.

Malaysian operators' return on equity increased from 5.7% in 2007 to 11.1% and 7.6% in 2008 and 2009, respectively. Underwriting income has consistently contributed to the profitability of Malaysia operators, said Ernst & Young. Investment income accounted for 27%, 22% and 19% of the operators' net income in 2006, 2007, and 2008, respectively.

Ernst & Young said more attention is drawn to governance. Many Takaful operators have initiated "a rigorous review" of their strategies and financial plans. Abdi said quality of strategy execution and stronger capital plans are "at the top of management agenda."

"It's about time that the industry lobbies for deeper local Islamic capital markets and diversifies its business mix in favor of areas with substantial growth potential," said Abdi.

Recent economic events led the Takaful industry to play a more active role in facilitating consistent regulatory, legal, accounting, capital market and tax regimes. These events are driving "constructive evolution" of regulatory frameworks, which would change the way the Takaful industry operates, said Ernst & Young in the report.

For international conventional insurers with a growth strategy in emerging Takaful business, successful investment lies in a clear understanding of local market practices and use of the right Takaful model, mode of entry and local partners, cited Abdi.

However, newly established operators in the GCC region and additional licenses in Malaysia "have pushed competition up the risk agenda," according to the report. In addition to achieve critical business masses through organic growth and acquisition, specialization, governance and

quality services are among the key concerns. There would be consideration to pursue stronger alignment between intermediaries and operators in commission structures.

Increasing family and medical Takaful demands have fueled the sector's business growth. Southeast Asia is the most highly penetrated family and medical Takaful market, accounting for 73% of net contributions in 2008. In Malaysia, family Takaful represented 73% of net contributions, according to Ernst & Young.

In the Middle East and North Africa region, Ernst & Young cited a high growth of gross domestic product, a decreasing government safety net, low insurance penetration and favorable demographics contributing to strong growth potential.

Compulsory medical insurance in Saudi Arabia led to increasing contributions to family and medical Takaful, bringing in 49% of gross contributions in the Middle East and North Africa region. However, family Takaful is estimated to provide only 5% of these total contributions, according to Ernst & Young.

<http://insurancenewsnet.com/article.aspx?id=181528>

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### **Methaq to launch first SME Takaful package**

Wednesday, April 21, 2010

Abu Dhabi: Abu Dhabi-based Methaq Takaful Insurance Company has announced plans to launch the first-ever Takaful package for small and medium-sized enterprises (SMEs) in the UAE.

The insurance package is already Shariah approved and authorized by the relevant industry regulators to be offered to commercial businesses, said a company statement.

The package, which covers a variety of areas including property, business interruption, fidelity guarantee, legal liability and personal accident, is part of a series of new products recently rolled out by Methaq including marine cargo, motor fleet and satellite insurance.

Announcing the launch at a recent partners' meeting, Abdullah Al Maamarri, managing director of Methaq Takaful insurance company, said 'the package had been in development for some time in recognition of the important role SMEs play in spurring economic growth.'

The meeting was attended by senior officials of Methaq management, brokers and bank representatives.

"The ambition of the individual needs to be encouraged on all fronts as we move into a new era of globalization and digital technology," Al Maamarri noted.

“SMEs need to be able to take risks in the market and spur economic innovation, and we are here to support them by providing customized, reliable Shariah-compliant insurance solutions.”

The Abu Dhabi Council for Economic Development (ADCED) had recently stressed that support to SMEs should be prioritized in order to counter the consequences of the global financial crisis on the UAE economy.

According to ADCED, these small enterprises are the backbone of the country’s economy due to their dominance of anywhere between 85 per cent and 95 per cent of the UAE’s total businesses sector.

The Takaful Insurance practiced by Methaq is on a cooperative basis whereby a group of individuals seek to indemnify the loss suffered by any individual according to the terms and conditions set forth in the policy.

In the coming months, Methaq plans to introduce new and innovative products which will be part of the company’s commitment to operational excellence and best use of technology, Al Maamarri added.

*Trade Arabia News Service*

<http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=178508>

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## ***ISLAMIC INVESTMENTS; EQUITIES & FUNDS***

### **Dubai Stocks Drop Most in 3 Weeks on Dubai World Interest Plan**

Sunday, April 18, 2010

Dubai’s stocks fell the most this month on concern Dubai World is offering creditors interest that is about a fifth of the market rate and after global markets slumped on fraud allegations at Goldman Sachs Group Inc.

Arabtec Holding PJSC slipped the most since February after a unit of the construction company won’t bid for a contract to build a 1.1 kilometer (0.68-mile) skyscraper in Saudi Arabia. Emaar Properties PJSC retreated 3.9 percent. The Dubai Financial Market General Index lost 2.3 percent, the biggest drop since March 29, to 1,775.56 at the close in Dubai. Saudi Arabia’s Tadawul All Share Index fell 0.6 percent to 6,844.3

Dubai World, the state-owned holding company restructuring \$24.8 billion of debt, is offering to pay creditors 1 percent interest on new loans as part of a restructuring plan, a banker familiar with the plan said April 15. Banks are reluctant to accept the new rate presented on March 25 as

it is lower than the market rate of about 5 percent and would force Dubai World's creditors to book impairment provisions, two bankers said.

"A 1 percent interest on the restructured amount is not in the best interest of anyone," said Marwan Shurrab, assistant fund manager and chief trader at Gulfmena Alternative Investments in Dubai. "It would hurt banks and force them to make more provisions, which will affect their results."

A spokesman for Dubai World declined to comment when contacted on April 15.

### *Withdrawing Offer*

U.S. stocks fell on April 16, halting the longest rally in a year, after allegations of fraud at Goldman heightened concern the government will crack down on Wall Street.

Arabtec Construction had planned to submit a proposal for Kingdom Tower with its South Korean partner Samsung Corp. this month, The National reported earlier.

Emaar, the developer of the world's tallest tower in Dubai, fell to 3.90 dirhams. Dubai Islamic Bank PJSC, the United Arab Emirates' biggest Islamic lender, retreated to the lowest level in a month, falling 3.8 percent to 2.29 dirhams.

Abu Dhabi's measure declined 1 percent, the most in more than two weeks, on concern a cloud of ash from volcanic eruptions in Iceland will disrupt flights to and from Abu Dhabi ahead of a real estate exhibition in the emirate this week.

The number of people attending the property exhibition in Abu Dhabi is likely to drop because of flight cancelations, said Majed Azzam, a real estate analyst at Al-Futtaim HC Securities.

Aldar Properties PJSC, Abu Dhabi's biggest real-estate developer, fell 4.8 percent, the most since Jan. 26, to 4.20 dirhams and Sorouh Real Estate Co. lost 2.9 percent to 2.38 dirhams.

### *Iceland's Volcano*

"There's a lot of foreign ownership in Aldar and Sorouh," Azzam said. "Whenever there is bad or good news globally, the stocks tend to overreact. Even though the property conference is directed more at Asian investors than the European market, the ash cloud doesn't help sentiment."

Etihad Airways, the carrier owned by the Abu Dhabi government, resumed flights to Moscow today, a spokeswoman said. Traffic to most of Europe, including the U.K., Ireland and Belarus, will remain cancelled, she said.

Northern and central Europe may remain closed to air traffic until April 22 as winds push ash from volcanic eruptions in Iceland across the continent, forecasters said. European airlines canceled more than 77 percent of their flights yesterday as airports from Dublin to Moscow closed.

The Muscat Securities Market 30 Index fell 0.4 percent and the Bahrain All Share Index retreated 0.3 percent. Qatar's gauge declined 1 percent and Kuwait's measure was little changed.

*Bloomberg, Business Week*

<http://www.businessweek.com/news/2010-04-18/dubai-shares-fall-most-in-a-week-on-dubai-world-interest-offer.html>

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### **Saudi Shares Decline; Banks Alinma, Al-Rajhi and Samba Fall**

Sunday, April 18, 2010

Saudi Arabian shares fell for the first day in three, driven by banks such as Islamic lender Alinma Bank, which reported a first-quarter loss.

Saudi Arabia's Tadawul All Share Index declined 0.1 percent to 6,882.01, the lowest in a week.

Alinma reported a first-quarter loss of 75 million riyals, from a profit a year ago. The shares declined for a fifth day, shedding 1.2 percent to 12.45 riyals.

Al-Rajhi Bank, the biggest bank in the kingdom by market value, fell 0.9 percent to 84 riyals, the lowest in ten days. The second biggest lender, Samba Financial Group, had its biggest drop since March 29, losing 1.2 percent to 60.25 riyals.

"There is a possibility that future earnings growth will be impacted because of the lack of balance sheet growth or loan growth. There is some negative sentiment on banks," said Murad Ansari, a Riyadh-based equity analyst at EFG Hermes KSA.

Increased provisions for bad loans and tightened lending have hurt earnings at Saudi banks since the global credit crisis and economic slowdown. Saudi British Bank, the lender 40 percent owned by HSBC Holdings Plc, and Saudi Hollandi Bank, part owned by ABN Amro Holding NV, reported declines in quarterly income.

Banque Saudi Fransi, a unit of France's Credit Agricole SA, had its biggest gain since March 3, rising 1.7 percent to 46.8 riyals, after it reported today a 3.6 percent decline in first- quarter net income. The bank's chief economist John Sfakianakis told Al-Arabiya television channel that the bank's provisions for non-performing loans "are no longer high."

Saudi Arabia's index is the only Arab Gulf index tracked by Bloomberg that trades on Saturday.

*Bloomberg, Business Week*

<http://www.businessweek.com/news/2010-04-17/saudi-shares-decline-banks-alinma-al-rajhi-and-samba-fall.html>

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### **Abu Dhabi TNI seeks up to \$1bN for MENA fund**

Tuesday, April 20, 2010

DUBAI: Abu Dhabi's The National Investor (TNI) hopes to raise up to \$1 billion for its new Middle East and North Africa equity fund, targeting an economic and corporate recovery in the region.

The fund, which will close the first stage of fundraising on June 17, is targeting institutional investors across the Middle East, Europe and Latin America, and will be funded with \$30 million of seed capital from TNI.

"The fact that we are seeding it with \$30 million indicates that we mean to grow this fund to be very large. The capacity that we can see for the fund is between \$500 million to \$1 billion," said Walid Hayeck, TNI's asset management head.

TNI's MENA fund has full access to Saudi Arabia and can invest up to 40 percent of its assets in the kingdom. Fund managers have been scrambling to increase their exposure to the region, which boasts a growing population and massive government-sponsored infrastructure projects.

The long-only fund will follow a "sector neutral" approach and will focus on investing across sectors by keeping the weightings equal to that of the relevant index, Hayeck said.

Hayeck said investors need to have an investment horizon of three to five years to capture growth opportunities.

After the financial crisis, companies in the Middle East region have improved their balance sheets and businesses are catering more to local demand, according to the asset manager.

"We have seen lots of solid and sound balance sheets and businesses that are surprisingly cash rich," he said.

"The vulnerability to foreign demand is not there."

TNI is also targeting institutional investors with a "special situations fund," launched in August 2008. The fund has a mandate to invest across asset classes, including equities, debt instruments, convertibles and derivatives.

The special situations fund has returned 15 percent since inception and is up more than 6 percent year-to-date.

"We have never marketed the fund aggressively to institutions and now want to build on the impressive track record," Hayeck said.

The fund's top holding is a Sukuk instrument issued by Saudi builder Dar Al-Arkan. It also has investments in convertible notes issued by Abu Dhabi property developer Aldar Properties.

"The Sukuk (Dar Al-Arkan) is trading at 102 cents to the dollar and yielding 11 percent. The yield is interesting and the level of risk is something we are comfortable with," he said.

<http://arabnews.com/economy/article45356.ece>

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## **UAE, IDB Extend US\$35 Million to Bio-saline Agriculture Centre**

Thursday, April 22, 2010

DUBAI: The United Arab Emirates (UAE) and Islamic Development Bank (IDB) recently inked a partnership agreement to co-finance the activities of the International Centre for Biosaline Agriculture (ICBA) to the tune of US\$35 million up to 2014.

The UAE and IDB will contribute US\$25 million and US\$10 million respectively, according to a statement from IDB.

Established in Dubai in 1996, ICBA aims to serve as an applied research and development centre with its prime focus on saline irrigation water for forages, field and horticultural crops, and trees in arid and semi-arid environments.

Major emphasis is placed on serving IDB member countries.

ICBA is considered as one of the pioneering projects of cooperation and partnership between the UAE and IDB, which has extended a total of US\$38 million since its establishment.

*BERNAMA*

<http://www.bernama.com/bernama/v5/newsbusiness.php?id=492586>

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## ***ISLAMIC FINANCE EVENTS: SEMINARS, WPRKSHOPS & CONFERENCES***

### **Waqf Fund training programme**

Sunday, April 18, 2010

MANAMA The Waqf Fund jointly hosted the first training session yesterday, with the Islamic Finance Council UK (IFC) under its Scholar Development Programme with a group of approximately 30 Shariah scholars, auditors and reviewers.

The programme, developed by the IFC, a UK-based not-for-profit organization, and assisted by the Chartered Institute for Securities & Investment (CISI), provides a Continuous Professional Development (CPD) approach comprising of relevant and structured learning activities on conventional markets.

"I am pleased to note the collaboration between the Waqf Fund and the IFC has resulted in today's session of the Scholar Development Programme," said Central Bank of Bahrain (CBB) Governor Rasheed Al Maraj

"Today, as part of its core strategy to develop the human capital for Islamic finance industry, the Waqf Fund is sponsoring this professional development initiative to enhance their understanding of global financial and capital markets.

"I recognize that this joint initiative with the IFC aims to enhance Shariah scholars and Islamic bankers' comparative understanding of conventional versus Islamic finance.

"This will ultimately strengthen the bridge of understanding between the bankers and scholars, which is essential in all stages of product structuring, Shariah approval, transaction and audit processes.

"This will go a long way in empowering the scholars and bankers," he said.

"The Waqf Fund's current initiative on addressing the shortage of Shariah scholars is very much appreciated and timely, and I hope the Waqf Fund and the University of Bahrain would expedite the process to finalize the development needed," he added.

"As one of the founding members of the Waqf Fund, the CBB is proud of the initiatives and programmes undertaken by the Waqf Fund.

"In a short time, our membership has grown from eight founding members to a total of 19 prominent Islamic banks and conventional banks with Islamic finance operations in Bahrain."

<http://www.gulf-daily-news.com/NewsDetails.aspx?storyid=275186>

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## **Seminar on Islamic Banking and Finance jointly organized by AlHuda Centre of Islamic banking and Finance and Karachi Chamber of Commerce and Industry**

Tuesday, April 20, 2010

KARACHI: President Karachi Chamber of Commerce & Industry Abdul Majeed has urged Islamic banks to introduce new products for industrialists.

Speaking at a seminar on Islamic Banking and Finance jointly organized by AlHuda Centre of Islamic banking and Finance and Karachi Chamber of Commerce and Industry, he said industrialists in Pakistan welcomed Islamic banking openheartedly and they have started benefiting from Islamic banking. Head of Islamic Banking, State Bank of Pakistan, Saleemullah said Islamic banking and finance is developing fast in Pakistan. He emphasized on all the stakeholders of Islamic banking and finance in Pakistan to join hands for its promotion. He praised the efforts of AlHuda Centre of Islamic Banking and Economics to promote this cause. He added that there is a glorious future of Islamic banking in Pakistan. Zubair Mughal, Chief Executive Officer, AlHuda Centre of Islamic Banking and Economics, said they were organising over 200 seminars in various press clubs and bar associations of almost all major cities of Pakistan to promote awareness of Islamic Banking and Finance.

[http://www.dailytimes.com.pk/default.asp?page=2010\04\20\story\\_20-4-2010\\_pg5\\_11](http://www.dailytimes.com.pk/default.asp?page=2010\04\20\story_20-4-2010_pg5_11)

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## **Ahli Bank holds Islamic Banking and Investment training programme**

Thursday, April 22, 2010

Doha: In keeping with its ongoing training and development programme for employees, Ahli Bank recently conducted training seminar for the benefit of 29 employees. The training was conducted by Dr Ali Mohieeldin Al Qurradaghi, Professor of Islamic Studies at Qatar University and Head of Shariah Advisory and Supervisory Board.

The course equipped the trainees with Ethics of Islamic finance and the differences between conventional and Islamic banks and Islamic finance built on Shariah principles. The course had reviewed Islamic Banking and Investment Tools.

“These various training programs that we have been conducting are at the very heart of Ahli Bank’s Human Resources Development strategy. We’re constantly striving to help our employees perform to their fullest potential and expose them to various experiences and points of view in an effort to develop their skills and increase productivity and performance.,” said Amr Abbas, Head of Human Resources Department.

He added: “All the training programmes conducted by Ahli Bank are designed to the highest global standards, so that our employees reap the greatest benefits and become even more effective and efficient in their respective roles. We are present in a highly competitive environment, and well trained employees will be a strong asset to Ahli bank in the years to come.”

Commenting on this occasion, Salah Murad, Chief Executive Officer of Ahli Bank said, "Ahli Bank is very proud of its employees, the management has always believed that training and development is an essential component to stimulating our employees' growth which will ensure long-term fulfilling careers in the banking industry. Through continuously upgrading our employees' skills and equipping them with the most up to date banking and finance knowledge, we are able to provide Bank customers with a superior, positive banking experience."

### *THE PENINSULA*

[http://www.thepeninsulaqatar.com/Display\\_news.asp?section=Business\\_News&subsection=Local+Business&month=April2010&file=Business\\_News2010042222921.xml](http://www.thepeninsulaqatar.com/Display_news.asp?section=Business_News&subsection=Local+Business&month=April2010&file=Business_News2010042222921.xml)

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### **Prospects in Islamic banking investment products**

Thursday, April 22, 2010

Many may not be conversant with the practice of a banking system that prohibits the charging of interest, focuses on investment made in the private sector through interest-free financing, is built on Shariah principles, and not the least, the details of how securitization and conventional insurance issues are handled using the Islamic banking model.

Recently, major initiatives have gone out to aid Nigeria's participation in the financial world without violating Islamic principles and without bearing the economic penalty.

With this, most recently, at a seminar series organized by the Chartered Institute of Bankers (CIBN) and Lotus Capital, to sensitize the public on the benefits of Islamic finance & investment products, Prof. Monzer Kahf, of the Qatar Faculty of Islamic Studies, in dealing with the issue of securitization (Sukuk) and the practice of insurance by banks (Takaful), explained that, Sukuk, which is the Arabic name for a financial certificate and securities, are structured to comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest.

According to Kahf, Sukuk, or Islamic fixed-income securities have emerged over the past five years as an increasingly important asset class as Islamic capital markets are experiencing phenomenal growth. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets.

In his paper presentation, Kahf elucidated that, "Sukuk can be structured alongside different techniques. While a conventional bond is a promise to repay a loan, Sukuk constitutes partial ownership in a debt (Sukuk Murabaha), asset (Sukuk Al Ijara), project (Sukuk Al Istisna), business (Sukuk Al Musharaka), or investment (Sukuk Al Istithmar).

"Most commonly used Sukuk structures replicate the cash flows of conventional bonds. Such structures are listed on exchanges, commonly Luxembourg Stock Exchange and London Stock Exchange in Europe, and made tradable through conventional organisations like Euroclear or Clearstream. A key technique to achieve capital protection without amounting to a loan is a binding promise to repurchase certain assets, e.g. in the case of Sukuk Al Ijara, by the issuer. In

the meantime, a rent is being paid which is often benchmarked to an interest rate like LIBOR (which is disliked by Shariah Scholars).

In Sukuk Al Ijara, according to him, debt certificates can be only bought before the finance occurs and then held to maturity from an Islamic perspective, which is critical on debt trading at market value regarding any difference to be like the prohibited Riba (interest on money).

As Shariah considers money to be a measuring tool for value and not an asset in itself, it requires that one should not receive income from money (or anything that has the genus of money) alone. This generation of money from money (simplistically, interest) is "Riba", and is forbidden. The implication for Islamic financial institutions is that the trading and selling of debts, receivables (for anything other than par), conventional loan lending and credit cards are not permissible.

This principle is widely understood to mean uncertainty in the contractual terms and/or the uncertainty in the existence of an underlying asset in a contract, which causes issues for Islamic scholars when considering the application of derivatives. Shariah also incorporates the concept of Maslahah or "public benefit", denoting that if something is overwhelmingly in the public good, it may yet be transacted - and so hedging or mitigation of avoidable business risks, may fall into this category, but there is still much discussion yet to come on this issue.

Also Takaful, or Islamic insurance, Kahf explained, is based on mutual cooperation, responsibility, assurance, protection and assistance between groups of participants. It is a Shariah-compliant alternative to conventional insurance. Under Takaful, policyholders agree to jointly indemnify each other against loss or damage, thereby offering crucial protection against risk whilst at the same time being Shariah compliant. Takaful also acts as vital agent in the mobilization of funds and is an important component of domestic and international financial systems.

According to a draft framework released by the Central Bank last year March, Islamic banks, referred to as non-interest banks shall be licensed in accordance with the requirements for a new banking licence issued by the Central Bank of Nigeria from time to time.

Conventional banks operating in Nigeria may offer Shariah-compliant products and services through their non-interest banking branches or windows. However, such branches or windows cannot offer conventional banking or interest based products and services.

Banks offering non-interest banking products and services shall not include the words "Islamic" as part of their registered or licensed name. This, the draft described as being in line with the provisions of Section 39 (1) of Banks and other Financial Institutions Act (BOFIA) 1991 (as amended). They shall however, be recognised by a uniform logo to be designed and approved by the CBN.

All non-interest banks are required to maintain a minimum Risk Weighted Asset Ratio of 10.0 per cent or as may be determined by the CBN from time to time for the purpose of calculating its Capital Adequacy Ratio (CAR).

All applications must be submitted with the required documents including a non-refundable application fee of N500, 000.00 and deposit of minimum capital of N25 billion with the Central Bank of Nigeria.

Not later than six months after the grant of an Approval In Principle (A.I.P.), the promoters of a proposed bank must submit application for the grant of a final banking licence to the Director of Banking Supervision with a non-refundable licensing fee of N5 million in bank draft payable to the CBN and other required documents

Also, according to Alexander Lis, managing director at the consulting firm Oliver Wyman, there exist \$300 billion in assets managed according to Islamic principles, ranging from commercial to investment banks and investment funds, all providing Islamic products.

<http://www.nrguardiannews.com/moneywatch/article02/210410?pdate=210410&ptitle=Prospects%20in%20Islamic%20banking's%20investment%20products>

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### **Forum to highlight key role of Islamic finance**

Friday, April 23, 2010

MANAMA: The important role of the Islamic finance industry in the global economy will be the focus of a major conference in Bahrain next month.

More than 200 international delegates are expected to take part in the seventh Islamic Financial Services Board (IFSB) summit.

Themed Global Financial Architecture: Challenges for Islamic Finance, the event will be held at the Ritz-Carlton Bahrain Hotel and Spa from May 3 to 5 and will be hosted by the Central Bank of Bahrain.

"As the global financial community considers the lessons of the crisis and how best to respond to the new financial landscape that it confronts, it is vital for the IFSI to be alert and responsive to the unique challenges ahead," a spokesman for the organizers said.

"The seventh summit will be convened following the events of recent years that have dramatically transformed perceptions of the soundness and stability of the global financial system with respect to both its architectural framework and industry best practices.

"The crisis has highlighted the challenge for regulators and key industry players to take the necessary steps to ensure that this rapidly evolving industry continues to remain sound and stable," he added.

"The summit will provide a suitable platform to discuss how international organizations can best provide the structure and facilities that equip the industry for further sustainable growth," he said.

"It will also focus on lessons that need to be learned from the crisis and their implications for the IFSI, areas of monitoring and surveillance that need more attention and whether the current and evolving composition of the industry provides an appropriate basis for its sound and stable development," he added.

<http://www.gulf-daily-news.com/NewsDetails.aspx?storyid=276363>

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## ***ARTICLES/COMMENTARIES***

### **The coming of Islamic banking**

*By Bukky Olajide*

Thursday, April 22, 2010

ISLAMIC banking concept hit Nigeria's financial landscape few years ago, with its unique interest-free operational profile attracting not quite a few enquiries from prospective investors and subscribers.

Several fora had also tried to eliminate the seemingly hidden features of the concept in the country, even though it had already become a well-subscribed banking reality in several countries, especially in the Middle East.

Islamic banking really has a lot to do with the Shariah principles of Islamic religion, but it might have emerged out of the need to lift the down-trodden through loan accessibility and removal of business-unfriendly lending rates.

Prohibition of interest rate (Riba) is at the core of Islamic banking. In Arabic, Riba means increase or increment in Shariah, it is a contractual or pre-conditioned increment in a loan or debt.

Therefore, Islamic banking can be defined as banking in consonance with the ethos and value system of Islamic and the masses.

But this has to be in correlation with good governance and risk management rules especially of the principles laid down by the Shariah.

The core banking operation of Islamic banking is simply the avoidance of interest rate as well as interest-based transactions.

The products offered and deposit schemes must comply in a comprehensive manner. Overall, all segments covered by the banking practice must be consistent with the principles of Shariah.

Islamic finance aims at fostering greater stability as it synchronizes the payment obligations of the entrepreneur with his revenues and this is why it is tagged profit-sharing model.

Islamic finance is efficient in a situation where it allocates investable funds on the basis of the expected value productivity of projects rather than on the criteria of the creditworthiness of those who own the project especially in cases of debt-based finance.

Nevertheless, there is a general belief that Islamic finance is less prone to inflation and less vulnerable to speculations which are currently being fuelled by the presence of huge quantities of debt instruments in the market.

It is a known fact that debt instruments function as money substitutes, while equity-based financial instruments do not. Speculators find it much easier to manipulate debt instruments than those based on profit-sharing.

Recently, the Chartered Institute of Bankers of Nigeria (CIBN) and Lotus Capital organized a conference to sensitize the public on the benefits of Islamic finance and investment products.

Speaking at the event, Prof. Monzer Kahf of the Qatar Faculty of Islamic Studies explained the rationale behind Islamic finance.

According to him, Islamic finance is really necessary because it demands equality in economic rights, obligations and opportunities and justice among all humans through prohibition of acquiring other people property, fraud, confiscation and so on.

The Shariah objectives with regard to wealth have to do with promotion and protection of private and public property as well as the promotion and protection of the right to grow and of earnings.

This underscores the study of human behaviour as a relationship between goals and scarce means available for their satisfaction.

Talking of classical Islamic finance contracts, the don explained that the basis of Islamic financial contracts has to do with sharing, sale and lease.

Therefore, Shariah - nominate financing contracts includes Musharakah, Muzara'ah, Musagah and Mugharasah," Mudarabah, deferred - payment sale salam and Istisna as well as leasing.

Musharakah on its own is a contractual mixing of properties or work and credibility for the purpose of making profit. It is the co-operation by pooling capital and expertise, which is encouraged in Shariah.

Mudarabah on its part has to do with financing elements in sharing finance contracts. This is the fact that profit distribution must be by agreement while loss is by capital share and no condition must interrupt profit sharing.

According to Kahf, Mudarabah deals with handling over of assets to the manager (entrepreneur) while the asset must be of the kind that may grow by exercising labour on it, for instance, a debt may not grow by adding any amount of labour.

It also has to do with continuation of ownership and sharing profit on percentage basis.

Among others, there is also the Ijarah (leasing) which is the sale of a usufruct or service for a given price and the object of Ijarah may be human work and usufruct of surviving assets.

In Ijarah, the responsibility of lessor includes enabling of usufruct or service and maintaining usability for lease period.

Is it usually insurable in case of destruction of leased asset and case of major maintenance? The don explained that minor maintenance may be contractually charged to lessee, by mutual consent while operational maintenance is on the lessee anyway.

Also, according to him, the responsibility of lessee lies in returning the asset in same condition, though with normal wear and tear but without neglect or abuse.

Now, the Shariah criteria for investing in Islamic investment funds especially securities which entails buying, holding and selling; in the nature of securities in Islamic finance, the basic principle is; "a security is only a veil, what matters is: what a security stands for".

The development of Islamic investment funds could be traced to early 1990s until end of 2007 when there were 527 funds. These funds include equity funds, balanced and hybrid funds, fixed income (leasing and Sukuk funds) money market funds, real estate funds and Takaful funds.

Characteristics of Islamic finance contracts lie among other things in the fact that financier earns by virtue of ownership; no increment by loan and free negotiation with moral commitment.

Pakistan "Islamized" banking between 1979 and 1985, and even though profit-sharing replaced interest as the basis of time deposits and savings accounts, the actual rates paid were not market determined, as all major banks had been nationalized during a previous regime.

On the assets side, mark up became the main basis of bank finance for business. Some financial products based on profit sharing were launched, but their role in the market has been minimal. Government finances remain conventional, burdened with huge interest based foreign and domestic debts.

Private initiative had a minimal role in the Islamization process, and the market hardly had a chance to create Shariah-compatible financial instruments.

The entire process was conducted with some speed by the bureaucracy under orders from the top. Even the recommendation of the Islamic Ideology Council to make a start from the assets side went unheeded.

Iran passed usury-free banking laws in 1983, and all banks were nationalized. In accordance with the school of Islamic law followed in Iran, depositors may get "rewards" on their savings provided these are not committed in advance.

The financing of domestic and external trade is done on a mark-up basis. But sharing modes do play a significant role in financing agriculture and industry, and interest-free state loans are available to the poor to meet such needs as housing.

Sudan launched Islamic banking in 1984; its coverage was extended to the entire financial sector in 1989. Sharing based modes of finance are used in agriculture and industry. The government is considering sharing based investment certificates to be sold to the public, with the funds thus mobilized to be used in development projects.

Unfortunately, the poor state of the economy stands in the way of the market playing any significant role in the process. However, the recent phenomenon of oil as an increasing source of public revenue is likely to make a difference.

Malaysia got its first officially-sponsored Islamic Bank in 1983. All other Malaysian banks also offer Islamic financial products. Over all supervision vests in the country's Central Bank, Bank Negara Malaysia, that is advised by a board of Shariah scholars.

The Malaysian Islamic financial system allows the sale of debt instruments based on receivables from leasing and from the sale of real goods and services. The government issues bonds (Malaysian Government Investment Certificates, or MGICs) to be redeemed at par but carrying coupons conferring financial benefits that vary. Malaysia has an active Islamic money market trading in assets based securities.

Indonesia's Bank Muamalat, established in 1994 under state patronage, has about 400 branches throughout the country. Its financial operations follow the Malaysian model. There are other smaller Islamic banks as well. e.g. the Shariah Bank.

Although Turkey does not practice Islamic banking at the state level, several Islamic banks were launched under special license in the late 1980s and early 90s. These are still functioning, along with other non-bank Islamic financial institutions.

Meanwhile, groups of concerned Islamic professional have appealed to the Central Bank of Nigeria (CBN) to expedite action on the proposed Islamic banking operations in the country.

The groups, which also expressed dismay over the proposed regionalization of the system, submitted that this might restrict the jurisdiction of the Islamic banks to millions of Nigerian Muslims, who have been eager to put their money in halal (acceptable by Islamic standard) in such accounts.

The CBN Governor, Alhaji Sanusi Lamido Sanusi, had recently assured Nigerians that license would soon be given to an Islamic bank to start operating in the country, adding that such a bank would only operate at a regional level.

The Muslim Rights Concern (MURIC), in a statement signed by its National Director, Is-haq Akintola, said: "Though we welcome the prospect of an Islamic bank operating in Nigeria and

look forward to it with nostalgia, MURIC is worried that the bank's jurisdiction would be regional rather than national.

Akintola noted that the western banking system with its obnoxious high interest rate based on laissez faire was responsible for the worldwide economic downturn, which began in 2008. Licentiousness among the managerial cadre, which is the hallmark of the conventional banking system added fuel to the financial conflagration, which engulfed the whole west, including many third world countries.

"We affirm clearly and unequivocally that Islamic banking system is the way out of the present economic quagmire. Nigerian authorities have proved that they have very short memories. How can we continue to rely on western banking system alone when we know the havoc wreaked on our economy by the international financial agencies through its inhuman imposition of compound interest?

"We borrowed \$5 billion up till 1985. By year 2000, we had paid \$16 billion, which is three times above what we owed. Yet the International Monetary Fund (IMF) told us we still owed \$32 billion! It was for this reason that former President Olusegun Obasanjo called western compound interest "the worst evil in the world". Starting an Islamic bank, which is based on zero rate of interest, will give us the chance to try an alternative to the 'worst evil'.

"Millions of Nigerian Muslims who have been eager to put their money in halal (acceptable by Islamic standard) accounts will have the opportunity to do so. The present situation whereby there is no single Islamic bank constitutes a breach of the Allah-given and fundamental rights of Muslims in the country. It stands in contradistinction to the principle of freedom of religion as provided in Section 38 of the 1999 Constitution, particularly the right to "manifest" and "practise" one's religion," he said.

MURIC, however, asserted that Nigeria's democracy remains a sham until every Nigerian enjoys all his/her rights as enshrined in the constitution. "The rights of Nigerian Muslims have been trampled upon in this country for too long. At present, Muslims are forced to patronize financial institutions which operate riba (usury) and which compel Muslims to act against their faith. This is a clear indication of lack of religious freedom. We call on the authorities to redress this wrong without delay. We therefore demand immediate license for the Islamic bank.

Corroborating MURIC to appeal on issues, The Muslim Congress (TMC) noted that the present situation, whereby no single Islamic bank constitutes a breach of the Allah-given and fundamental rights of Moslems in the country.

A statement signed by Luqman AbdurRaheem said, in view of the above, it is expedient that the governor of Central Bank of Nigeria, ably led by Sanusi make every effort to redress the plan to regionalized Islamic banking in Nigeria.

<http://www.ngrguardiannews.com/moneywatch/article01/210410?pdate=210410&ptitle=The%20coming%20of%20Islamic%20banking>

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## **Machiavellianism in Islamic Finance**

By: Lahem al-Nasser

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When a financial institution is claiming that all its activities are compliant with Islamic Shariah and that it has appointed its own Shariah body to determine whether or not its products and contracts are Shariah compliant and to observe and scrutinize the institution's activities and its accuracy with regards to Shariah law then this very institution fails to meet its obligations towards its clients and contests in a court of law the compliance of these contracts to Shariah law, this in itself contradicts Islamic Shariah. This is all so that the institution can evade its responsibility towards its clients even though the contracts were drawn up by its own legal department and approved by its Shariah body. How can we describe such conduct? What damage could it cause as a result? What does this indicate? What is the position of Shariah bodies towards this? To what extent are supervisory bodies responsible for this?

Without doubt, the least that can be said about this situation is that the behaviour is Machiavellian and is an example of following the principle of "the end justifies the means," which Islamic Shariah has never approved and even considers immoral. Islam urged people to fulfil their obligations, to be honest and to never commit an act of treason even if a Muslim has himself encountered treason. Islam has also forbidden cheating and calls for honesty and clarity as the Quran says: 'O you who believe! Fulfil (all) obligations,' Surat al Maeda, Verse 1. It also says, '[The Believers must eventually win through]...Those who faithfully observe their trusts and their covenants,' Surat al Mumenoon, Verse 8 and 'O you who believe! Betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you,' Surat al Anfal, Verse 27.

The Sunnah of the Prophet [PBUH] also reinforces such morals. On the authority of Abu Dawud, the Prophet said, "Render trust to whoever entrusts you and do not betray whoever betrayed you." The Prophet also said, "Every traitor will have a banner on the Day of Resurrection," and that the "signs of the hypocrite are three: whenever he speaks he tells a lie, whenever he is entrusted he is proved dishonest, and whenever he promises he breaks his promise." Abu Huraira reported that one day the Prophet passed by a pile of food and put his hand into it, and his fingers touched something wet. He said, "Owner of the food, what is this? The man said, "It became wet from the rain, O Messenger of Allah." He said, "Why did you not put it (the wet part) on top of the pile so that the people could see it? He who deceives us is not from among us."

The financial institution's interest, whatever that may be, is not a justification for the institution, which claims to be Islamic, to contest the legitimacy of a contract that it itself had drawn up the terms and conditions of and had it approved by its Shariah body. Why? It is because this is an indication of the institution's dishonesty in dealing with its clients as well as its partners and it also a clear indicator that this institution prioritizes worldly gains over Shariah. There are two possibilities here; either it was unconvinced from the start of the validity of Shariah decisions and accepted them for selfish reasons, or was convinced of the validity of the Shariah decisions but sees an escape from fulfilling its obligations by contesting their legitimacy. Both cases are forbidden by Islamic Shariah because in the former, the institution accepted a non-Shariah ruling, whilst in the latter, it abandoned Shariah ruling and accepted a contradictory law. In

addition, by behaving this way, this institution is underestimating Shariah bodies and undermining their credibility by showing that they approved of contracts that are not Shariah compliant. Therefore, the damage caused as a result of such conduct is unlimited and only God knows the limits of this evil. It will also undermine the client's trust in its contracts and products as well as of all Shariah bodies and the decisions they make. This will also lead to an increase in the cost of Islamic products, as many of the institutions that deal with Islamic financial institutions will have to resort to external Shariah consultancies to scrutinize their contracts with these institutions in order to ascertain the extent to which they are Shariah compliant or not. Above all, such conduct distorts the image of Islam and suggests that it is barbaric and materialistic and governed by profit and loss just like capitalism. Until recently, we believed that after the global financial crisis Islamic finance would present civilized and moral Islam to the world.

This and other examples should serve as a lesson to all Shariah bodies with regards to these institutions or those responsible for them not having good intentions, and to stress the importance of them doing their job with professionalism away from emotions and personal relationships and to not place so much trust in the officials responsible for them, and this is something we have always called for. I do not think that anything will change unless Shariah bodies are not held responsible for what they do. Furthermore, supervisory bodies are demanded to enact clear laws that do not require interpretation or explanation and that define the duties of Islamic financial institutions towards their clients, investors and supervisory bodies. These laws are necessary to compel Islamic financial institutions to fulfil their commitments and hold them responsible for any negligence and subject them to penalties in accordance with the law and based on the particularities of each situation to the extent that licenses are revoked if need be in order to protect this industry against intruders.

*Asharq Al-Awsat, Riyadh*

<http://aawsat.com/english/news.asp?section=6&id=20703>

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