

BUSINESS AND POLITICS IN THE MUSLIM WORLD
Weekly Report on Global Islamic Finance and Business in the Muslim World

Period: October 17 -- October 23

Report # 5

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Summary

- Bahrain financial exchange created an institution 'Bait Al Bursa' as its Islamic Finance division... Bait UL Bursa launch an Islamic product named E-Tayseer for automating Murabaha transactions, E-Tayseer offers financial institutions the option to purchase assets directly from asset suppliers to be used for their Murabaha liquidity management transactions in a secure online environment.
- Indonesia is studying ways to make tax laws more conducive to developing Islamic finance, in countries which have successfully developed Shariah banking shows that tax incentives are very helpful in expanding the industry
- Jordan Islamic Bank (JIB) has, over the last three decades transformed itself into the largest Islamic lender and the third largest domestic bank in Jordan. The strengths of JIB is that it has a strong retail franchise with a satisfactory financing and liquidity profile, and has shown great resilience in its asset quality and in sustainable profitability through the economic downturn precipitated inter alia by the global financial crisis.
- Indonesia is under pressure from banks to match tax breaks and product offerings, We need more incentives, things such as a tax holiday, or perhaps, an incentive for people to put their money in Shariah banks. Indonesian government will cut taxes on Shariah-compliant transactions next year to promote.

- Jordan's first ever law covering the issuance of sovereign Islamic sukuk has been finalized and bankers and officials hope it will let the kingdom tap the fast-growing Islamic banking industry's huge pool of liquidity.

 - Australia plans to change laws to ensure Islamic finance products are taxed fairly as the government seeks to attract investors from the Middle East and Asia, paving the way for sukuk sales.

 - World's largest International Conference and Exhibition on Islamic banking will be held on November 2, 2010 at Expo Centre Lahore
International collaboration of Islamic banking industry, development of Islamic banking and finance, Shariah standardization, growth and progress of Islamic banking in non-Muslim countries, and growing trend of the adoption of Islamic banking and finance after the failure of conventional banking in all over the world, Takaful, Sukuk and Islamic microfinance will be the topics of speeches and discussion in this international conference.
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1. GLOBAL FINANCE & GLOBAL ISLAMIC FINANCE

Bahrain Financial Exchange announces launch of its Islamic division Bait Al Bursa *Monday, October 18, 2010*

The Bahrain Financial Exchange (BFX), the first multi-asset exchange in the Middle East and North Africa region, is delighted to announce the launch of its Islamic Finance division with the establishment of 'Bait Al Bursa' marking the creation of the region's first exchange operated platform dedicated to Islamic finance products.

As the BFX is focused on bringing new and innovative financial products and services to the market, it has established its Bait Al Bursa division to offer Shariah compliant solutions to a wide range of regional and international participants.

Bait Al Bursa, signifies the "Home of Exchanges", and represents the BFX's vision of providing a single venue for all exchange traded business in the Islamic finance sector.

As part of Bait Al Bursa's initial product offering, this Islamic division will introduce a fully electronic Shariah-compliant platform, E-Tayseer for automating Murabaha transactions, which is a significant milestone for Shariah-compliant trading in the Middle East.

E-Tayseer has been built with the regional Mena market in mind ensuring that its underlying assets are identifiable, and the process flow is fully Shariah-compliant addressing some of the issues in the market today.

E-Tayseer offers financial institutions the option to purchase assets directly from asset suppliers to be used for their Murabaha liquidity management transactions in a secure online environment.

With advanced automated features, e-Tayseer will make scheduling and execution of Murabaha transactions more streamlined and afford its users the benefit of reduced trade cycles and manual paperwork procedures.

Commenting on the announcement, Arshad Khan, Managing Director & Chief Executive Officer of the BFX and the BCDC, said, "We are delighted to introduce Bait Al Bursa as an important milestone in the robust growth of the exchange and its commitment to fulfill the growing demand for sophisticated financial products across the Islamic market."

The BFX has sought Rating Intelligence to issue a Fatwa authorizing both Bait Al Bursa's platform as well as e-Tayseer. Furthermore, Mr. Khan added, "To meet the needs of a very demanding market, e-Tayseer is the first of many exciting Islamic financial products we will introduce on Bait Al Bursa. We would like to thank the Shariah Advisors for their direction and support in bringing e-Tayseer to the market."

The BFX have started a market engagement program to meet with key Murabaha market participants in the region to explain the features of the e-Tayseer platform and to sign them as registered users of the platform. The market response is very encouraging and the BFX is confident in generating significant participation on its e-Tayseer platform upon its commencement.

<http://www.ameinfo.com/245666.html>

Islamic banks grow as recession impact muted

Tuesday, October 19, 2010

Islamic banking is gaining popularity in emerging markets after helping some financial institutions avoid the worst of the economic meltdown.

In its simplest form, Islamic banking requires that financial products — from mortgages to savings accounts be structured to comply with Sharia law under the Quran. *Sharia* law restricts rates and encourages clear terms, which means that under an Islamic home financing, banks can't charge interest, but may buy the property outright and lease it back to the consumer for a set amount each month.

From 2007 through 2009, Islamic banks' assets grew an average of twice as fast as conventional banks' assets in major Muslim markets, research released in September by Maher Hasan and Jemma Dridi of the International Monetary Fund show. While Islamic banks weren't necessarily more profitable than traditional institutions during this time, they were able to extend credit to customers at a faster rate.

Islamic banks' growth, along with their tendency to avoid excessive leverage and risk-taking most didn't have the off-balance-sheet loans or derivatives that nearly toppled the U.S. banking system have given some consumers, even non-Muslims, a new appreciation for the sector.

"People got a little concerned about the conventional (banking) sector, and the interest to explore Islamic banking has increased," says Afaq Khan, chief executive for Standard Chartered Saadiq, an Islamic bank launched by the U.K. company.

Overall, while Islamic banking has gained ground most rapidly in the Middle East, the "focus now is on the Asia-Pacific region," says Prathima Rajan, a Celent analyst.

Assets in the Asia-Pacific region reached \$450 billion roughly 60% of the global industry by 2007, the latest data available, according to Celent. Given the industry's 10% to 15% annual growth rate in the last decade, total assets are likely approaching \$1 trillion.

Within Asia, Malaysia is a growing hub for Islamic finance. But other nations, including Singapore, South Korea and Hong Kong, are also competing for these assets.

Nations are eager to attract investment from the Middle East to fund infrastructure, airports, toll roads and real estate projects, according to Rushdi Siddiqui, global head of Islamic finance for Thomson Reuters, a data and information firm.

Eddie Yue, deputy chief executive for the Hong Kong Monetary Authority, said in a speech last year that a "key part of the government's strategy for developing Hong Kong as an international financial center is a focus on Islamic finance."

An Islamic mutual fund and equity index have been launched in the city as it tries to become a gateway to the greater China market for Middle East investors. CIMB, a Malaysia bank, also helps arrange "sukuks," or Islamic bonds, and other forms of financing in Hong Kong.

Islamic banking comes with risks, however. The interpretation of what's allowed under *Sharia* law can vary from country to country. Islamic banks have also been the target of lawsuits, including those filed by the families of victims of the Sept. 11 attacks, alleging that they financed terrorist activities. And like conventional institutions, Islamic banks can be vulnerable to property and equity market downturns.

"This is not a sub sector of the financial sector that's isolated from broader market trends," says Rachel Ziemba, a senior research analyst at Roubini Global Economics.

These issues, critics say, could tamp the long-term growth of Islamic finance. Yet, the short-term appeal — and one reason the customer base is growing rapidly, at least for now is that Islamic banking operates on relatively simple and easy to understand principles.

"It is considered boring finance, but boring finance is in vogue after the (financial) crisis," Siddiqui says.

The Vatican has taken the unusual step of expressing support for Islamic banking, suggesting in a 2009 issue of its publication *L'Osservatore Romano* that conventional banks can regain clients' trust by adopting the "ethical principles" that form the cornerstone of Islamic finance.

Modern-day Islamic banking got its start more than three decades ago, with the opening of the Islamic Bank of Dubai in 1975. Other banks in the Middle East entered the market, and Islamic banking eventually spread to Asia and Europe. Islamic banking even gained a foothold in the United States: A handful of community banks there now offer *sharia*-compliant products.

Western institutions including Citibank, HSBC and Standard Chartered have also broken into Islamic banking in the Middle East and Asia. Standard Chartered Saadiq, for instance, has expanded to six countries in seven years, buoyed by client interest.

The bank offers savings accounts to individual customers, as well as sukuks and other types of Islamic financing to corporate and government clients.

Critics see Islamic banking as merely another way to charge consumers fees. But Stephen Lange Ranzini, CEO of University Islamic Financial in Ann Arbor, Mich., says "the ingredients are very different" from conventional banking.

So are the risks to customers. If a consumer defaults on an Islamic home financing, the bank could take the house, but the consumer's personal assets wouldn't be at risk, as could be the case with a traditional mortgage.

http://www.usatoday.com/money/industries/banking/2010-10-19-islamicbank19_ST_N.htm

HSBC to launch Islamic banking services in full scale

Tuesday, October 19, 2010

HSBC Amanah, the Islamic banking window of banking giant HSBC, is planning to launch its Islamic banking services in full scale in Bangladesh, a visiting top official of HSBC said Tuesday.

"The re-launch of HSBC Amanah in Bangladesh will come with a full range to satisfy

personal and commercial needs", Deputy CEO of HSBC Amanah Razi S. Fakhri said.

HSBC Amanah is operating globally from 1998. Its Bangladesh chapter is operating from 2004 with a limited range of products that include import finance service and current account only.

With the re-launch, HSBC Amanah in Bangladesh will be the largest presence in South East Asia, the deputy CEO said. Currently HSBC Amanah is operating in the UK, Malaysia, Middle East countries, Indonesia and other countries.

"Our global proposition is our one of the four strengths. We are not merely a local Islamic finance solution", Mr Fakhri said.

Answering a question on the difference between Amanah and local Islamic banking provider, Mr Fakhri said: "We offer Shariah-compliant Islamic banking solution. We are very serious about our quality, both in terms of our HSBC-branded customer service and Shariah compliance."

HSBC Amanah products are rigorously audited and approved by HSBC central Shariah committee. "We truly try to comply with Shariah, both in letter and in spirit. Our central Shariah committee is formed with renowned independent Islamic scholars", Mr. Fakhri Said.

While answering a question on choosing Bangladesh, Mr Fakhri said, "Bangladesh has been maintaining stable growth rate since 1996 when all developed countries faced negative growth, Bangladesh showed its resilience.

http://www.thefinancialexpress-bd.com/more.php?news_id=115200&date=2010-10-20

Indonesia Studying Tax Incentives for Islamic Finance

Wednesday, October 20, 2010

Indonesia, the world's most populous Muslim nation, is studying ways to make tax laws more conducive to developing Islamic finance, Mulya Siregar, director of Shariah banking at the central bank, said in Jakarta.

"Experience in countries which have successfully developed Shariah banking shows that tax incentives are very helpful in expanding the industry," he told reporters. The study may be completed by the end of this year, said Siregar, declining to provide more details.

Indonesia is stepping up measures to catch up with Malaysia, the biggest market for sukuk, or debt that pays asset returns to comply with the religion's ban on interest. Shariah-compliant assets held by financial institutions rose 43 percent to 85.9 trillion rupiah (\$9.6 billion) at the end of September, from a year earlier, Siregar said. The government estimates the figure will rise to 97 trillion rupiah by year-end, he said.

Islamic banking assets in Indonesia totaled 75 trillion rupiah at the end of last year, about 2.9 percent of the total, Siregar said in August. That compares with Malaysia's 337.6 billion ringgit (\$109 billion), accounting for 20 percent of the country's total, according to Bank Negara Malaysia's website.

Infant Industry

Indonesia needs to do more to bolster investment in Islamic banking, said Ventje Rahardjo, president director of Jakarta-based PT Bank Syariah BRI, a unit of Indonesia's second-largest lender by assets.

"We have been asked by the government to share our views" on this issue, Rahardjo told reporters. "We are discussing what types of things might help Shariah banks to compete with conventional banks because our Islamic finance industry is still in its infancy."

Malaysia's Prime Minister Najib Razak said on Oct. 15 the country plans to cut taxes on certain types of Shariah-compliant transactions to promote innovation in the industry that has total assets of \$1 trillion. The government also announced plans last week to start selling Islamic bonds to individual investors

In the past year, Malaysia has also issued permits to global investors including Aberdeen Asset Management Plc and Franklin Templeton Investments to start Islamic fund management businesses.

<http://www.businessweek.com/news/2010-10-20/indonesia-studying-tax-incentives-for-islamic-finance.html>

Sharia banks' assets grow by nearly 45%

Wednesday, October 20, 2010

The total assets of sharia banks rose by nearly 45 percent during the first nine months of this year after several banks split their shariah banking divisions into separate banks.

Bank Indonesia (BI) director for sharia banking Mulya Siregar said Wednesday that up to September of this year, sharia banking assets reached Rp 85.9 trillion (US\$9.6 billion), up 43 percent compared to that recorded in September of last year.

The central bank forecasts sharia banking assets would grow to Rp 97 trillion at the end of 2010, or a 43 percent increase year-on-year.

Mulya said that Rp 65.3 trillion of the assets recorded as of Sept. 20, comes from sharia banks, with

Rp 18.2 trillion and Rp 2.5 trillion from the sharia banking division of the existing banks and from rural sharia banks. "The current figure is in line with our moderate projection of 43 percent growth in sharia assets for the full year of 2010," Mulya said.

Maybank Syariah, which just began its operation on Oct. 11, joined BCA Syariah, Bank Victoria Syariah, BNI Syariah and Bank Jabar Banten Syariah on the list of sharia banking newcomers this year.

According to Mulya, Maybank Syariah added about Rp 1 trillion in to the overall sharia banking assets to about Rp 87 trillion so far this year.

“If foreigners said there would be an expansion in sharia banking in Indonesia, that’s true,” he added, citing more banks spinning off their sharia units and establishing a sharia subsidiary as indicators.

At present, there are 11 sharia banks in Indonesia including the oldest, Bank Muamalat Syariah.

Mulya said from 2001 to 2008, sharia banking assets on average grew by Rp 161 billion monthly. Meanwhile, since the government announced a set of sharia banking regulations in 2008, the industry’s assets grew by Rp 1.5 trillion monthly. “In July and August of this year alone, the assets of sharia banks grew by Rp 3 trillion each month,” he added.

Mulya also attributed the existence of corporate and government Islamic bonds (sukuk) to the faster growth of sharia banking. “The availability of sukuk eases sharia banks’ assets and liability management, particularly to manage their liquidity,” explaining how the banking industry was attracted to penetrating the Islamic financial system.

However, although growing faster than commercial banks, sharia banking remains a small 3 percent fraction of overall banking assets in the world’s largest Muslim-populated country. Mulya cited insufficient human resources as the main factor hampering the sharia business from growing further to achieve more market share in the banking system. “The sharia business is growing faster than human resources,” he said. However, there has been widespread understanding that sharia banking expansion was hampered by clashing regulations.

On this, Mulya said that the central bank and the government were studying tax incentives for Islamic finance, which may be completed by the end of this year.

According to BI data, sharia financing reached Rp 61 trillion up to September of this year, and 1.8 percent of which, or Rp 1.1 trillion, went to the property sector. Islamic financing in sharia banks mostly went to the trade sector, or 60 percent of the total financing, Mulya said. (est)

<http://www.thejakartapost.com/news/2010/10/21/sharia-banks%E2%80%99-assets-grow-nearly-45.html>

BoK to open Islamic banking branches in Afghanistan, Dubai'

Wednesday, October 20, 2010

Bank of Khyber (BoK) Managing Director Bilal Mustafa Tuesday said that the bank is planning to open its Islamic banking branches (one each) in Afghanistan and Dubai next year. He was addressing a press conference in connection with the 7th anniversary celebrations of its Islamic banking.

He also told the media that the BoK has opened its 2nd Islamic banking branch in Shah Alam Market, Lahore on Tuesday, raising the total number of branches (both conventional and Islamic) in the provincial capital to four. According to him, the BoK was the first government sector bank that introduced Islamic banking in 2003. The BoK has named its Islamic banking as 'Raast Islamic Banking', which is gaining popularity among the public, especially the business community.

Bilal Mustafa said BoK is one of the few banks that offer both conventional and Islamic banking services to its customers, thus, making it a unique bank. He observed that since its inception, the BoK has witnessed a visible growth at fast pace. He averred that the BoK is expecting to expand its branches to 74 in the country by the end of 2011, of which 31 would be dedicated to Islamic banking.

About the progress of BoK's Islamic banking, he said its annual growth is Rs 1 billion with deposits of Rs 9.5 billion, while its depositors are 100,000. "The BoK's assets stand at Rs 46 billion, of which Rs 11-12 billion belong to Islamic banking. Its advances stand at Rs 3 billion while its equity is worth Rs 1.2 billion and return on equity is 31 percent," he added.

According to him, in the last three years, the 'Raast Islamic Banking' has witnessed a remarkable growth. In 2007, its profit was Rs 66 million, in 2008 Rs 86 million (an increase of 31 percent) and Rs 298 million in 2009 (an increase of 244 percent). The Islamic banking is fetching more profits as compared to conventional banking, he said.

The BoK MD assured that all Raast Islamic Banking products of BoK are in compliance with Shariah. He said the bank has also constituted a Shariah Supervisory Committee (SSB) and noted scholars and clerics are its members. "Before the launch of new Islamic banking product/service, it is scrutinised and approved by the Committee, and under Islamic banking, every product is interest free. The BoK has also appointed a Shariah Advisor who monitors day-to-day transactions," he added. When asked about a possibility of BoK's merger with another bank, he said they had no plan of merging with another bank, since the bank was growing in all disciplines.

<http://www.brecorder.com/section/49/1/1114881:bok-to-open-islamic-banking-branches-in-afghanistan-dubai.html>

Tamweel liquidating four subsidiaries

Thursday, October 21, 2010

Tamweel's four subsidiaries to be liquidated are listed with Jebel Ali Free Zone Authority Islamic mortgage firm Tamweel is liquidating four of its dormant subsidiaries which were set up in 2007 to target Saudi Arabian market, according to the company's financial statement.

Listed with Jebel Ali Free Zone Authority, the four companies under liquidation are Tahfeez Saudi Arabia Ltd, Tamleek Saudi Arabia Ltd, Eshan Saudi Arabia Ltd and Enjaz Saudi Arabia Ltd and were involved in general trading sector. The subsidiaries had not even started the operations since their launch. Its Tahfeez Middle East subsidiary has also not yet initiated the operations.

The kingdom-focused units were set up in 2007 financial year with offices opened in Riyadh as part of its expansion to tap the growing mortgage in the Gulf Cooperation Council region. The company also opened offices in Cairo, Egypt, during the same year.

“2008 is seen as a year of expansion into other Middle Eastern countries in order to bring Tamweel closer to its vision of becoming a regional player in the home financing industry,” the company's 2007 financial statement said.

“During 2007, Tamweel experienced sustained growth in both assets and net profitability from its core business, while also maintaining low cost-to-income ratios despite our rapid and aggressive regional expansion strategy, starting with the establishment of our presence in Saudi Arabia and Egypt, the two largest markets,” its chairman Sheikh Khaled Bin Zayed Bin Saqr Al Nehayan said in 2007 financial statement.

On September 26, Dubai Islamic Bank said it had raised its stake in Tamweel to 57.33 per cent which resulted in scrapping the long-planned merger with its rival Amlak Finance.

The UAE government said in November 2008 it aimed to merge two mortgage firms and has been working a plan to restructure them. Shares in the two firms have not traded since.

In a statement to Dubai bourse on October 17, the Shariah-compliant mortgage lender said it would hold its first annual general meeting (AGM) in more than two years on November 10, 2010.

The meeting will approve the company's balance sheet and P&L accounts, appointment of the Board of Directors and reappointment of the Fatwa and Shariah Supervisory Board.

<http://www.emirates247.com/business/corporate/tamweel-liquidating-four-subsidiaries-2010-10-21-1.307023>

2. ISLAMIC BANKING & INSTITUTIONS

UAE's Noor Islamic Bank denies merger talks

Sunday October 17, 2010

Noor Islamic Bank, the UAE's Sharia-compliant lender, has denied it is in talks to merge with any other bank or financial firm, according to a statement issued by the bank on 14 October.

“Noor Islamic Bank categorically denies the market rumors about any potential acquisition of, or merger with, any financial institution,” said a spokesperson from the bank.

A proposal to merge Noor with other majority Dubai government-owned Islamic lenders Emirates Islamic Bank and Dubai Bank was being considered, according to an article published by English-language online newspaper Emirates 24/7 on 13 October.

On 3 October, the UAE's Al-Ittihad reported that the UAE's Emirates Islamic Bank may acquire Dubai Bank and then purchase Amlak Finance, a local Islamic mortgage lender, once the acquisition is complete.

Speculation has been rife over the future of Amlak after the UAE's Dubai Islamic Bank (DIB) raised its stake in fellow UAE mortgage specialist Tamweel to 57.33 per cent from 20.7 per cent on 27 September, and announced that the company would resume lending within the coming weeks.

In November 2008, trading in Amlak and Tamweel's shares was suspended as the UAE Finance Ministry unveiled plans to merge the two rivals into a single bank called Real Estate Bank.

Neither lender has traded since nor issued any new mortgages.

With property mortgages representing 70-80 per cent of their debt exposures, the two lenders have lost substantial amounts of money over the last couple of years. Amlak posted a loss of AED597, 000 (\$162,533) in the three months to June this year.

<http://www.meed.com/sectors/finance/islamic-finance/uaes-noor-islamic-bank-denies-merger-talks/3075040.article>

Qatar Islamic Bank Third Quarter Net Misses Analysts' Estimates

October 17, 2010

Qatar Islamic Bank SAQ, the Persian Gulf country's biggest Shariah-compliant lender, posted a 62 percent rise in third-quarter profit, missing analyst estimates, amid a pickup in economic growth in the emirate.

Net income rose to 305.4 million riyals (\$83.9 million) from 188.5 million riyals a year earlier, according to Bloomberg News calculations based on the bank's nine-month earnings today. Analysts had expected a profit of 344.7 million riyals, according to the mean estimate of three surveyed by Bloomberg.

Qatar's economy will expand by 19 percent this year, double the growth rate in 2009 and faster than any other economy, according to International Monetary Fund projections. Customer deposits in banks rose 23 percent in August compared with the same period a year earlier, while the value of loans increased 19 percent, according to data from the country's central bank.

"During 2010, QIB adopted a strategic plan to remain innovative while overcoming the effects that the global financial crisis had on the region," Chairman Jassim Bin Hamad Al-Thani said in the statement. The "results demonstrate that QIB is moving closer to achieving the goals set forth by our Board of Directors."

The shares fell 2.1 percent to 80.1 riyals on the Qatar Exchange today, before the results were published. The stock has gained 2.8 percent this year.

Qatar Islamic's nine-month profit fell to 907 million riyals, the bank said. Third-quarter earnings were calculated by subtracting first-half profit from the nine-month figure. The bank reported a nine-month profit of 1 billion riyals in 2009.

Nine-month operating income was 1.7 billion riyals, the bank said. The value of assets rose to 44.8 billion riyals at the end of September from 35.6 billion riyals a year earlier.

Chief Executive Officer Salah Al Jaida said earlier this month he would step down for personal reasons. He will be retained as an adviser, the bank said earlier this month. Qatar Islamic is yet to name his full-time successor.

<http://www.businessweek.com/news/2010-10-17/qatar-islamic-bank-third-quarter-net-misses-analysts-estimates.html>

Abu Dhabi Islamic Bank opens 60th branch in Jumeirah

October 17, 2010

Tirad Mahmoud, CEO of Abu Dhabi Islamic Bank, a top-tier Islamic financial services group, has announced the opening of ADIB's new branch in Jumeirah. ADIB's branch network now has 60 branches across the UAE of which 10 are in Dubai. The opening of this new branch is part of ADIB's expansion plan initiated last year that aims to enhance physical presence for its services in the UAE.

The new branch is strategically located in Umm Suqeim to provide easy access for ADIB's growing customer base in the surrounding areas. Like ADIB's other branches, the Jumeirah branch will remain open from 8 am to 2 pm to offer customers its portfolio of Shari'a compliant products and services.

"Our branch rollout is progressing as planned to reach our objectives of having 70 branches in the future. A major part of our expansion plan entails strengthening our presence in Dubai and Northern Emirates as we aim to be closer to our current and potential clients. Since the beginning of this year, ADIB has launched four branches in Dubai and we will continue expanding in the Emirate to reach a maximum number of customers,"

The Jumeirah branch will be managed by Yaqoob Yousuf Ahli. He and his team of talented UAE nationals are distinguished by their training and deep knowledge of ADIB's culture in Islamic banking services.

<http://www.ameinfo.com/245415.html>

Jordan Islamic Bank Progressing with Opportunities

Monday, October 18, 2010

Jordan Islamic Bank (JIB) has, over the last three decades transformed itself into the largest Islamic lender and the third largest domestic bank in Jordan. This is by all standards impressive given that JIB's main competitor in the market is the mighty Arab Bank Group, one of the largest banks in the Middle East and which has its own dedicated Arab International Islamic Bank.

The strengths of JIB is that it has a strong retail franchise with a satisfactory financing and liquidity profile, and has shown great resilience in its asset quality and in sustainable profitability through the economic downturn precipitated inter alia by the global financial crisis. However, the bank would have to expand greatly especially in its capital strength and adequacy to even aspire to an investment-grade rating.

With its huge experience, JIB should be the natural gateway for Islamic finance in the Palestinian Territories and perhaps more importantly to Iraq and Syria. While the former two are still mired in political deadlock in their respective situations, Islamic finance is

starting to make genuine inroads into Syria, where the central bank has already authorized five Islamic banks, including one by ABG, which is JIB's parent.

The genteel but experienced Musa Shihadeh, the vice chairman and general manager of JIB since its launch, is also a pragmatic banker. He knows the limitations of the geopolitics of his home market and those across the border into the neighboring Iraq and Palestinian Territories. As such any imminent forays into these markets would be nigh impossible if not premature.

Nevertheless, he is heartened by S&P's ratings which he stresses is a vindication of the "bank's policy and strategy of continuing to enhance its banking and financing activities in Jordan on the one hand, and maintaining its special relations with foreign financial institutions on the other hand." The rating, he adds, is also an important motivation for JIB to further improve its business and to contribute to the economic prosperity and development of Jordan.

JIB, which held assets totaling \$3.2 billion at end March 2010, focuses primarily on the domestic market servicing both retail and corporate clients in consumer finance, construction finance and trade finance.

"We consider JIB," stressed S&P, "to be of high systemic importance in the Jordanian banking sector. We classify the authorities as supportive toward the banking system. The long-term rating on JIB is therefore one notch above its stand-alone credit profile, reflecting our expectation of extraordinary parent support in case of need. JIB's strategy emphasizes sustained growth and further enhancement of its systems and integration within the group, in our view. Although we acknowledge the bank's good track record in terms of asset quality, we remain cautious about the risks related to its rapid growth in a country that in our view carries high economic risk."

http://www.globalislamicfinancemagazine.com/?com=news_list&nid=1154

Saudi Hollandi Bank inaugurates Olisha Branch for Islamic Banking

Monday, October 18, 2010

Saudi Hollandi Bank (SHB) recently inaugurated its brand new Olisha Branch for Islamic Banking located in the South Eastern area of Riyadh in the presence of the Sharia Board Committee members: Sheikh Abdullah Bin Suliman Al-Manie, Sheikh Dr. Mohammed Al-Garri Bin Eid and Sheikh Dr. Abdullah Bin Abdulaziz Al-Mosleh.

Dr. Bernd van Linder, Managing Director of SHB, and a number of senior executives of Bank were present on the occasion of the new branch launch.

SHB Olisha Branch is one of branches that has now been enhanced with the "Open Branch" concept and equipped with the automated Teller Cash Recycling machines (TCR), which the bank is planning to roll-out Kingdom-wide in order to provide quality

standards through a modern banking environment and to cater for the needs of the various customer segments. The TCR concept is the only technology of its kind in the Kingdom and has proved a great success in providing a more relaxed ambience for serving customers and in improving overall performance and efficiency.

Commenting on the event Mr. Murray Sims GM - Personal Banking Group said that choosing the location of the Branch was the outcome of a vigorous study to ensure that the ideal location was identified and that the right combination of spaciousness, customer convenience and banking was effected to ensure that the very highest levels of customer service can be provided to its valuable clients.

He added that Olisha branch follows the Islamic Sharia principles in all its operations. SHB places Islamic banking Services as one of its key priorities and every effort will be made to provide innovative solutions which contribute in expanding and meeting the increased demand for the Islamic banking services in the Saudi market.

He stressed that Olisha Branch will also have a dedicated branch for ladies as part of the Bank's efforts to enhance ladies banking services and that the ladies branch will open shortly.

<http://www.ameinfo.com/245702.html>

Bank Islam exceeds its financial target

Thursday, October 21, 2010

The nation's first Islamic bank, Bank Islam Malaysia Bhd (Bank Islam) has exceeded its internal financial performance target, according to its managing director Datuk Seri Zukri Samat.

“Looking at the current trend throughout the months of July, August and September this year; we have been on track. I think we can expect another good financial record for our new 18-month financial period ending this December 31, as we are shifting our fiscal year-end to be in line with the calendar's year-end, as per our parent holding Lembaga Tabung Haji (Pilgrims Management and Fund Board),” he told reporters at a press conference here yesterday.

Although no details on the actual figure of the bank's target were disclosed, Zukri related to the media on the group's financial performance for the full-fiscal period ended June 30 this year.

“We registered a record profit-before-tax of RM313 million for the year ended June 2010 the highest level attained since the bank's inception in 1983. That gives our return on equity at 16.2 per cent, which is above the industrial average of 13.9 per cent. That is the indication.”

Similarly, the bank recorded a non-performing financing level of 3.24 per cent in the same period – relatively higher than the industry average of about 2.1 per cent.

Moreover, Zukri said Bank Islam would continue its consumer-centric initiatives by introducing 11 new convenient consumer products soon.

“These are not really new products as other banks have done it already, but it will be new for us. We hope to come out with these products, hopefully by the end of this year after completing all regulatory processes.

“To date, Bank Islam has total assets worth RM30.3 billion, with total financing amounting to RM12 billion. Out of the total financing amount, 75 per cent consist of consumer financing. So yes, we are very much consumer-centric,” he underlined.

Meanwhile, Zukri added that Bank Islam would be gearing up on its plans to go abroad – leveraging on the rise of syariah-compliant financial systems as the instrument of choice among banking consumers.

“It has always been part of the pillars within the bank’s Stability Growth Plan (SGP) for the period of July 1, 2009 until December 31, 2012. We are still looking at it, especially in this part of the Southeast Asian region.”

However, he pointed out that such a plan would have to consider certain aspects, especially in terms of having the right infrastructure to accommodate Islamic banking.

“Islamic banking is not as straightforward as conventional banking. You need to have an Islamic money market. As such, we cannot just go and expand blindly overseas. Those countries should have the regulations and infrastructure to accommodate Islamic banking.

“In this region, however, nations like Indonesia, Singapore and Brunei have that infrastructure, hence our focus on the region. We do not any specific discussions with regards to the Middle East markets – but with the right party, we will consider it,” he stated.

Notably, Zukri also highlighted the nation’s status as the region’s premier syariah-compliant financial hub.

“I must say, there is nothing as conducive and comprehensive as to what we have here in Malaysia, where we have the full array of infrastructure to accommodate the Islamic banking system. This further aligns our direction towards being the world’s Islamic financial centre, with all the ingredients ready.”

<http://www.theborneopost.com/?p=69905>

Bank Islam shows interest in KLIFD project

Friday, October 22, 2010

Bank Islam Malaysia Bhd has interest in the development of the proposed RM26bil KL International Financial District (KLIFD) real estate project, but is not in talks with any parties, Bank Islam managing director Datuk Seri Zukri Samat said.

“We are not in talks with any parties at the moment,” he said after the launch of the bank’s latest product Transact at Palm (TAP) mobile banking-i service yesterday.

KLIFD is a high-end mega property project that includes the development of a world-class financial hub that is expected to house many financial institutions – Islamic and conventional.

The project was mooted by the Government to invigorate the property sector and now appears to be on track with the recent MoU signing this month between 1Malaysia Development Bhd and strategic partner Mubadala Development Co (of Abu Dhabi) to develop the mega project.

Mubadala, as a partner, is expected to bring with it very strong global partnerships and linkages with international blue chip institutions across several sectors, including services, banking and finance.

Details of the KLIFD remain unclear but the endorsement of the proposed mega project has caught the attention of many international players, especially financial institutions.

One fund manager said there were quite a flurry of foreign enquiries about the KLIFD property and financial hub project but not much detail was known about the project, except the cost and that it would be located in the Federal Territory.

“We suspect the mega project will take some time to materialise,” he said.

The Government believes the development of a strong infrastructured financial centre such as KLIFD would put Malaysia on the world map in terms of recognition, particularly as a leader in Islamic banking.

Zukri said Islamic banks in Malaysia were well developed and were offering a host of Islamic products to individuals and corporations.

On Bank Islam’s latest product offering, Zukri Samat said TAP was Malaysia’s first mobile banking without Internet access.

TAP is a mobile banking service using mobile phone as the channel and payment device.

“We target to attract 100,000 new and existing customers to use TAP service over the next 12 months,” he said.

3. SUKUK (ISLAMIC BONDS)

Banks seen raising bonds, sukuk

October 17, 2010

A spike in the issuance of ringgit bonds is possible in the fourth quarter of 2010 given strong interest, favorable credit conditions and avid demand, according to Ratings Agency Malaysia (RAM).

The rating firm expects interest rates to continue normalizing, with the overnight policy rate reaching 2.75 per cent to 3 per cent by year-end.

"The bond market is unquestionably an attractive alternative to loan syndication," RAM said in a statement yesterday.

The agency said while the economy is expected to expand more slowly in the second half of the year, banks and firms are likely to continue raising bonds and sukuk as the economic recovery gains traction.

The recently-unveiled Entry Point Projects also hold promise of increased commercial activities in multiple sectors, with billions of ringgit of private investments poured in.

Likewise, more robust demand from investors is expected to encourage the supply of ringgit-denominated papers.

RAM noted that foreign holdings of emerging-market local-currency debts, including those from Asia, had been on the rise as investors seek to profit from the region's faster growth, strengthening currencies and higher returns vis-a-vis the developed markets.

Holdings of bonds from Indonesia and Malaysia have reportedly been increasing most rapidly.

The corporate bond market expanded a further 6 per cent in third quarter 2010 after soaring 77 per cent in the second quarter. Corporate bond issuance in the first nine months of the year reached RM46.7 billion; a tad lower than the previous corresponding period.

Most of the issuances had taken place in the second and third quarters, in line with optimism over a sustainable economic recovery.

In terms of freshly-rated corporate bonds, 18 new RAM Ratings-rated bonds valued at RM29 billion had been announced for the year by end-September.

http://www.btimes.com.my/Current_News/BTIMES/articles/pram1/Article/

Sukuk Entice Canada Issuing \$2 Billion to Spread Funding

Monday, October 18, 2010

The growing demand for securities that meet Islamic religious principles may lead Canadian governments and companies to start issuing Shariah bonds.

HSBC Bank Canada may offer \$500 million and three government-related borrowers from one Canadian province may issue \$1.5 billion of sukuk, Omar Kalair, chief executive officer of Toronto-based UM Financial, said in an Oct. 14 interview. A “handful” of Canadian companies may sell C\$1 billion (\$980 million) of Islamic debt by 2013, said Daud Vicary Abdullah, global Islamic finance leader at Deloitte Corporate Advisory Services Sdn. in Kuala Lumpur.

Egypt, Nigeria, the Philippines and Thailand have announced plans to sell their first sukuk in the past three months, partly to tap Persian Gulf oil wealth. The combined wealth of the Middle East’s more than 400,000 millionaires grew 5.1 percent in 2009 to \$1.5 trillion, Cap Gemini SA and Bank of America Corp.’s Merrill Lynch unit said in June.

“We would definitely be interested in a sukuk out of Canada,” Ramiz Moukarim, head of debt capital markets at Qatar Islamic Bank SAQ, who helps manages more than 1 billion riyals (\$275 million), said in an Oct. 17 interview from Doha. “Whether it’s regional or federal, it doesn’t matter because of the nation’s rating. We’d have to look at their approach to the market, their pricing structure and the issuance size.”

Positive Response

UM Financial is working with a bank in the Middle East, HSBC and Canadian provinces to help issue sukuk, Kalair said. He declined to name the Canadian borrowers or the Middle East bank because the negotiations are ongoing. Charles Clarke, a spokesman with HSBC Bank Middle East Ltd. in Dubai, declined to comment when contacted by telephone yesterday.

“Canada is seeking to tap wealth in the Gulf to help diversify funding,” said Kalair of UM, a Shariah-compliant financial institution offering credit and investment services. “The province’s minister of finance received a positive response from investors in the Middle East.”

Global sales of sukuk, which pay asset returns to comply with the religion’s ban on interest, fell 24 percent to \$11.8 billion this year from a year earlier, data compiled by

Bloomberg show. Nigeria plans to sell its first Islamic debt within a year, central bank Governor Lamido Sanusi said Sept. 24.

Yields Narrow

The difference between the average yield for global sukuk and the London interbank offered rate has narrowed 20 basis points this month, the most since July, to 353, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. The spread shrank 114 basis points this year. The yield on Malaysia's 3.928 percent note due in June 2015 has dropped 18 basis points to 2.52 percent since Sept. 30, prices from Royal Bank of Scotland Group Plc show. Its yield gap with the Dubai Department of Finance's 6.396 percent sukuk due in November 2014 narrowed 19 basis points this month to 354.

Shariah-compliant debt returned 12 percent so far this year, according to the HSBC/NASDAQ Dubai US Dollar Index, while bonds in developing markets gained 16 percent, JPMorgan Chase & Co.'s EMBI Global Diversified Index shows.

Muslims account for about 2 percent of the 33.5 million people in Canada, which hasn't issued sovereign Islamic bonds, according to data compiled by Bloomberg. Canada has top AAA ratings from Standard & Poor's and Moody's Investors Service. Canada's non-Islamic five-year note maturing December 2015 yielded 1.98 percent when it last traded on Oct. 15, according to data compiled by Bloomberg. Not all investors may buy Islamic bonds offered by Canadian borrowers because non-Persian Gulf sukuk are typically held by banks to maturity, according to Mashreq Capital DIFC Ltd.

"Institutions or investors are going to be a bit hesitant because they rely on secondary market liquidity a lot more than Islamic banks" that tend to buy-and-hold debt, Abdul Kadir Hussain, chief executive officer at Mashreq in Dubai said in an interview Oct. 17.

'Global Appetite'

Deloitte is advising fewer than 10 Canadian companies on possible Islamic debt sales, Vicary Abdullah wrote in an e-mailed response to questions Oct. 13. Some local corporates plan to meet investors in the Gulf this month, he said, without providing details. Canada emerged from recession faster than other Group of Seven nations as consumers, spurred by low interest rates, boosted spending. Bank of Canada said in July it's relying on consumers to contribute about half of the 2.9 percent economic growth next year, while forecasting investment will add 0.7 percentage point to growth in 2011, up from 0.1 percentage point this year.

Economic growth in the Middle East and North Africa will accelerate to 4.1 percent this year, from 2 percent in 2009, the International Monetary Fund said Oct. 6. "There are very few Aaa sukuk out there," Khalid Howladar, a Dubai-based senior analyst at Moody's said in a telephone interview in Dubai Oct. 17. "There's global appetite for high-quality paper. Combine that with the sukuk format and Islamic financial institutions would certainly be interested in a Canadian Islamic bond."

UK government ‘seriously considering’ first sukuk issue

Monday, October 18, 2010

The British government may issue its first sovereign sukuk, or Islamic bond, by the end of the year, the head of a London-based Islamic lender has said.

“They are seriously considering it,” said Fahed Boodai, co-founder and chairman of Gatehouse Bank, a subsidiary of Kuwait’s Global Securities House.

When asked if an issuance is likely this year, he said; “I hope so.”

Gatehouse is a member of the UK Islamic Finance Secretariat, a group of Islamic banks and British government bodies. The group was established to bolster the sharia banking sector in the UK and to lobby for the issuance of the first UK sovereign sukuk.

“Part of our developing business agenda is encouraging the UK government to issue a sukuk,” James Bagshawe, chief operating officer at Gatehouse, said at the time.

Boodai said he was optimistic an issue could be made this year as the sector has won the backing of a number of high-profile British government officials.

“Two weeks ago I had dinner with Lord Sassoon [Commercial Secretary to the UK Treasury] and we exactly discussed this and he said: ‘Is there a difference in price?’ I said; ‘No, there shouldn’t be as it is the same risk for the UK government’ and he was taking notes with his head of debt for the government on reengaging this process,” Boodai said.

London is Europe’s most sophisticated Islamic finance market. Last year the London Stock Exchange listed 25 sukuk, which raised a combined total of £9.1bn (\$14.5bn) - the largest combined value after the Nasdaq Dubai.

“The City of London and the Lord Mayor’s office have been very welcoming to us. The current mayor Nick Anstee made a trip to the United States promoting our industry. It says a lot when you have the Lord Mayor visiting the US promoting Islamic finance,” Boodai said.

The trillion dollar Islamic finance industry was dealt a blow last year when Dubai World asked for a delay in repaying \$26bn in debt. A \$4.1bn sukuk from its real estate unit, Nakheel, staved off default thanks to a rescue package from Abu Dhabi, and the crisis raised questions over the safety of Islamic finance.

The debt crisis was a learning curve for the industry, said Boodai.

“It had a small punch I would say, but not a significant knock out and actually people are reengaged in this process of sukuk or Islamic debt instruments,” he said. “It is still a learning curve and what has happened has probably been a great lesson and for a new chapter to open for these instruments.”

Established in May 2007, Gatehouse has been authorized to operate in London by the UK Financial Services Authority since April 2008.

<http://www.arabianbusiness.com/uk-government-seriously-considering-first-sukuk-issue-357044.html>

Indonesia Trailing Malaysia in Sukuk on Taxes

Tuesday, October 19, 2010

Indonesia is under pressure from banks to match tax breaks and product offerings announced by Malaysia last week to catch up in developing Islamic finance.

“The government needs to play a more active role,” Andi Buchari, a director at PT Bank Muamalat Indonesia, the nation’s oldest Islamic bank, said in a telephone interview from Jakarta yesterday. “We need more incentives, things such as a tax holiday, or perhaps, an incentive for people to put their money in Shariah banks.”

Malaysia has the largest market for sukuk and is a global hub for the Islamic finance industry that manages \$1 trillion of assets. The government will cut taxes on Shariah-compliant transactions next year to promote “innovation in Islamic securities,” Prime Minister Najib Razak said in his Oct. 15 budget speech.

Indonesia, which has the world’s biggest Muslim population at 192 million, had 75 trillion rupiah (\$8.4 billion) of Shariah-compliant banking assets in 2009, or about 3 percent of the total, according to the central bank. The amount compares with 337.6 billion ringgit (\$109 billion) in Malaysia, or 20 percent of banking assets, the Finance Ministry said in the 2010-2011 economic report released in Kuala Lumpur last week. In Malaysia, 60 percent of the 28 million people are Muslim.

Auction Failures

Indonesia failed to sell all of the government sukuk it offered in an auction on Oct. 5, even after suspending sales for two months because investors demanded higher yields than the government was willing to offer. The government raised 382 billion rupiah less than the targeted 1 trillion rupiah, the 12th consecutive sale that fell short of plans this year.

Investors sought yields as high as 9.37 percent for the five-year sukuk and 8.5 percent for the 10-year notes, according to the Indonesian central bank's website. The government raised 3 trillion rupiah from an auction of conventional bonds on Sept. 28 with yields of 7.3 percent for the six-year notes and 7.72 percent for the 11-year securities.

"Indonesia presents exciting prospects for the Islamic banking business," Mudassir Amray, head of Asia Pacific Islamic banking at Citigroup Inc. in Hong Kong, said in an e-mail on Oct. 15. "With the largest Muslim population in the region and gross domestic product of over \$670 billion, the growth potential is enormous."

Global sales of sukuk fell 23 percent to \$12 billion in 2010 from the same period a year earlier, according to data compiled by Bloomberg. Issuance totaled \$20.2 billion last year, up from \$14.1 billion in 2008 and was a record \$31 billion in 2007, the data show.

Yield Spread

The extra yield investors demand to hold Indonesia's dollar sukuk rather than Malaysia's has narrowed 24 basis points, or 0.24 percentage point, to 24 since the start of the third quarter, according to prices from the Royal Bank of Scotland Group Plc.

Shariah-compliant bonds returned 12.5 percent this year, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index, while debt in developing markets gained 16 percent, JPMorgan Chase & Co.'s EMBI Global Diversified Index shows.

The difference between the average yield for emerging-market sukuk and the London interbank offered rate has narrowed 22 basis points this month to 351, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index.

Malaysia's Najib said last week tax cuts will apply to certain types of bai bithaman ajil and murabahah contracts. Bai bithaman is a product with an agreed profit rate, while murabahah is a transaction involving the sale and purchase of goods in which payment is deferred. The government will start selling debt to individual investors that pays asset returns to comply with the religion's ban on interest, he said.

Tax Incentive

Malaysia in the past year has issued permits to global investors including Aberdeen Asset Management Plc and Franklin Templeton Investments to start Islamic fund management. The funds, which will invest in ringgit and non-ringgit denominated assets, will be exempt from paying taxes until 2016, according to the central bank. Sukuk sold in Malaysia have reached \$83.5 billion, accounting for 65 percent of the global total, according to the ministry's report.

To spur demand for sukuk, Indonesia may negotiate rates with potential investors in the so-called book-building process, Dahlan Siamat, director of the Islamic financing unit at the Ministry of Finance, said in a telephone interview yesterday. It will also widen the

range of assets from which returns are paid, in compliance with Islamic law that bans interest payments.

“In addition to auctions, we are considering issuing sukuk through book-building,” Dahlan said from Jakarta. “Government-linked companies can propose projects to be funded with sukuk,” allowing that to be used as the underlying asset for the debt, he said.

<http://www.businessweek.com/news/2010-10-19/indonesia-trailing-malaysia-in-sukuk-on-taxes-islamic-finance.html>

IDB Sukuk Said to Yield Up to 50 Points over Mid swap

Tuesday, October 19, 2010

Islamic Development Bank’s five-year Islamic bonds may be priced to yield between 40 basis points and 50 basis points more than the benchmark midswap rate, three people familiar with the plan said.

The dollar-denominated sukuk may be priced as soon as tomorrow, said two of the people, who declined to be identified as the terms of the deal aren’t set. CIMB Holdings Bhd., Citigroup Inc., HSBC Holdings Plc and Standard Chartered Plc are managing the sale, two people familiar with the plan said Oct. 4.

Persian Gulf borrowers sold \$9.4 billion of bonds in the three months until the end of September, the most since the fourth quarter of 2009 when sales totaled \$16.1 billion, according to data compiled by Bloomberg. Qatar Islamic Bank SAQ sold \$750 million of five-year Islamic bonds on Sept. 30. The Dubai government last month raised \$1.25 billion in its first bond sale since the Dubai World debt crisis.

The Jeddah-based multilateral lender plans to sell \$1 billion of five-, seven- and 10-year Islamic bonds in the fourth quarter under its \$3.5 billion medium-term note program to fund development projects in its member countries, Vice President Abdul-Aziz al-Hinai said on Aug. 24. The bonds will be listed in London and Kuala Lumpur.

The IDB, which has 56 member countries including Egypt, Saudi Arabia and Turkey, is financing up to \$8 billion of projects in 2010, al-Hinai said. The proceeds from the sukuk will be used to mostly finance infrastructure development of \$3 billion to \$3.5 billion, projects that “are highly needed for the growth of our member countries,” he said. The bank is rated the AAA, the highest rating at Standard & Poor’s and Aaa, the highest at Moody’s Investors Service.

Islamic finance transactions are based on the exchange of asset flows rather than interest, to comply with the religion’s shariah principles.

Jordan sovereign sukuk law almost ready

Tuesday, October 19, 2010

Jordan's first ever law covering the issuance of sovereign Islamic sukuk has been finalized and bankers and officials hope it will let the kingdom tap the fast-growing Islamic banking industry's huge pool of liquidity.

Prominent Islamic bankers, along with members of a top-level ministerial committee mandated with drafting the sukuk law, said the legislation removes legal uncertainties and would be submitted to the cabinet in as little as two weeks.

It should be passed by year end, widening Jordan's borrowing options beyond conventional public debt instruments and helping finance a growing deficit, worsened by the global downturn and a fall in foreign aid that traditionally covers budget shortfalls.

"The main prerequisites for the issuance of sukuk have been drafted. (The draft law) provides the regulatory framework ... and I expect in two weeks' time the draft law will be submitted to the cabinet," committee leader and Minister of Religious Affairs Abdul Salam Abbadi told the Reuters Middle East Investment Summit.

The draft law overcomes an impediment facing the government if it was to issue sukuk to finance major projects under Islamic-compliant Sharia terms, which require Islamic banks to first buy an asset which they then sell to the borrower.

By allowing the setting up of a special purpose vehicle (SPV) into which state assets are transferred, the law overcomes legislation preventing the government from forgoing title to assets or property when it borrows.

Sources within the committee said the draft law also offers guarantees that protect investors, approves the listing of sukuk on the local bourse, and allows for a secondary market in Islamic-compliant debt.

DIVERSIFYING FUNDING

Finance Minister Mohammad Abu Hammour said it was a government priority to enact the law as soon as possible.

"Islamic banks have been less affected by the global crisis and Islamic financing tools have lower risk," he said. "The law will allow us to benefit from the financial sources available in Islamic financial institutions ... spread across the region."

Bankers say long-term maturity Islamic debt was also an innovative way of financing major infrastructure projects that the government is offering through private-public partnerships under lucrative terms to attract foreign investors.

"It helps us find the necessary funding for crucial projects that cannot be financed through the state budget," Abu Hammour told Reuters.

The government has slashed capital spending on such projects as part of major cuts to curb its budget deficit.

Islamic bankers say Jordan's plans to tap the sukuk market were a long-awaited move offering them opportunities to utilise excess funds.

"We would love to utilise our idle money. It's a win-win situation. I am keen to develop this market because it has a good return and low risk and the government is keen to diversify its funding," said Sami Al-Afghani, chief executive of Jordan Dubai Islamic Bank.

Bankers say the sale of sukuk would also allow Jordan to tap potential funds from international Islamic financial institutions.

"You open up all Islamic funds for your paper debt without excluding conventional banks. Islamic money is going into the regional market where opportunities are," Tareq Aqel, CEO of Rajihi Bank Jordan, said.

Jordan has not had special laws relating to Islamic finance, but as Islamic financing expands pressure is mounting on the monetary authorities to apply sharia compliant legislation.

Assets of the three existing Islamic banks in Jordan alone amount to around 12 percent of the total banking system and their financing accounts for over 16 percent of total credit.

<http://www.reuters.com/article/idUSTRE69I56J20101019>

Australia Seeks Tax Changes to Promote Sukuk

Wednesday, October 20, 2010

Australia plans to change laws to ensure Islamic finance products are taxed fairly as the government seeks to attract investors from the Middle East and Asia, paving the way for sukuk sales.

The national taxation board will hold talks next month in Sydney, Canberra and Melbourne on how to best ensure that Islamic finance transactions are treated the same as equivalent non-Islamic deals. The board noted this month that mortgages that comply with religious principles may lead to stamp duty being paid twice, as the financier buys

the property and then sells it to his client. Under a conventional mortgage there is only one sale that attracts the duty.

While Australia's 365,000-strong Muslim population is 2 percent the size of Malaysia's, the largest sukuk market, making the industry more accessible would generate demand, the government has said. Australia is looking to join countries from Egypt to South Korea in seeking to ease barriers to Shariah-compliant products and tap the industry's \$1 trillion in assets, which the Kuala Lumpur-based Islamic Financial Services Board predicts will reach \$1.6 trillion by 2012.

"Islamic finance is a rapidly growing part of the global financial system and Australia is in an excellent position to capitalize on that growth," Assistant Treasurer Bill Shorten said in an e-mail response to questions from Canberra on Oct. 18. Islamic finance will provide Australia with access to more offshore capital, he said.

Natural Resources

Australia's natural resources will provide companies seeking to sell sukuk with the underlying assets to back the debt and conform to the religion's ban on interest, according to Zaid Ibrahim & Co., Malaysia's biggest law firm.

Middle East money managers are interested in Australia investments that offer higher yields than most developed markets as well as potential returns from gains in the currency. Australia's dollar advanced 7.1 percent this year against its counterparts among the Group of 10 currencies, second only to the yen.

"Australia wants investment from Gulf countries and that's the reason they are taking it very seriously," Abu Umar Faruq Ahmad, chairman of the Shariah Supervisory Board at the Sydney-based Islamic Co-Operative Finance Australia Ltd., said in an interview. "I see a lot of interest from the Gulf," said Ahmad, who is also an assistant professor of Islamic finance at Hamdan Bin Mohammed e-University in Dubai.

There are a small number of companies offering Islamic financing in Australia, the tax office said this month, including the Muslim Community Cooperative Australia, a Melbourne-based mortgage provider, and Islamic Co-Operative Finance Australia.

'Tweak Regulations'

Australia's tax office will report by June 2011 on how the government can ensure the industry gets equal level of treatment, the government said on its website on Oct. 13.

"Islamic finance is a booming sector and Australia should be part of the action," Trade Minister Simon Crean said on Feb. 12 in Melbourne.

Malaysian law firm Zaid Ibrahim, which has offices in Sydney and Melbourne, is advising "a few" Australian companies on overseas sukuk issuance and Middle East

investors looking to buy Islamic assets in Australia, Chairman Nik Norzrul Thani said in a phone interview on Oct. 18 from Jakarta.

“It’s very important for them to understand that they may need to tweak regulations a bit to facilitate sustainable Islamic finance” businesses, said Nik. “An amendment is needed to create a neutral playing field, and so having tax neutrality as opposed to tax favoritism.”

Limited Demand

Demand for sukuk will be limited in Australia because the market is small, according to George Boubouras, head of investment strategy at UBS AG’s Australian wealth-management unit.

“At this stage, it’s not influential, but it’s a structure that can grow going forward,” he said in an interview from Melbourne this week.

Global sales of sukuk, which pay asset returns instead of interest, fell 23 percent to \$12 billion in 2010 from the same period a year earlier, according to data compiled by Bloomberg. Issuance totaled \$20.2 billion last year, up from \$14.1 billion in 2008.

Shariah-compliant debt returned 12 percent this year, according to the HSBC/NASDAQ Dubai US Dollar Index, while bonds in developing markets gained 16 percent, JPMorgan Chase & Co.’s EMBI Global Diversified Index shows.

The gap between the average yield for global sukuk and the London interbank offered rate has narrowed 14 basis points this month to 359, according to the HSBC/NASDAQ sukuk index. The spread widened eight basis points yesterday and shrank 109 basis points so far this year.

Tax Implications

The yield on Malaysia’s 3.928 percent Islamic note due in June 2015 has dropped 23 basis points to 2.48 percent this month, prices from Royal Bank of Scotland Group Plc show. The yield difference with the Dubai Department of Finance’s 6.396 percent sukuk due in November 2014 widened 16 basis points this month to 387. The gap widened 17 basis points yesterday.

Asian Finance Bank Bhd., the Kuala Lumpur-based unit of Qatar Islamic Bank SAQ, is working with the government in New South Wales as an advisor for Islamic financial services and held meetings with Australian government officials, Mohamed Azahari Kamil, head of the lender, said in an interview yesterday.

“They are looking at the possibility of all the tax implications because to develop Islamic finance they have to ensure tax jurisdiction is much better than the conventional,” Mohamed Azahari said.

‘Stimulate Discussion’

To compete with Singapore and Hong Kong as a regional financial hub, Australia needs fewer rules and lower taxes on overseas investors and financial institutions, the Australian Financial Centre Forum said in a Jan. 15 report.

Companies including Westpac Banking Corp. are already offering Shariah-compliant products to tap demand from Islamic investors for Australian assets.

LM Investment Management Ltd., based in Queensland, started LM Australian Alif as Australia’s first Shariah-compliant fund, according to its website. Westpac Banking began offering nationwide commodity-trading services targeting Islamic institutions in February.

Next month’s talks will help the government’s plans to give Islamic finance providers the same opportunities as conventional debt buyers as Australia seeks to attract investors from Asia and the Middle East, Shorten said.

<http://www.businessweek.com/news/2010-10-20/australia-seeks-tax-changes-to-promote-sukuk.html>

Sukuk issuance seen below \$25bn in 2011

Thursday, October 21, 2010

Sukuk issuance in 2011 will likely be less than \$25 billion as Gulf debt restructurings and state deficit constraints dampen borrowing, a Reuter’s quarterly poll showed on Thursday.

Issuance is expected to reach \$30 billion this year, according to Kuwait Finance House. Based on this forecast, the poll’s estimated sales in 2011 would mark the first decline since 2008 when sales dropped 56 percent.

Sales stood at \$23.3 billion in 2009 and \$14.9 billion in 2008, Standard & Poor’s has said.

A recent slew of sukuk sales from Middle Eastern issuers are unlikely to be a trigger for a flood of supply next year as concerns about the global economy weigh on the market, bankers and fund managers who took part in the poll said.

Balance sheet adjustments and credit restructuring in Middle East and North Africa would be the main obstacles to issuance in 2011, said Mohieddine Kronfol, an asset manager at Dubai-based Algebra Capital.

A flurry of recent Gulf sukuk sales, including Islamic Development Bank’s \$3.5 billion programmed and Qatar Islamic Bank’s \$750 million paper, had bred hopes that the

market was poised for an upturn, although experts warned that any recovery would be fragile.

Sukuk issuance would be driven by the low interest rate environment, governments' infrastructure funding needs and rising Gulf wealth due to strong crude prices, said Wan Murezani Wan Mohamad, fixed-income analyst at the Malaysian Rating Corporation.

John Sandwick, a Geneva-based Islamic asset manager, said non-Arab and non-Malaysian issuers were likely to turn to the sukuk market to the cover for the over-\$1 trillion of new bonds needed to refinance maturing bonds.

"The Western debt absorption rate is handicapped by the current malaise of bad debt on bank, pension fund, insurance company and endowment balance sheets. New sources of capital must be found to cover all this need for debt."

About \$60 billion of debt are set to mature in Gulf Cooperation Council countries next year, Kronfol said. New issuers such as Kazakhstan are also expected to emerge, although the bulk of issuance is likely to come from Malaysia and the Middle East, the poll's respondents said.

Governments and firms from the infrastructure, telecoms, energy, financial and plantation sectors would be the main issuers, they said.

http://www.tradearabia.com/news/BANK_187748.html

Sukuk Spreads in Gulf Widen Most since May

Friday, October 22, 2010

Spreads on Persian Gulf Islamic bonds widened by the most in five months this week as investors sold sukuk with lower debt ratings to raise funds for new issuance from state-backed banks.

The difference between average yields over the London interbank offered rate widened 41 basis points to 481, the biggest increase since the week ended May 21, according to the HSBC/NASDAQ Dubai GCC US Dollar Sukuk Index, which tracks 19 corporate and sovereign bonds. The spread on global Islamic debt raised 23 basis points to 377, the HSBC/NASDAQ US Dollar Sukuk Index shows.

Global investors are demanding higher yields for emerging-market debt after China's interest-rate increase on Oct. 19 reduced appetite for risk, said Shera Shah Shaharudin, a Kuala Lumpur-based fixed-income portfolio manager at Nomura Asset Management Malaysia Sdn. The yield premium on bonds in developing economies over U.S. Treasuries widened 12 basis points this week to 259, according to the JPMorgan Chase & Co. EMBI+ Index.

“In a risk-averse situation, investors switch from lower- rated assets to safe havens,” Shera said in an e-mailed reply to questions yesterday. “The huge influx of supply will have an impact on overall prices, especially in the short term.”

Sukuk sales are picking up after Dubai World reached an agreement with creditors to restructure \$24.9 billion of liabilities last month. Companies in the six countries that make up the Gulf Cooperation Council have issued \$1.25 billion since the announcement on Sept. 10, which will bring the total for the year to \$3.7 billion, according to data compiled by Bloomberg.

Temporary Decline

Abu Dhabi Islamic Bank PJSC, the United Arab Emirates’ second-biggest Shariah-compliant lender, is meeting investors this week to sell debt that complies with religious principles. The lender is rated A2 by Moody’s Investors Service, the sixth- highest investment grade. Islamic Development Bank, a Jeddah- based multilateral lender that has a top AAA rating from Standard & Poor’s, sold \$500 million of five-year sukuk Oct. 20.

“People sold and are keeping powder dry for the new issuance,” Abdul Kadir Hussain, who manages \$2 billion of mainly Persian Gulf assets as chief executive officer at Mashreq Capital DIFC Ltd. in Dubai, said in an interview yesterday. “I suspect you’ll see a reversal in the sell-off in a couple of weeks.”

Sukuk yields on debt of DP World, the world’s fourth- biggest container port operator, the Dubai government and Dar Al Arkan Real Estate Development Co., Saudi Arabia’s largest property company by market value, rose this week after the higher-rated debt issues.

Diversify Holdings

The yield on the 6.25 percent dollar-denominated sukuk from DP World due in July 2017 climbed 43 basis points to 6.96 percent this week, according to data compiled by Bloomberg. The rate on Dubai Department of Finance’s 6.396 percent note due in November 2014 increased 26 basis points to 6.37 percent. The yield on Dar Al Arkan Real Estate’s debt raised 60 basis points to 11.12 percent.

DP World is rated BB by S&P, while Dar Al Arkan has a BB- rating, both non-investment grades.

Qatar Islamic Bank SAQ, the country’s largest Shariah- compliant bank that isn’t rated by S&P or Moody’s, received \$6 billion in bids as it raised \$750 million selling five-year Islamic bonds on Sept. 30.

“There’s not much highly rated sukuk out there and as a portfolio manager you need to diversify,” said Zeid Ayer at Kuala Lumpur-based CIMB-Principal Islamic Asset

Management Bhd., who helps manage \$1.6 billion of Shariah-compliant assets at the joint venture between U.S.-based Principal Global Investors and Malaysia's CIMB Group Holdings Bhd.

'Spectacular Run'

Shariah-compliant bonds returned 11.7 percent this year, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index, while Islamic notes sold by issuers from the GCC have returned 12 percent, according to the HSBC/NASDAQ Dubai GCC US Dollar Sukuk Index. Debt in developing markets gained 15.8 percent, JPMorgan Chase & Co.'s EMBI Global Diversified Index shows.

"Dubai-related issuers had a spectacular run of late and we saw a few names give away some of their gains on account of profit-taking and reducing exposure to risk," Ahmad Alanani, the Dubai-based director of fixed-income sales at investment bank Exotix Ltd., said in an interview yesterday. "The bottom line is we saw a sell-off across the spectrum this week."

The yield on Malaysia's 3.928 percent Islamic dollar note due in June 2015 fell eight basis points to 2.47 percent this week, according to prices provided by Royal Bank of Scotland Group Plc. The extra yield investors demand to hold Dubai's sukuk rather than Malaysia's has widened 31 basis points to 384 so far this week, according to data compiled by Bloomberg.

"You would still get a wider spread if you buy sukuk, not in Malaysia but certainly in the Gulf," said Zeid of CIMB- Principal. "There's been a lot of supply which appeared to be well absorbed but investors are now taking profits."

<http://www.businessweek.com/news/2010-10-22/sukuk-spreads-in-gulf-widen-most-since-may-islamic-finance.html>

Africa Wants to Attract Islamic Banking Investors

Thursday, October 21, 2010

In less than a decade, the value of the Sukuk market, financial instruments that are the Islamic equivalent of bonds has reached an impressive \$112 billion and Africa is being eyed by Islamic bankers as a promising destination.

Wikipedia defines Sukuk as securities that comply with the Islamic law (Shariah) and its investment principles, which prohibit the charging or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets. Fixed-income, interest-bearing bonds are not permissible in Islam.

http://www.north-africa.com/naj_news/news_na/1octtwenty45.html

MARC downgrades Ample Zone's class B sukuk Ijarah notes

Thursday, October 21, 2010

Malaysian Rating Corp Bhd (MARC) has lowered its ratings on Ample Zone Bhd's RM10.9mil Class B Sukuk Ijarah (Sukuk) to A-IS from AA+IS, and affirmed RM75mil Class C at B+IS.

The outlook on the ratings remains negative.

It noted that the rating downgrade on the Class B Sukuk reflected severe stress on the property-backed transaction caused by continued non-payment of rentals from entities related to Talam Corp Bhd for space occupied within the securitised properties.

“This has caused the balance in the Sukuk Profit Reserve Account to fall below its minimum required level since January,” MARC said in a press release today.

According to MARC as of August, the total amount in arrears from the non-performing tenants is close to RM14mil.

Talam group is the seller-lessee of the remaining three ijarah assets under the Sukuk comprising Menara Maxisegar, Midpoint Shopping Complex and Pandan Kapital Shopping Complex.

<http://biz.thestar.com.my/news/story.asp?file=/2010/10/21/business/20101021103402&sec=business>

4. ISLAMIC INVESTMENTS; EQUITIES/SECURITIES & FUNDS

Islamic fund management sector to see global players

Wednesday, October 20, 2010

The largely-fragmented Islamic fund management industry will welcome more global players as demand for Sharia-compliant asset management products rise, a fund manager at Algebra Capital said on Wednesday.

The asset management portion of Islamic finance has been at a virtual standstill in the \$1 trillion industry, in part, due to its perception of yielding poorer returns than conventional funds.

"We think the type of players in Islamic funds is going to change and more established global managers will play a direct role," Mohieddine Kronfol, managing director at Algebra Capital told the Reuters Middle East Investment Summit.

"The environment is better and people have begun to appreciate the need for such products," he said.

The Dubai-based asset management firm was in the process of developing additional funds along with its partners, including a global sukuk fund to tap into rising demand, Kronfol said.

"These don't necessarily have to be in our names. It will be someone else launching it and advising the work to us. It most probably will not be an Algebra Capital fund," he said.

The executive also said he expected the wave of debt issues in the region to continue as the need for additional sources of funding and demand for emerging market debt instruments among global investors increase.

"People generally are not really aware of how quickly the MENA bond market is developing," Kronfol said.

"You have several companies in the region that are well managed, that can access capital markets and that can think about diversifying their means of funding."

Global asset manager Franklin Templeton holds a 40 percent stake in Algebra and the Dubai-based firm runs the Middle East North Africa equity fund for the global asset manager.

<http://www.reuters.com/article/idUSTRE69J37K20101020>

5. ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS & CONFERENCES

International moot on Islamic banking at Expo Centre on November 2

Thursday, October 21, 2010

World's largest International Conference and Exhibition on Islamic banking will be held on November 2, 2010 at Expo Centre Lahore, where speakers from Malaysia, United Arab Emirates, Kuwait, Mauritius, USA, Indonesia, Switzerland and UK will share their valuable knowledge on Islamic banking and finance.

More than 2000 participants will join this mega event ever organized in the history of Pakistan, said a spokesman of the Al-Huda Centre of Islamic Banking and Economics here on Wednesday.

International collaboration of Islamic banking industry, development of Islamic banking and finance, Shariah standardization, growth and progress of Islamic banking in non-Muslim countries, and growing trend of the adoption of Islamic banking and finance after

the failure of conventional banking in all over the world, Takaful, Sukuk and Islamic microfinance will be the topics of speeches and discussion in this international conference.

It will also include the discussions on the post flood circumstances in most parts of Pakistan and how the Islamic finance can be a better help for the flood victims in overcoming this frightful condition. Post Event Training workshops on Islamic Microfinance and Shariah Standards of Islamic Banking are also arranged to facilitate the bankers and individuals to impart the knowledge of Islamic banking and finance in a better way to move into this growing industry with the accurate equipped knowledge.

Conference organiser, Muhammad Zubair Mughal, Chief Executive Officer, AlHuda Centre of Islamic Banking and Economics said that this is an honour for Pakistan to host such a conference on Islamic banking and finance wherein the well-known scholars and researchers from across the globe are participating.

He further added that it is not wrong to say that the image of Pakistan in international Islamic banking industry is note worthy and Pakistan is rendering the services for the development of Shariah complaint banking all over the world. He said that the man power of Pakistani Islamic banking and finance is offering technical and Shariah support to the Islamic banking industry of Europe, America and Middle East. He said that a unanimous note from the participant countries will be released by the end of this mega international conference that will prove to be a mile stone in Islamic banking and finance industry.

<http://www.brecorder.com/section/49/1/1115195:international-moot-on-islamic-banking-at-expo-centre-on-november-2.html>

Umayya Toukan (CBJ) Governor highlights growing global role of Islamic financing system

Monday, October 18, 2010

Central Bank of Jordan Umayya Toukan on Sunday stressed the importance of Islamic financing and its growing role in the global financial system. In his address at the opening of a conference on “Islamic Financing: Structure and tools”, Toukan highlighted the steps to be taken to develop the Islamic financing system. He also shed light on monitoring criteria in Islamic banks and the extent of their conformity with international practices. The conference, which was held at the? Institute of Banking Studies is organized by the CBJ, the Malaysian central bank and the Jeddah-based Islamic Development Bank.

<http://www.jordantimes.com/index.php?news=31014>

Barwa and Barwa Bank Sponsors Islamic Finance Conference

Friday, October 22, 2010

Barwa is one of Qatar's world leading real estate and investment companies and is the unprecedented in being the Platinum sponsor of the First Islamic Finance Conference, being held from 20-21 October at the Sharq Village and Spa in Doha.

The conference aims to discuss the opportunities available to the Islamic finance industry and the challenges the Islamic finance industry faces on a global level. Mr Mohammed Abdulaziz Al Saad, Executive Director of Group Investments of Barwa, and Vice Chairman of Barwa Bank, spoke at the opening session of the conference.

In his speech he said: "Barwa's focus in the recent past has shifted from real estate towards investment. To a rapidly developing group like Barwa, management of risk is crucial. The use of Islamic finance because of its nature and structure allows us to do that more effectively. Barwa is a Shariah compliant company, and what sets it apart from its competitors is its adherence to Shari'ah compliant business practices through its diverse subsidiaries such as Barwa Bank, Al Aqaria, Waseef and Barwa Real Estate."

He added: "Barwa is active as a consumer of finance for our real estate development projects, and as an investor

In both instances we seek out the most effective and appropriate structures to meet our requirements. This is becoming easier and more cost effective as the range of Islamic financial services, instruments and structures grows. The fact that under Islamic finance risk is more closely related to a project, and thus it allows better disclosure of risk, also supports the ratings we are able to get for the finance we seek. "

Barwa Bank is also supporting the First Islamic Finance Conference as a Gold Sponsor. Barwa Bank, a fully owned subsidiary of Barwa Real Estate, provides a full range of Islamic banking services including real estate, corporate and private banking, real estate finance, structured finance, investments and asset management.

http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1166
