

# **BUSINESS AND POLITICS IN THE MUSLIM WORLD**

## **Weekly Report on Global Islamic Finance and Business in the Muslim World**

**Period: December 19 – December 24**

**Report # 151**

**Submitted By: Zain Arshad**

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## Summary:

Standard Chartered Plc and Bank Islam Malaysia Bhd. plan to offer Shariah-compliant derivatives in Malaysia that will allow investors to hedge against interest rates and commodity prices, Standard Chartered, the U.K. bank that earns most of its profit from emerging markets, will begin selling contracts in the first quarter that provide protection from fluctuations in the cost of items such as rice and oil. Bank Islam Malaysia, the country's oldest Islamic lender, will offer swaps that allow two parties to exchange different forms of payments from an underlying asset.

MNRB Holdings Bhd. said it has started discussions with Allianz Malaysia Bhd. on selling shares of its wholly-owned takaful, or Islam-based insurance operation, Takaful Ikhlas Sdn. Bhd, The insurance group received approval from Bank Negara Malaysia, the country's central bank and financial regulator, to commence negotiations with Allianz Malaysia "on the proposed divestment of a portion of our equity interests" in Takaful Ikhlas, said MNRB, an investment holding company with retakaful and reinsurance subsidiaries including Malaysian Re.

The sukuk industry has emerged as one of the main components of the Islamic financial system and has increasingly become an integral subset of the international financial system, over the years; the sukuk market has grown by 10% to 15% annually to reach approximately USD100bln and contributed to 12% of the global Islamic finance assets in 2009. Prospects for the sukuk market remain bright. In 2009, global sukuk issuances surged by 58.8% yoy to USD24.7bln compared to the USD15.5bln raised in 2008, In the first nine months of 2010 (9M10), total sukuk issued globally increased further to USD27.9bln, 62.3% higher than the USD17.2bln raised in 9M09 and surpassing 2009 full year issuance of USD24.7bln. This was in line with a gradual global economic recovery and improved market condition and investor sentiment.

An Islamic institute to help organisations create good business ethics in India is making developments as the Islamic finance industry is reaching \$2 trillion dollars by 2012, In this endeavour, the Abu Dhabi Islamic Bank (ADIB) and the Higher Colleges of Technology (HCT) have signed an MoU to create the region's first Institute of Islamic Economics and Ethics.

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## 1. GLOBAL FINANCE & GLOBAL ISLAMIC FINANCE

### **Sudan to become Sharia-compliant and Islamic country if South secedes**

*Sunday, December 19, 2010*

In a last-ditch attempt to assure his base, President Bashir has promised that he will make Sudan an Islamic nation that will be governed by sharia law, according to a televised speech on he gave on Sunday.

“We’ll change the Constitution,” he said. “Shariah and Islam will be the main source for the Constitution, Islam the official religion and Arabic the official language.”

In recent days, Mr. Bashir has been heard and seen spewing such statements because his party has shown signs of resigning to the inevitability of independence for Southern Sudan.

As the country disintegrates, Mr. Bashir is also fearing the biggest elephant in the room: a political backlash from northern leaders such as the former prime Minister Sadiq Al Mahdi who has recently threatened 'regime change' on NCP if his concerns and demands are not addressed.

To those in the South, Bashir's vision for the north is not surprising because the north has always been under Islamic law.

The only change came in 2005, when the Comprehensive Peace Agreement incorporated respect for religious and ethnic diversity.

But that agreement's interim period is nearing its end and for Bashir, he has to give assurances.

“If South Sudan secedes, we will change the Constitution, and at that time there will be no time to speak of diversity of culture and ethnicity,” Mr. Bashir said.

[http://www.newsudanvision.com/index.php?option=com\\_content&view=article&id=2276:sudan-to-become-a-total-sharia-compliant-and-islamic-country-if-south-](http://www.newsudanvision.com/index.php?option=com_content&view=article&id=2276:sudan-to-become-a-total-sharia-compliant-and-islamic-country-if-south-)

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### **Kuwait banking stocks end mixed**

*Sunday, December 19, 2010*

Despite positive growth prospects, the Kuwait market KSE does not find momentum for a year-end rally. Citi expects the Kuwait economy to grow 4.5% in 2011 (after 3.1% in 2010). The KSE Market index lost 0.73% to end at 6,798. Financial heavyweights National Bank of Kuwait (NBK) and Islamic bank Kuwait Finance House (KFH) ended flat at KD1.340 and KD1.180 respectively. Gulf Bank of Kuwait (GBK) declined 1.8% to finish at KD0.540 as investors cash in profits. GBK gained over 86% year-to-date.

## **Islamic endowments to accelerate growth of Islamic finance**

*Sunday, December 19, 2010*

Shari'a compliant philanthropy, or planned giving, is on the rise with the Waqf sector (Islamic endowment) estimated at around \$105bn globally, according to various research conducted recently by Ernst & Young on the sector.

Ashar Nazim, Director and Head of Islamic Financial Services at Ernst & Young, says, "The Shari'a compliant endowment sector provides a unique impetus for the growth of Islamic finance including the nascent asset management industry. While Waqf has always been an integral part of Islamic countries' economic system, it is only now that a more formal structure is evolving for professional investment management of this pool of money, with an emphasis on making a sustainable impact. More investment firms are eyeing this opportunity, adding a new dimension to the Islamic asset management industry."

### *Cash and Real Estate*

A significant majority of the Waqf assets are in the form of real estate, and could be as high as 70 to 80% of the total sector assets.

"The remaining money is deployed in Shari'a compliant money markets mostly with regional financial institutions. Between Awqaf institutions (organizations that manage Waqf assets) and other entities, the Cash Waqf alone is estimated at \$35bn," explains Ashar.

### *Opportunity for Islamic asset managers*

Investment management of Waqf pool, now a substantial amount globally, has not traditionally been the strength of Waqf administration entities. The institutions command good donor loyalty and are also strong in disbursing to the relevant social causes. However, the historical returns on managing these investments have been dismal, with the Cash Waqf mostly earning bank savings return.

"The opportunity cost in terms of foregone wealth is staggering. The Cash Waqf sector would potentially generate an incremental \$2-3bn annually, simply by aligning with professional investment managers. The need is most critical given the high fiduciary responsibility of the trustees to manage the wealth in the best possible manner," Nazim says.

### *Islamic asset managers challenged to innovate*

Islamic funds industry is still evolving, having been able to tap only 11% of the estimated

\$480bn wealth pool at its disposal. Most of the products relate to vanilla equity markets and there is an urgent need to innovate and diversify to new asset classes. Islamic endowments, both real estate and cash pool, is likely to be the next breakthrough opportunity for the Islamic fund managers.

*Go to market strategies are key*

Tapping into the multi-billion dollar Waqf pool first requires ensuring a credible governance and operational infrastructure to safeguard the sanctity of the Waqf charter. In addition, understanding the donor segment and their unique touch points is critically important to raise endowment funds. For Islamic financial institutions their existing investor base, comprising of high net-worth individuals and family offices, makes for a good starting point.

<http://www.ameinfo.com/251901.html>

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### **Expert calls for setting up Islamic finance watchdog**

*Monday, December 20, 2010*

Standardization of the Islamic banking policies, procedures and regulatory framework on a global level is important to propel the growth of the industry.

That is the view of BBK investment banking arm Capinova Investment Bank chief executive officer Jamal Hijres.

"An important effort towards achieving international consistency was the creation of two multilateral institutions, the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Financial Services Board.

"The growth of such institutions will definitely improve and propel the industry at a faster pace.

"The Islamic banking industry is a fast growing sector that offers an array of opportunities yet to be exploited," he said.

"Although the Middle East still represents the biggest share of the total Islamic banking sector, Western countries are gearing towards this new trend that presents a unique opportunity to diversify.

"With a growing market share and a considerable growth rate recorded over the past decade, it is essential for a unified global Islamic banking authority to be established.

"This authority can be entrusted with standardising Islamic banking operations and facilitating communication between the different entities, leading to the full exploitation of the sector's potential.

"One of the most important challenges faced by the Islamic banking sector is the unavailability of experts in both banking and Islamic issues.

"An Islamic banker must possess a profound knowledge of Sharia rules and principles, in addition to finance.

"The shortage in experienced and qualified scholars is forcing them to field positions on multiple Sharia boards, which in turn increases the risk of a conflict of interest."

"Even though the financial crisis did not affect the Islamic banking industry in particular, the drop in Gulf real estate and oil prices had repercussions on the industry," he said.

"However, now with oil prices back in the normal range it has definitely brought confidence back to the industry.

"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 prepared to expect the unexpected.

"Rigid corporate governance programmes, transparency on compliance, learning from conventional banking successes and failures and achieving greater market penetration are all goals that will help sustain this area of Islamic finance."

<http://www.gulf-daily-news.com/NewsDetails.aspx?storyid=294232>

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## **Shariah Loans May Be Lifted Due To the Qatar World Cup**

*Monday, December 20, 2010*

Islamic loans in the Middle East will rebound in 2011 from a five-year low, said HSBC Holdings, this year's biggest lender, as accelerating economic growth and Qatar's building for the football World Cup boosts spending.

Qatar's economy will expand 20% next year, the IMF said this week. Getting the Gulf country ready for the 2022 World Cup, the most-watched sporting event around the globe, will cost as much as \$65bn, Merrill Lynch estimates.

Syndicated loans dropped 19% this year to \$6.5bn, according to data compiled by Bloomberg. Loans peaked at \$24bn in 2007, before the worst financial crisis since the Great Depression. Borrowers from the Middle East dominated the market in 2010, receiving all but one of the 14 loans tracked by Bloomberg in Europe, the Middle East and Africa

“We have a number of transactions in the pipeline” which may close in the first half of next year, Mohamed Dawood, Dubai-based director of debt capital markets at HSBC Amanah, said from Abu Dhabi on December 15. “We’ll definitely do more loan deals in 2011 compared to this year.”

The debt restructuring in September of Dubai World, one of the emirate’s three main holding companies, helped restore confidence, said John Tofarides, a banking analyst at Moody’s Investors Service. Moody’s and Standard & Poor’s announced a combined nine upgrades this quarter for the region, outnumbering the pair’s downgrades for the first time since the three months ended June 30, 2008, according to data compiled by Bloomberg.

Banks in the UAE have improved their financial position by lowering debt-to-equity levels, Dubai-based Tofarides said. A slump in UAE property prices and cancelled investment projects deterred lenders this year, he said.

“We expect to see more mature and sustainable loan growth in the UAE, especially in Dubai which was at the epicenter of the property crisis,” said Tofarides. “We don’t expect to see pre-crisis lending growth levels again because that was triggered by excess liquidity and a totally different perception on credit risk.”

HSBC was the biggest arranger among 36 lenders for Islamic financing this year in Europe, the Middle East and Africa, lending \$1bn, according to data compiled by Bloomberg. Standard Chartered was second with \$914mn.

Dubai World agreed with creditors to alter terms on \$24.9bn of liabilities. Concern the company would default on its debt contributed to a 25% drop in sales of Islamic bonds, or sukuk, which pay assets returns to comply with the religion’s ban on interest, to \$15.1bn this year.

The extent of the recovery in the Shariah-compliant loan market next year will depend on the size of regional development projects and whether Europe can avoid further contagion from its debt crisis, Moinuddin Malim, chief executive officer at Dubai-based Mashreq Al Islamic, said. Moody’s said on December 15 it may cut Spain’s Aa1 credit rating on concern it will join Greece and Ireland in seeking a bailout from the European Union. Spain was already reduced by Moody’s in September.

“We expect the majority of the projects to come out of Qatar, Saudi Arabia and Abu Dhabi next year,” Malim said. “Banks in the region may assume that the worst is behind them and are more likely to participate in syndicated loans.”

Saudi Electricity Co, the state-controlled utility, signed a 5bn-riyal (\$1.3bn) Islamic finance agreement with National Commercial Bank, Saudi British Bank, Banque Saudi Fransi and Samba Financial Group on December 13. Abu Dhabi Islamic Bank was lead arranger for 1.14bn dirhams (\$310mn) of syndicated Islamic financing for Majid Al Futtaim Group, the bank said.

### **Saudi Mobily signs \$320m Islamic finance deal**

*Tuesday, December 21, 2010*

Etiihad Etisalat Co, Saudi Arabia's second-largest mobile-phone company known as Mobily, reached an Islamic finance agreement for SR1.2bn (\$320m) that the company may use to expand its network.

The credit facility from Samba Financial Group, National Commercial Bank, Bank of Riyadh, Saudi British Bank and Banque Saudi Fransi is valid for 12 months, the Riyadh-based company said in a statement on the Saudi bourse website on Tuesday. The facility can be renewed for six months, Mobily said.

The short-term credit "highlights the company's strong financial position," Nader Nuwayhid, Mobily's Director of Investor Relations, said by phone on Tuesday. "The company's net debt to EBIDTA ratio dropped to 1.14 at the end of the third quarter."

Mobily is tapping financing to expand its phone networks and broadband internet infrastructure as demand for telecommunications rises in Saudi Arabia

Mobile-phone users in the kingdom rose 18 percent to 48.6 million at the end of the third quarter from 41.2 million a year earlier, the telecom regulator reported December 14.

Mobily plans to spend more than SR2bn in 2011 to expand its broadband Internet services infrastructure. The company awarded contracts worth SR799m to Ericsson, Huawei Technologies Co and Nokia Siemens Networks, Al Watan reported on November 13.

On December 16, Mobily signed an agreement in Ankara, Turkey, to develop a regional cable network, linking the United Arab Emirates with Turkey, passing through Saudi Arabia, Syria and Jordan

<http://www.arabianbusiness.com/saudi-mobily-signs-320m-islamic-finance-deal-368793.html>

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### **China Explores Islamic Finance for JVS in Capital**

*Wednesday, December 22, 2010*

Islamic finance could possibly be the first area to kick-start a joint venture between Malaysian and Chinese capital market intermediaries, says Deputy Finance Minister Datuk Ir Donald Lim Siang Chai. He said Islamic finance was Malaysia's key strength and represented a very attractive market segment for the local intermediaries to bring to China.

“In this regard, I strongly urge Malaysian intermediaries to explore any joint-venture opportunity with Chinese intermediaries,” he said in his keynote address at the conclusion of the 15th Malaysian Capital Market Summit here Thursday.

In his address, entitled “Attracting Chinese Portfolio Investment and Funds to Malaysia”, Lim stressed that such joint ventures could create greater capital market flows between both countries.

He said the leading market intermediaries in the segment would be able to play a large role in growing Islamic finance in China.

“This can be done by sharing the experience, knowledge and expertise with relevant Chinese players to build their investment appetite for the asset class,” he said.

In September last year, China awarded the first Islamic Banking licence to Bank of Ningxia, marking its venture into Islamic market products to provide a new asset class to its investors.

Meanwhile, bilateral trade between Malaysia and China in the last decade has grown rapidly, registering an average growth rate of 25 per cent annually.

Lim said the improving economic conditions after the global financial crisis and the China-ASEAN Free Trade Agreement, Malaysia has overtaken Singapore as China’s number one trading partner in South East Asia.

China has also become Malaysia’s largest trading partner. The 15th Malaysian Capital Summit is an annual event organised by the Asian Strategy and Leadership Institute. The event was supported by the Securities Commission of Malaysia, Bursa Malaysia and other government and non-government associations.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1281](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1281)

## **Shariah Hedging Derivatives Start in Malaysia**

*Thursday, December 23, 2010*

Standard Chartered Plc and Bank Islam Malaysia Bhd. plan to offer Shariah-compliant derivatives in Malaysia that will allow investors to hedge against interest rates and commodity prices.

Standard Chartered, the U.K. bank that earns most of its profit from emerging markets, will begin selling contracts in the first quarter that provide protection from fluctuations in the cost of items such as rice and oil. Bank Islam Malaysia, the country’s oldest Islamic lender, will offer swaps that allow two parties to exchange different forms of payments from an underlying asset.

The lack of such Shariah products is hindering industry growth, Badlisyah Abdul Ghani, chief executive officer of Kuala Lumpur-based CIMB Bank Islamic Bhd., said in an interview on Dec. 20. The market will be limited to hedging after derivatives contributed to the global financial crisis, which resulted in \$1.8 trillion of credit losses and write downs.

“The industry has gone through a set of innovations over the past 10 years to offer Shariah-compliant solutions and today the industry can say we have Islamic derivatives,” Syed Alwi Mohd Sultan, director of origination at Standard Chartered Saadiq Bhd., the bank’s Kuala Lumpur-based Islamic banking unit, said on Dec. 15. “A wide acceptance of the standards will bring greater convergence of the industry.”

Derivatives are contracts whose values are tied to assets including stocks, bonds, commodities and currencies, or events such as changes in interest rates or the weather. Standard Chartered started offering its commodities-based contracts in the Persian Gulf in March as the International Islamic Financial Market, a Manama, Bahrain based agency that sets guidelines, provided standardized legal documentation for Shariah derivatives the same month. The U.K. bank will be the first to provide the products in Malaysia and is awaiting regulatory approval.

Islamic contracts can’t be traded or used as a speculative investment under Shariah law, said Aznan Hasan, assistant professor at the Kuala Lumpur-based International Islamic University of Malaysia, in an on Dec. 20. Standard Chartered’s products are vetted by a Shariah panel of experts to ensure compliance and that they are backed by a real underlying asset, Syed Alwi said.

“Customers need hedging instruments; if you have a customer who needs to make payment in the future for properties the company bought overseas, they have to hedge their currency,” said Aznan, who sits on several advisory boards including the one at Malaysia’s central bank.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1286](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1286)

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### **Launch of UK's first Shariah-compliant DPS**

*Friday, December 24, 2010*

Based on the investment management platform provider's DPS selected service, IBB said it will ensure the Sharia compliance of the discretionary investment services to investors based both in the UK and overseas.

This follows IBB’s announcement of a £20m capital injection from founding shareholder, Qatar International Islamic Bank. The DPS is an extension of the wealth advisory service recently launched by the bank.

IBB said the DPS will appeal to the full spectrum of investors seeking Sharia compliant investment options including individuals looking for long and short term investment strategies and high net worth clients who would typically use a discretionary asset manager or investment adviser to manage their portfolio.

IBB believe it will appeal to group pensions and employers with Islamic employees. Investors wishing to access the DPS service will be able to do so through IBB's Wealth Advisory service partner City financial planning firm, Radcliffe & Newlands.

Other IFAs can also access the IBB accredited DPS independently of the bank, by signing up to the service. Sultan Choudhury, commercial director at IBB, claimed that IBB already offers the largest range of Shariah compliant products and services to UK retail customers.

He said: "The bank is now widening its product range and services on offer. "Not only does this new service expand the boundaries of British Islamic finance, it also removes the constraints previously faced by British muslims for their wealth management and retirement needs. "The DPS service will offer peace of mind for customers, both financially and spiritually."

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1287](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1287)

## **2. ISLAMIC BANKING & INSTITUTIONS**

### **Abu Dhabi Islamic Bank to Teach Islamic Business Ethics**

*Monday, December 20, 2010*

An Islamic institute to help organisations create good business ethics in India is making developments as the Islamic finance industry is reaching \$2 trillion dollars by 2012.

In this endeavour, the Abu Dhabi Islamic Bank (ADIB) and the Higher Colleges of Technology (HCT) have signed an MoU to create the region's first Institute of Islamic Economics and Ethics.

UAE Higher Education and Scientific Research Minister and chancellor of HCT Sheikh Nahayan Mabarak Al Nahayan witnessed the signing of the MoU by the representatives of both the organisations. The institute will give information and raise public awareness on the importance of doing business ethically.

It will also encourage high standards of ethical behaviour in business and give guidance to the employees to achieve that. It will hold training for business organisations and publish studies about ethical practices and business conduct.

Tayeb Kamali, vice chancellor of the HCT, said: 'HCT will work closely with ADIB to establish the institute, which will help meet the increasing demand for specific Islamic banking and finance services in the UAE and the region. 'This new institute will give HCT students the opportunity to learn about ethics in business and also strengthen their understanding and appreciation of cultural issues and ethics, so that they are able to operate effectively in today's business environment.'

Founded in 1988 the Higher Colleges of Technology has grown to be the largest of the higher educational institutions in the UAE, gaining a well-respected reputation for innovative learning. More than 18,000 students attend 17 modern men's and women's campuses throughout the UAE.

HCT offers more than 90 different, English-taught programs in six core fields which are all relevant to the UAE's fast growing and evolving economic sectors. The programs are designed in consultation with business and industry leaders to ensure that the students' skills are job-relevant and to high standards.

All students learn in a technologically sophisticated educational environment that encourages development of the independent and life-long learning skills necessary to success in a fast changing world. HCT has awarded over 48,000 academic credentials to its graduates.

HCT focuses on meeting the needs of the local economy and community while at the same time meeting international benchmarks and accreditation standards. To do this it has established active links and collaborations with major companies and entities in the UAE and with many of the world's leading universities and organizations.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1276](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1276)

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### **Islamic Development Bank to finance Turkish locomotive project**

*Tuesday, December 21, 2010*

TCDD signed a contract with South Korean railway systems provider Hyundai Rotem to buy 80 electric locomotives and a simulator for \$312.7 million.

Turkey's state railway company TCDD signed on Monday a contract with South Korean railway systems provider Hyundai Rotem to buy 80 electric locomotives and a simulator for \$312.7 million.

TCDD Director-General Suleyman Karaman told a signing ceremony that \$220 million

of the financing for the project would be provided by the Islamic Development Bank (IDB).

First eight locomotives will be built at Hyundai-Rotem plants and the rest of the order will be produced in Turkey in the next four years.

The deal includes licensing and technology transfer, Karaman said, adding that TCDD secured all rights to use technical information, produce locomotives in Turkey as well as all IDB-member countries, and sell them for 10 years.

Hyundai Rotem outstripped seven other companies competing in TCDD tender for 80 electric locomotives which will replace old ones.

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### **Mondial to offer Shariah Compliant Dsam Kauthar Funds**

*Tuesday, December 21, 2010*

Dubai Shariah Asset Management (DSAM), and financial investment consultant Mondial (Dubai) L.L.C. (part of the Financial Partners Affiliation) today announced a Memorandum of Understanding where Mondial will offer the DSAM Kauthar Funds in seven countries, including the UAE, as part of a developing strategy to provide Shariah compliant products to investors.

The first two funds available to investors will be the DSAM Kauthar Gold Fund, Ltd., winner of the 2010 MENA Fund Manager Award for Outstanding Performance & Innovation and the DSAM Kauthar Energy Fund. DSAM is a joint venture between Dubai Multi Commodity CentreDubai Multi Commodity Centre Authority (DMCCDMCCDubai Multi Commodities Centre)and Shariah Capital.

Mondial, a highly-successful investment advisory firm serving over 8,000 retail clients with more than \$1bn in assets, began in Dubai in 1988. With its vision to build a world-class, client-driven financial planning and wealth management consultancy business, Mondial provides financial advice and makes product recommendations through its team of trained financial consultants.

Recognizing the growing demand from clients in the Middle East and Asia for Shariah compliant products, Mondial/Financial Partners recently embarked on a strategy to address the needs of Islamic investors in theUAE, Indonesia, Malaysia, Singapore, Hong Kong, Australia, and India. This effort not only involves educating and training its personal advisors but also requires researching and selecting high quality investment products for those advisors. Mondial's announcement today is one of several steps to build a platform of disciplined, strategy specific funds that will enable it to attract Shariah compliant investors to Mondial, expand its global brand to Muslim communities, and replicate the success it has enjoyed with conventional investment clients.

Originally geared to institutional investors, the DSAM Kauthar Funds will revise their investment terms to accommodate Mondial's clients. The DSAM Kauthar Gold Fund, for example, will allow a lower investment contribution and provide weekly liquidity. These terms, competitive with those of similar funds, will allow investors access to some of the world's most successful fund managers. DSAM's transformation to a retail-focused business model will be accompanied by the addition of a senior takaful industry veteran to its staff and more initiatives with firms like Mondial.

Commenting on the announcement Ahmed Bin Sulayem, Executive Chairman, Dubai Multi Commodities Centre AuthorityDubai Multi Commodities Centre AuthorityDubai Multi Commodities Centre, said, "The DMCC Dubai Multi Commodities Centre continues to play a leading role in the evolution of the financial industry in the region. Our Shariah-compliant commodity funds have an outstanding performance record and we are pleased to now be able to offer these exciting and innovative products to Mondial."

Mondial CEO, Sean Kelleher said, "Proven Islamic investment products are an important part of our investment consultancy business as we launch our initiatives in this area. We are delighted to partner with DMCC Dubai Multi Commodities Centre and utilize the DSAM Kauthar Funds."

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1279](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1279)

### **Al-Baraka Bank to introduce new consumer's product**

*Thursday, December 23, 2010*

Al-Baraka Bank (Pakistan) has planned to launch a new product for consumers' financing within next couple of months.

The Bank will expand its operations in rural areas of the country and also penetrate into agriculture credit facility to provide islamic loans to the farmers community, said Country

Head of Al-Baraka Bank (Pakistan) Shafqaat Ahmed here at KCCI on Wednesday.

In a meeting with members of Karachi Chamber of Commerce and Industry, Mr Shafqaat said that his bank also provided the facilities of Islamic Export Refinance Facility and opening of L/C. It has capital adequacy in the market.

He said that for supporting middle and lower middle class people in Pakistan, Bank Al-Baraka (Pakistan) has already been doing car and housing financing.

Al-Baraka Bank is totally involved in promoting Islamic Banking System in the world. Presently, it operates in 14 countries with more than 300 branches and 7500 employees.

The Bank possesses assets worth dollars 14 billion.

The Country Head, Bank Al-Baraka (Pakistan) appreciated the important role being played by KCCI in the Government's budget making and the policies formulation on imports and exports, for promoting industries in the country.

President KCCI Muhammad Saeed Shafiq said the business community of Karachi has been successfully fighting with all kind of challenges and calamities in the country. They have survived various crises and contributing major share of revenue to national exchequer.

<http://www.brecorder.com/news/latest/17080:news.html>

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### **HSBC launches Shariah-compliant financial service with full product range**

*Thursday, December 23, 2010*

The Hongkong and Shanghai Banking Corporation (HSBC) Limited launched a Shariah-compliant financial service 'HSBC Amanah' with full range of products in the country.

The first Shariah-compliant flagship branch of the bank was launched at Gulshan in city. With the goal of providing a range of Islamic financial services to its customers, the bank introduced the product that was developed under supervision of independent, competent Shariah scholars, the high officials of the bank said at a press conference at a city hotel.

Head of International, HSBC Asia Pacific, Guy Harvey-Samuel, Global Deputy CEO, HSBC Amanah, Razi Fakhri, CEO of Bangladesh Sanjay Prakash and Head of Amanah, Personal banking, Laila F Rahim were present at the press conference.

The bank executives said Amanah offers personal banking products including deposits, account services and financial solutions for vehicle, home and other purposes.

For commercial customers, it offers world-class Shariah-compliant corporate accounts, deposit services, term financing and term investment services.

It has also comprehensive trade and supply chain services through HSBC Amanah export and import finance. Guy Harvey-Samuel has highlighted the fact that HSBC is one of the most globally connected banks in the world and HSBC Amanah customers will enjoy the same "HSBC world-class" service and international connectivity from the service.

Razi Fakhri described details of Shariah structure of the HSBC Amanah. He said a team combined by world's leading independent scholars is monitoring the service.

The Amanah service is available in eight countries including Bangladesh, the UAE, Malaysia and the United Kingdom, Fakhri said.

An exhibition of Islamic calligraphy presented by renowned artist Murtaza Basheer is taking place in its Amanah branch, which will continue until December 31. The income of the sale will be donated to Ahsania Mission Cancer Hospital fund.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1284](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1284)

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## **Fitch Downgrades Arab Banking Corporation to BBB**

*Thursday, December 23, 2010*

Fitch Ratings has downgraded Bahrain-based Arab Banking Corporation's (ABC) Long-term foreign currency Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and Short-term foreign currency IDR to 'F3' from 'F2'.

The Outlook on the Long-term foreign currency IDR is Stable. The senior unsecured debt is downgraded to 'BBB' from 'BBB+' and subordinated debt to 'BBB-' from 'BBB'. The Support Rating is affirmed at '2' and the Support Rating floor of 'BBB+' has been withdrawn in line with Fitch's treatment of institutional support. The Individual Rating is unaffected.

The rating action follows an announcement by ABC that the Central Bank of Libya (Libya is rated 'BBB+' / Stable Outlook) has increased its stake in ABC to 59.4% from 41.7% as a result of acquiring the entire stake held by the Abu Dhabi Investment Authority (Abu Dhabi is rated 'AA' / Stable Outlook). Earlier in the year, the Central Bank of Libya increased its stake in ABC to 41.7%, from 29.5%, when it took up the Abu Dhabi Investment Authority's rights in ABC's USD1.1bn capital issue in March 2010. The Kuwait Investment Authority's (Kuwait is rated 'AA' / Stable Outlook) stake remains unchanged at 29.7%.

ABC's IDRs and Support Rating reflect Fitch's view that there would be a high probability of support from its main shareholders if needed, given their commitment to recent rights issues and by confirmation to Fitch of continued support.

Established in 1980, ABC is a wholesale bank operating internationally, active in trade, project and structured finance, Islamic finance and treasury. It has a major Brazilian subsidiary and small retail and SME/corporate operations in Algeria, Egypt, Jordan and Tunisia.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1285](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1285)

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## **Standard Chartered and Bank Islam lead the way**

*Thursday, December 23, 2010*

KUALA LUMPUR: Standard Chartered Plc and Bank Islam Malaysia Bhd plan to offer syariah-compliant derivatives in Malaysia that will allow investors to hedge against interest rates and commodity prices.

Standard Chartered, the UK bank that earns most of its profit from emerging markets, will begin selling contracts in the first quarter that provide protection from fluctuations in the cost of items such as rice and oil, according to an e-mailed reply to questions yesterday.

Bank Islam Malaysia, the country's oldest Islamic lender, will offer swaps that allow two parties to exchange different forms of payments from an underlying asset.

The lack of such syariah products was hindering industry growth, Badlisyah Abdul Ghani, chief executive officer of CIMB Bank Islamic Bhd said in an interview on Dec 20. The market will be limited to hedging after derivatives contributed to the global financial crisis, which resulted in US\$1.8 trillion of credit losses and write-downs.

“The industry has gone through a set of innovations over the past 10 years to offer syariah-compliant solutions and today the industry can say we have Islamic derivatives,” Syed Alwi Mohd Sultan, director of origination at Standard Chartered Saadiq Bhd, the bank's Kuala Lumpur-based Islamic banking unit, said in a telephone interview on Dec 15. “A wide acceptance of the standards will bring greater convergence of the industry.”

Derivatives are contracts whose values are tied to assets including stocks, bonds, commodities and currencies, or events such as changes in interest rates or the weather.

Standard Chartered started offering its commodities-based contracts in the Persian Gulf in March as the International Islamic Financial Market, a Manama, Bahrain-based agency that sets guidelines, provided standardised legal documentation for syariah derivatives the same month.

The UK bank will be the first to provide the products in Malaysia and is awaiting regulatory approval, according to the e-mail.

Islamic contracts can't be traded or used as a speculative investment under syariah law, said Aznan Hasan, assistant professor at the International Islamic University of Malaysia, in an interview on Dec 20.

Standard Chartered's products are vetted by a syariah panel of experts to ensure compliance and that they are backed by a real underlying asset, according to Syed Alwi.

“Customers need hedging instruments; if you have a customer who needs to make payment in the future for properties the company bought overseas, they have to hedge

their currency,” said Aznan, who sits on several advisory boards including the one at Malaysia's central bank.

Asia Pacific overtook North America as the biggest market for derivatives in the six months through June and accounted for 38% of the global total, according to data from the Washington-based Futures Industry Association published in September. That compares with North America's 33% market share.

CIMB Islamic, the world's top sukuk arranger this year, was “exploring” syariah-compliant credit-default swaps to complement the bank's Islamic profit-rate swaps, cross-currency swaps and cross currency profit-rate swaps, Badlisyah said.

“It's still very early days for the market but we've been receiving interest for our derivatives products from institutional investors as well as companies who need to hedge

<http://biz.thestar.com.my/news/story.asp?file=/2010/12/23/business/7672316&sec=business>

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## **Sharjah Islamic Bank Launches New Phase of Online Banking Services**

*Friday, December 24, 2010*

Sharjah Islamic Bank has announced the launch of the second phase of its online retail banking services - as part of its strategy to enhance its online service offering. This comes in response to an increasing demand for free, user-friendly services that are available around the clock to customers both inside the UAE and abroad.

The new services are in line with the directives of the bank's board of directors and senior management to provide the best possible services to customers, to create a safe and secure e-banking environment, and to open new communication channels with customers.

Commenting on the occasion, Mr. Waleed Al Amoudi, Head of SIB's e channels division said that the host of new services affirms the bank's commitment to adopting the latest technologies and practices in accordance with the world's highest standards, and to meet its customers' aspirations in a time of modern technological challenges and changes.

"The upgraded Weyy@com retail banking service enables customers to receive bank statements, make transfers from one account to another, request cheque books and bank certificates, increase credit card limits, request fixed-term investment deposits, as well as pay electricity, water and Etisalat bills. We have also launched online corporate banking services, which is aimed at utilizing the latest technologies for the service of our corporate customers," he added.

As part of its host of services, a new online bank statement service - introduced under the theme "A Paperless Digital World" - is being offered. It will serve as an alternative to the conventional method of receiving bank statements, Murabaha and funds through the post, and is aimed at helping SIB's clients to save time, energy, and the environment.

In fact, meeting environmental safety standards while servicing customer's needs were the main drivers behind the launch of this particular service.

Al Amoudi explains: "The online bank statement enables customers to view their monthly bank statements via the e-banking services on the internet. And as a result of our efforts to restructure our e-services, clients can also receive their monthly bank statements via e-mail,.

"SIB's e-bank statement offers additional value as it is an environmentally friendly procedure that enables our customers to help protect resources. The service is also cost effective as it helps reduce service charges."

In terms of this service, he explains that SIB will provide e-bank statements on the last working day of each month, ensuring that its customers have direct access to their accounts at any time of the day.

Speaking about the bank's other services, Al Amoudi clarified: "We have improved our SMS service in order to help customers communicate with their accounts by adding information, setting payment reminders and receiving payment confirmation. We will also expand our existing ATM services such as cash and cheque deposits and adding utility payments. Customers will thus be able to pay Etisalat, SEWA and DEWA, among others, via ATMs."

Sharjah Islamic Bank was the first bank in the UAE to successfully convert from traditional banking to Islamic banking in 2002, offering a wide range of Shari'a-compliant banking services to individuals, establishments, institutions and investors. Through well-placed risk management strategies SIB has managed to achieve an unprecedented growth rate, launching 23 BRanches, as well as over 100 strategically-located ATM machines in residential areas, shopping centres and entertainment centres throughout the UAE.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1289](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1289)

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### **NBAD Appoints Trade Finance Marketing Manager in London**

*Friday, December 24, 2010*

The National Bank Abu Dhabi (NBAD) National Bank Abu Dhabi (NBAD), the Number One Bank in the UAE, has appointed Martin Broadhurst the Bank's Trade Finance Marketing Manager in London.

In his role Mr. Broadhurst would support National Bank of Abu Dhabi 's ongoing expansion of the Bank's trade finance business. He will work with Jeff Fallon, the Head of NBADNBADNational Bank of Abu Dhabi Trade Finance - Europe, and the recently appointed David Ringer, the Trade Finance Manager in Bank of Abu Dhabi's London Branch, to strengthen trade finance business within the financial institutions arena and corporate sector.

Mr. Broadhurst would also work with National Bank of Abu Dhabi 's Financial Institutions Department in Abu Dhabi to support relationships with financial institutions and to market National Bank of Abu Dhabi's trade finance capability to banks across Europe, the Middle East and Africa (EMEA) region.

Mr. Broadhurst's appointment is part of National Bank of Abu Dhabi's ambitious plans to grow its trade finance business. He is the third highly-placed trade finance professional to join National Bank of Abu Dhabi in recent months."Trade finance is one of the key areas that NBAD National Bank of Abu Dhabi is focused on growing because we see significant opportunities in this segment," said Mr. Fallon, who is based in London. "To accomplish this goal we have hired some of the best and most experienced professionals who bring to the Bank diverse and crucial expertise."

Mr. Broadhurst has worked for over 22 years in the trade finance industry in London and Frankfurt. He joins National Bank of Abu Dhabi from Mizuho Corporate Banking, where he was an associate director in the company's global trade finance division. He is fluent in English and German.

"Joining National Bank of Abu Dhabi to grow its trade finance business is an exciting and the right career move for me," Mr. Broadhurst said. "Armed with strong financial muscle, a distinguished profile and bright leadership,National Bank of Abu Dhabi will become a bigger player in trade finance and I am excited to be part of it all."Over the summer,National Bank of Abu Dhabi hired Mr. Ringer and Isabelle Krieg, Finance Managers in National Bank of Abu Dhabi's London and Paris Branches, respectively.has the largest international network among UAE banks with operations in 13 countries across four continents.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1288](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1288)

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### **MARC Affirms KMCOB's RM630 Million Murabahah MTN Rating**

Malaysian Rating Corporation Bhd (MARC) has affirmed its "AA-"ID(CG) rating on KMCOB Capital Bhd's RM630 million Murabahah Medium Term Notes and revised its rating outlook to negative from stable.

In a statement Friday, MARC said the rating action is concurrent with MARC's affirmation of Scomi's senior unsecured debt rating of "AA-" and revision of its outlook

to negative from stable.

KMCOB is ultimately held by Scomi Group Bhd through 76 percent owned subsidiary Scomi Oilfield Ltd (SOL).

MARC regards SOL as core to Scomi Group which is analysed on a consolidated basis given the concentration of strategic and financial decisions at the ultimate holding company.

KMCOB's rating is presently driven by and aligned to Scomi's rating although improvements in the creditworthiness of SOL's own operations could positively influence the direction of KMCOB's rating.

Nonetheless, MARC sees the likelihood of this to be limited over the foreseeable future, which results in KMCOB's rating outlook also being aligned to that of Scomi.

<http://www.bernama.com/bernama/v5/newsbusiness.php?id=552433>

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### **3. SUKUK (ISLAMIC BONDS)**

#### **Persian Gulf Taps Into Malaysia for Sukuk Sales**

*Tuesday, December 21, 2010*

Persian Gulf borrowers are selling ringgit-denominated Islamic bonds at a record pace in Malaysia to raise funds for expansion and take advantage of demand in the world's biggest market for shariah-compliant bonds.

Issuance surged to 1 billion ringgit (\$318 million) this year, the most since 2008 when Gulf companies started tapping the Malaysian market, data compiled by Bloomberg show. Last year, 100 million-ringgit of debt was sold. Dubai's government is "likely" to sell bonds next year and a Malaysian offering is a possibility, Abdulrahman Al Saleh, the director general of the emirate's Department of Finance, said Dec. 14.

"More ringgit sukuk from Gulf issuers will mean having more liquidity in the market," Zamri Shariff, the head of asset management at Asian Finance Bank Bhd., the Kuala Lumpur-based unit of Qatar Islamic Bank SAQ, said. "That absolutely widens our scope for investment."

Malaysia, which accounts for more than 50 percent of the \$144 billion Islamic bonds outstanding worldwide, is attracting investors and issuers to its domestic bond market

with tax incentives. The country's 10-year economic strategy will help spur sales of sukuk and new debt offerings "may be cheaper, or else met by a high take-up rate," Prime Minister Najib Razak said Oct. 25. The government plans to cut taxes on shariah-compliant transactions in 2011 to promote "innovation in Islamic securities," he said in an Oct. 15 budget speech.

The ringgit rallied 8.9 percent against the dollar this year, the second-best performance after the Thai baht, among 10 Asian emerging-market currencies tracked by Bloomberg. Shariah-compliant debt in the six-nation Gulf Cooperation Council returned 12.9 percent this year, the HSBC/NASDAQ Dubai GCC US Dollar Sukuk Index shows. Global sukuk returned 12.2 percent, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. Bonds in developing markets rose 11.4 percent, JPMorgan Chase & Co.'s EMBI Global Diversified Index shows.

The Islamic Development Bank, a Jeddah, Saudi Arabia-based multilateral lender, plans to sell more ringgit sukuk next year under its 10-year, 1 billion-ringgit debt program, Vice President Abdul Aziz Al Hinai said in Dubai Dec. 6. The bank has raised 400 million ringgit through the notes.

"Asia for us is an important region to mobilize resources from," Al Hinai said. "When we issue in a currency like the ringgit, we look at the tradability of our sukuk, and the ringgit is very tradable."

National Bank of Abu Dhabi PJSC, the United Arab Emirates' second-largest lender by assets, sold 500 million-ringgit of 10-year sukuk this month, drawing demand for more than 1 billion ringgit. The debt was issued under a 3 billion-ringgit senior unsecured medium-term note program, the company said.

The sale "reflects the commitment of NBAD to create a yield curve in the ringgit to meet the strong investor demand," the bank said.

Total sales of Islamic bonds dropped 24 percent to \$15.3 billion so far this year, according to data compiled by Bloomberg. Sales of ringgit-denominated sukuk in Malaysia fell 29 percent to 22.9 billion ringgit (\$7.3 billion). Offerings from the GCC declined 32 percent to \$4.5 billion.

Sovereign and sovereign-linked sukuk from the Gulf will be favored over Islamic bonds offered by companies after debt restructurings, defaults and tumbling property prices hurt investors' confidence, according to Aberdeen Asset Management Plc.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1280](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1280)

## **Sukuk Deals Amount to Largest Number in End of Q310**

*Wednesday, December 22, 2010*

The sukuk industry has emerged as one of the main components of the Islamic financial system and has increasingly become an integral subset of the international financial system.

Over the years, the sukuk market has grown by 10% to 15% annually to reach approximately USD100bln and contributed to 12% of the global Islamic finance assets in 2009. Prospects for the sukuk market remain bright. In 2009, global sukuk issuances surged by 58.8% yoy to USD24.7bln compared to the USD15.5bln raised in 2008.

In the first nine months of 2010 (9M10), total sukuk issued globally increased further to USD27.9bln, 62.3% higher than the USD17.2bln raised in 9M09 and surpassing 2009 full year issuance of USD24.7bln. This was in line with a gradual global economic recovery and improved market condition and investor sentiment.

By issuer type, approximately 77.3% of 9M10's fundraisers were sovereign and quasi-sovereign entities, in line with the general interest of investors which saw a shift in preference to safe-havens and high quality issues. Financial services sector trailed behind at 9.8% of total sukuk issues while power and utilities sector stood at 7.6 %, driven by financial institutions' fundraising activities and continued infrastructure spending.

By country, Malaysia continued to dominate the global sukuk market, contributed to 72.3% of total value of sukuk issued in 9M10. Indonesia and Saudi Arabia trailed behind at 10.3% and 9.1% respectively. As such, by currency type, Ringgit-denominated sukuk deals topped at 63.8%, followed by Rupiah-denominated deals at 10.2% and Saudi Riyal-denominated deals at 7.4%.

In 9M10, the ten largest sukuk deals accounted for USD9.52bln or 34.4% of total sukuk issued globally. Of the USD9.52bln, sovereign issues dominated at USD5.84bln or 61.4% of top ten sukuk issues, followed by power and utilities at USD1.87bln or 19.6% and telecommunication at USD1.36bln or 14.3%. By country, Malaysia led with an issuance size of USD4.47bln or 47.0% of top ten sukuk issues, Saudi Arabia at USD2.32bln or 24.4%, Qatar at USD1.37bln or 14.4% and Indonesia at USD1.35bln or 14.2%.

In 9M10, the largest local currency-denominated sukuk was a corporate issue from Saudi Arabia (SAR7.0bln or USD1.9bln equivalent) and the largest international USD sukuk was a sovereign issue from the Government of Malaysia (USD1.25bln). Other notable sukuk deals in 9M10 include a local currency-denominated sovereign issue from the Government of Qatar (QAR5bln or USD1.4bln equivalent) and SGD-denominated issues from Khazanah Malaysia Berhad via Danga Capital (totaling SGD1.5 bln or USD1.1blnequivalent).

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1282](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1282)

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## **MARC Downgrades Vastalux Capital's RM100 Million Sukuk Musyarakah**

*Thursday, December 23, 2010*

Malaysian Rating Corp Bhd (MARC) has downgraded the rating of Vastalux Capital Sdn Bhd (VCSB)'s RM100 million Sukuk Musyarakah facility to "D"IS from "BB+"IS.

In a statement on Thursday, MARC said the downgrade was due to VCSB's failure to redeem the remaining outstanding RM3.96 million of Sukuk on the final redemption date of Dec 23.

"VCSB had redeemed RM21.04 million of RM25.90 million of outstanding Sukuk on Dec 20, prior to the final redemption date.

"VCSB had earlier proposed to restructure the Sukuk but had been unable to complete the restructuring prior to the final redemption date," it said.

VCSB is a special purpose funding vehicle owned by oilfield service provider Vastalux Sdn Bhd.

<http://www.bernama.com/bernama/v5/newsbusiness.php?id=552214>

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## **Sukuk Beats Emerging-Market Debt for 2nd Month**

*Thursday, December 23, 2010*

Islamic bonds are outperforming emerging-market debt for a second month as new note sales rebound, Malaysia boosts spending on roads and power plants and confidence returns to the Persian Gulf.

Global Shariah-compliant notes returned 1.45 percent in December, the HSBC/NASDAQ Dubai US Dollar Sukuk Index shows, while bonds in developing regions fell 0.7 percent, according to JPMorgan Chase & Co.'s EMBI Global Diversified Index. Emerging-market returns have dropped as rising yields on U.S. Treasuries gave dollar-based investors less incentive to buy riskier fixed-income assets.

Islamic debt sales increased 34 percent in the second half compared with the first six months as investor confidence was boosted by Dubai World's September agreement with most of its creditors to restructure \$24.9 billion of debt. Developing nation bond funds suffered net outflows for three consecutive weeks until Dec. 8, the longest stretch since the first quarter of 2009, according to Cambridge, Massachusetts-based research firm EPFR Global.

"Demand for sukuk is outstripping supply," Mohd Noor Hj A Rahman, the head of the Islamic fund management unit at Kuala Lumpur-based OSK-UOB Unit Trust Management Bhd., who oversees about 250 million ringgit (\$81 million) of assets, said in

an interview. "The better outlook and the debt restructuring in the Gulf has given comfort to investors."

### 'Scrambling' For Sukuk

Global sales of sukuk, which pay returns based on asset flows to comply with Islam's ban on receiving and paying interest, fell 24 percent this year to \$15.3 billion. There were \$6.52 billion of offerings in the first half and \$8.75 billion in the second. Issuance reached a record \$31 billion in 2007.

"Everyone is scrambling to buy sukuk and the supply is limited," Noripah Kamso, chief executive officer at CIMB- Principal Islamic Asset Management Bhd. in Kuala Lumpur, said in a telephone interview yesterday. "Pension houses are coming to us and saying I want this money to be invested in sukuk. For the first quarter, we still expect very good pricing for sukuk."

A Malaysian government 10-year private-led project initiative, including a nuclear power plant and an underground rail network, will spur sales of Shariah-compliant debt next year, Prime Minister Najib Razak said in an Oct. 25 speech in Kuala Lumpur.

### Saudi Stimulus

Saudi Arabia's 1.44 trillion-riyal (\$384 billion) stimulus plan will boost sukuk supply and may see the kingdom's borrowers overtake Malaysia as the largest issuer of Islamic debt next year, Tariq Al-Rifai, director of Islamic Market Indexes in Dubai for Dow Jones Indexes, said Dec. 17. The world's largest oil exporter announced in August a five-year development plan to spur growth, create jobs and diversify its economy away from hydrocarbons.

Malaysian and Persian Gulf infrastructure spending will boost sukuk issuance in 2011, said Badlisyah Abdul Ghani, Kuala Lumpur-based chief executive officer at CIMB Islamic Bank Bhd., a unit of CIMB Group Holdings Bhd., this year's top sukuk arranger. Islamic bond sales may match 2007 levels next year, he said in an interview on Dec. 22.

Average yields on Shariah-compliant bonds from the Gulf Cooperation Council countries fell for a third consecutive week, down 12 basis points, or 0.12 percentage point, this week to 5.51 percent Dec. 22, according to the HSBC/NASDAQ Dubai GCC Dollar Sukuk Index.

### Spread Narrows

The yield on Dubai Department of Finance's 6.396 percent sukuk due November 2014 fell 30 basis points this month to 6.5 percent, according to data compiled by Bloomberg. The extra yield investors demand to hold Dubai's government sukuk rather than Malaysia's narrowed 56 basis points to 342, Bloomberg data show.

The difference between the average yield for emerging- market sukuk and the London interbank offered rate narrowed 169 basis points this year to 298 on Dec. 22, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. In the GCC, the gap shrank 177 basis points to 368.

“We see that the sukuk spread over Libor has narrowed, reflecting that demand for sukuk is stronger,” Zamri Shariff, head of asset management at Asian Finance Bank Bhd., the Kuala Lumpur-based unit of Qatar Islamic Bank SAQ, said in an interview yesterday. “We should start seeing other issuers coming into the fray, the non-traditional sukuk issuing countries like Thailand, Korea and the Philippines.”

<http://www.bloomberg.com/news/2010-12-23/sukuk-beats-emerging-market-debt-for-2nd-month-islamic-finance.html>

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### **CIMB Beats HSBC as Top Sukuk Underwriter**

*Thursday, December 23, 2010*

CIMB Group Holdings Bhd., the top global sukuk underwriter for a fourth year, is seeking to boost its business in the Persian Gulf to fight off HSBC Holdings Plc’s challenge to its dominance.

The Southeast Asian nation’s second-biggest lender arranged \$3.6 billion of notes complying with Islam’s ban on receiving and paying interest in 2010, or 23 percent of the total, data compiled by Bloomberg show. Persian Gulf issues made up 3.5 percent of CIMB’s business this year. The Kuala Lumpur-based bank beat HSBC into second place for a fourth year. Global sukuk sales totaled \$15.3 billion so far this year, 24 percent less than in 2009. Sales reached a record \$31 billion in 2007.

“We should be able to do better” in 2011, Badlisyah Abdul Ghani, chief executive officer of CIMB Bank Islamic Bhd., said in a telephone interview Dec. 22. “With the infrastructure developments in Malaysia and the Gulf Cooperation Council countries, I anticipate sukuk issuance will be about the same as 2007 or better. We are looking at several deals from the Gulf.”

CIMB’s only Persian Gulf deal this year was a \$125 million sale in October for a unit of Saudi Arabia’s Islamic Development Bank. The bank also helped arrange IDB’s debt issuance in 2009.

HSBC arranged \$1.6 billion of sukuk sales in the Middle East to be the biggest underwriter in the region for a second year with 35 percent of sales, according to data compiled by Bloomberg. The London-based bank expects issuance from Persian Gulf states to climb in 2011 as it tries to break CIMB’s dominance of the global Shariah-compliant market.

Malaysian Market

“Next year, we expect issuances from Saudi and the region to improve,” Mohammed Dawood, Dubai-based director of debt capital markets at HSBC Amanah, said in a telephone interview yesterday. “As a consequence that puts us in good shape to capture that top spot in 2011.”

CIMB helped Malaysia sell \$1.25 billion of global sukuk this year with HSBC and Barclays Capital and assisted Celcom Axiata Bhd., the nation’s second-largest mobile-phone operator, with a 1.8 billion ringgit (\$575 million) bond in August.

The bank has been hired by Dubai as lead arranger for a planned sale of \$1 billion to \$1.5 billion of multi-currency Islamic bonds in Malaysia, a person with knowledge of the plan, who asked not to be identified as the details are private, said last month. Badlisyah declined to comment on the matter.

A Malaysian government 10-year private-led project initiative, including a nuclear power plant and an underground rail network, will spur sales of Shariah-compliant debt next year, Kuala Lumpur-based RHB Investment Management Sdn.’s Chief Executive Officer Sharifatul Hanizah Said Ali said Dec. 15.

#### Saudi Stimulus

Saudi Arabian companies may overtake Malaysia as the largest issuer of Islamic bonds for the first time in 2011 as the kingdom’s 1.44 trillion-riyal (\$384 billion) stimulus plan boosts spending, Tariq Al-Rifai, director of Islamic Market Indexes in Dubai for Dow Jones Indexes, said Dec. 17. The world’s largest oil exporter announced in August a five-year development plan to spur growth, create jobs and diversify its economy away from hydrocarbons.

HSBC arranged \$2.6 billion of sukuk in 2010, according to data compiled by Bloomberg. Kuala Lumpur-based Maybank Investment Bank Bhd. and AmInvestment Bank Bhd. ranked third and fourth. Three of the top four underwriters are based in Malaysia and arranged 39 percent of Islamic bond sales this year. The country’s investment banks have an advantage in the sukuk market as the nation’s issuers account for more than half of the \$144 billion of Shariah-compliant debt outstanding.

Sales by Persian Gulf borrowers in Malaysia surged to 1 billion ringgit (\$318 million) this year, the most since 2008 when Gulf companies started tapping the Malaysian market, data compiled by Bloomberg show. Last year, 100 million-ringgit of debt was sold. Total Islamic bond issuance in the Gulf has declined 32 percent to \$4.5 billion so far this year.

#### NBAD Sale

“If there is more Gulf issuance next year, then it’s likely that a regional bank with strong local corporate ties will be on a lot of those deals, even if Gulf companies sell ringgit

sukuk,” Khalid Howladar, a Dubai-based senior credit officer at Moody’s Investors Service, said in a telephone interview Dec. 22.

National Bank of Abu Dhabi PJSC, the United Arab Emirates’ second-largest lender by assets, sold 500 million ringgit of 10- year sukuk this month. The bank’s 4.75 percent ringgit- denominated sukuk due June 2015 yielded 4.02 percent when the debt last traded Nov. 19, according to prices provided by Bursa Malaysia Bhd.

The yield on Malaysia’s 3.928 percent Islamic notes due June 2015 was little changed at 3 percent today, according to prices from Royal Bank of Scotland Group Plc.

### More Gulf Action

The extra yield investors demand to hold Dubai’s government sukuk rather than Malaysia’s has narrowed 74 basis points, or 0.74 percentage point, since June 30 to 342, data compiled by Bloomberg show. The yield on Dubai’s 6.396 percent sukuk due November 2014 was little changed at 6.50 percent today, according to Bloomberg data.

Global sukuk returned 12.6 percent this year, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. Emerging-market debt returned 11.9 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 narrowed 170 basis points this year to 298 yesterday, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. In the GCC, the gap shrank 177 basis points to 368.

### Ringgit Remains Significant

CIMB is working on ringgit-denominated sukuk in January from both Malaysian corporate and government entities, with “initial issuances” from 500 million ringgit to 1 billion ringgit, Badlisyah said.

“As far as prospects are concerned, the ringgit issuances will remain significant for 2011, but definitely there will be more issuances out of the gulf as the market has stabilized,” he said. “I think you’ll probably see a fairly balanced composition for next year in terms of dollar issuances and local currency issuances.”

CIMB has “the largest reach and the biggest pool of investors,” Edward Iskandar Toh, a fixed income manager at Areca Capital Sdn. in Kuala Lumpur, said in a telephone interview yesterday. “They have been very aggressive and very professional and with more Gulf issuers looking at Malaysia, CIMB’s set to continue to lead.”

<http://www.businessweek.com/news/2010-12-23/cimb-beats-hsbc-as-top-sukuk-underwriter-islamic-finance.html>

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#### **4. TAKAFUL (ISLAMIC INSURANCE)**

##### **Malaysia's Takaful Plans Regional Growth**

*Tuesday, December 21, 2010*

Malaysian Islamic insurer Great Eastern Takaful will expand to Indonesia and Brunei to tap the Muslim market for sharia-compliant products, its chief executive officer said on Monday.

The company, which is owned by a subsidiary of Singapore's Great Eastern Holdings Limited and Malaysia's armed forces cooperative, also has Singapore and China on its radar for expansion.

It plans to go to Indonesia in 2011 and Singapore and China in 2014 or 2015. "Both (Indonesia and Brunei) are majority Muslim population and this sharia-compliant insurance will definitely attract the population," Great Eastern Takaful chief executive Mohamad Salihuddin Ahmad said.

"Beyond that we are also looking into Singapore and China because these are the two countries where Great Eastern has a presence."

Indonesia is regarded as the next Asian growth market for Islamic finance. Its Islamic bank assets were 66 trillion rupiah as of December 2009, compared with 2,534 trillion rupiah for the banking industry as a whole, central bank figures show.

In Malaysia, Islamic banking assets totalled about \$95 billion, or 19.6 percent of the total, as of December 2009, the central bank has estimated.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1278](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1278)

##### **Malaysia's MNRB in Talks with Allianz on Takaful Ikhlas Stake**

*Thursday, December 23, 2010*

MNRB Holdings Bhd. said it has started discussions with Allianz Malaysia Bhd. on selling shares of its wholly-owned takaful, or Islam-based insurance operation, Takaful Ikhlas Sdn. Bhd.

The insurance group received approval from Bank Negara Malaysia, the country's central bank and financial regulator, to commence negotiations with Allianz Malaysia "on the proposed divestment of a portion of our equity interests" in Takaful Ikhlas, said MNRB, an investment holding company with retakaful and reinsurance subsidiaries including Malaysian Re.

Takaful Ikhlas offers family and general takaful for individuals and groups, supported by 10 branches in Malaysia. Its distribution channels comprise more than 6,000 agency personnel, brokers, financial institutions, motor franchise-holders, co-operatives and Islamic bodies.

Allianz Malaysia said it is open to tapping the market for takaful business in Malaysia, with its estimated annual growth of up to 20%. Takaful insurers in Malaysia, a country of 27 million, held assets worth some US\$2 billion in 2008. Their counterparts in Indonesia, with nearly 10 times the population, only managed assets worth US\$95 million (BestWire, May 25, 2010).

In September, Bank Negara granted new licenses for family takaful to four joint venture entities led by foreign and local insurance and financial companies. The four new family takaful licenses were granted to joint ventures led by Great Eastern Holdings Ltd., ING Groep NV, American International Assurance Bhd. and AMMB Holdings Bhd. (BestWire, Sept. 2, 2010).

Malaysia is the largest takaful market in Southeast Asia with gross takaful contributions of US\$889 million in 2008, representing 77.6% of total contributions in the region, according to a takaful report by Ernst & Young.

The liberalization move by Bank Negara in 2009 lifted the cap on foreign entity holdings of operators of takaful, conventional insurance, investment banks and Islamic banks from 49% to 70% (BestWire, May 5, 2009).

Malaysia has eight takaful operators, four retakaful operators and one international takaful operator, AIA Takaful International Bhd., in addition to the four new family takaful licenses granted last September, according to Bank Negara.

[http://www.tradingmarkets.com/news/stock-alert/mnrbf\\_malaysia-s-mnrb-in-talks-with-allianz-on-takaful-ikhlas-stake-1386064.html](http://www.tradingmarkets.com/news/stock-alert/mnrbf_malaysia-s-mnrb-in-talks-with-allianz-on-takaful-ikhlas-stake-1386064.html)

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## **5. ISLAMIC INVESTMENTS; EQUITIES/SECURITIES & FUNDS**

### **Gulf Investment Corp plans 3.5 bln rgt sukuk programme-source**

*Monday, December 20, 2010*

Kuwait-based Gulf Investment Corporation (GIC) will set up a 3.5 billion ringgit (\$1.1 billion) Islamic fund-raising programme in Malaysia, a source said on Monday.

The programme will be established in January, after the corporation sold 1 billion ringgit of bonds in the Southeast Asian country in 2008, said the source who asked not to be identified as the plan had not been announced.

GIC had no immediate comment.

The corporation is among a slew of Gulf issuers who are expected to tap Malaysia's market in the coming months, as Middle Eastern banks and companies look to diversify their sources of funding after the Dubai debt crisis. [ID:nLDE6B403K]

Dubai is working on plans to issue about \$1.5 billion in sovereign sukuk in Malaysia while National Bank of Abu Dhabi , the UAE's largest lender by market value, launched 500 million ringgit in 10-year sukuk last week. [ID:nSGE6AN0BP] [ID:nWEA7378]

Issuers seeking sharia-compliant funding can tap into an estimated \$79 billion in excess liquidity in Malaysia, which is also home to the world's largest Islamic bond market.

The Southeast Asian country accounted for 42 percent of global sukuk issuance of \$19.1 billion last year, Thomson Reuters data showed. In the first nine months of 2010, ringgit-denominated sukuk deals made up 63.8 percent of total Islamic bonds issued globally, Kuwait Finance House said.

GIC was established in 1983 by the Gulf Cooperation Council and is owned by the six member states Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

It focuses on developing private enterprise and economic growth in the Gulf market by offering financial products and services.

<http://www.reuters.com/article/idUSL3E6NK0MC20101220>

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