

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

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

**Period: January 02 – January 08**

**Report # 153**

**Submitted By: Zain Arshad**

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## **Summary:**

The Bombay Stock Exchange has launched a new stock index of companies that are compliant with the Islamic legal code, encouraging Muslims to invest in India's fast-growing stock market, Islamic law imposes restrictions on investing in companies that charge interest and those that sell products such as alcohol, weapons or tobacco, The index, called BSE TASI Shariah 50, is composed of the 50 largest and most liquid stocks that adhere to Islamic law. The companies were chosen by the Taqwaa Advisory and Shariah Investment Solutions (TASIS), a Mumbai-based Islamic finance firm whose board members include legal experts and Islamic scholars.

Islamic Banking Industry in Pakistan (IBI) has sustained growth momentum despite prevailing tenuous economic conditions; and overall share of IBI in the country's banking system also improved to 6.4 percent in September 2010, Sources told Business Recorder on Wednesday that the Islamic banking assets, deposits and financing continued exhibiting strong growth with total assets increasing to Rs 424 billion at the third quarter end (September 2010) from Rs 411 billion at the beginning of the quarter; the Year on Year (YoY) growth in the assets was 31 percent.

The Saudi British Bank (SABB) launched "SABB Advance," a Shariah-compliant program, which provides customers with privileged services within Saudi Arabia and abroad, The program offers excellence to emerging mass affluent customers by providing special benefits regarding all banking and investment services in addition to international recognition that allow them access to various services offered by our foreign partner HSBC worldwide.

Yemen, the poorest country in the Middle East, plans to sell \$500 million of local currency Islamic bonds for the first time to fund the budget deficit and spur the Shariah-compliant finance industry, The central bank may offer sukuk in the domestic market from the first quarter, Deputy Finance Minister Jalal Yaqoub said in a telephone interview Dec. 29 from Sanaa, the capital. The government is seeking technical assistance on the sale from the International Monetary Fund. Tadamon International Islamic Bank, the largest Islamic bank in Yemen, and Cooperative & Agricultural Credit Bank said they will participate in the sale.

Professor Datuk Rifaat Ahmed Abdel Karim, Secretary-General of the Islamic Financial Services Board (IFSB) is the recipient of the Islamic Business & Finance Award 2010 for Outstanding Contribution to the Industry, On December 14 2010, the IFSB announced that Professor Abdel Karim will end his term as the Secretary- General of the IFSB on 30 April 2011. He will be succeeded by Mr. Jaseem Ahmed. Professor Abdel Karim has been steering the IFSB from its inception in 2003.

## 1. GLOBAL FINANCE & GLOBAL ISLAMIC FINANCE

### **Australia's Application of Islamic Finance Critical To Economy**

*Monday, December 03, 2010*

Australian tax laws should be amended to attract Islamic finance and other forms of alternative finance to benefit the economy, says CPA Australia.

In a submission to the Board of Taxation, CPA Australia says Islamic Finance will ultimately boost the Australian economy and help establish Australia as a financial services hub in the Asia-Pacific region. Paul Drum, head of business and investment policy, CPA Australia, said attracting capital and investment through Islamic finance is a huge opportunity for Australia and would ultimately be good for economic growth.

'Australia has emerged from the global financial crisis with strong economic position and a good regulatory regime. With our geographic position we are well placed to attract this increasingly significant component of global finance, and we need to take advantage of that,' he said.

'As a net importer of capital it is essential that we establish the right framework to attract and maintain a wide range of capital and financial products. Achieving this will be key to addressing many of our key economic issues including the funding of major infrastructure projects.'

Islamic finance is based on the principles of Islamic law (Shariah) which prohibits earning interest and instead focuses on profit sharing based on the buying and selling of tangible assets such as property.

'Islamic finance offers huge potential for Australia's financial services sector, but tax laws will need to be amended to accommodate other forms of alternative finance.

'Some of Australia's tax laws have a very specific legal based application which can exclude forms of alternative finance. Taking a broader economic and macro approach to policy in this area will be more beneficial and provide better long term benefits for Australia. It's also more consistent with how tax law has developed in other areas such as taxation of financial arrangements.'

The CPA Australia submission also suggests Australia could adopt a similar approach to the United Kingdom, where only minor legal and regulatory reforms were required.

'To achieve all of this will require significant work to align the accounting and tax treatment of Islamic and other alternative financial products. This must be a priority and CPA Australia looks forward to contributing to this process Australian tax laws should be amended to attract Islamic finance and other forms of alternative finance to benefit the economy, says CPA Australia.

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[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1305](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1305)

## **Strong banks fail to lift Kuwait market**

*Monday, December 03, 2010*

The KSE Market Index ended down 0.11% on Monday, closing at 6,947.6 points. Kuwait Finance House (KFH), the largest Islamic bank in the country, surged 3.44% to reach KD1.200. Burgan Bank added 1.88%, finishing at KD0.540. The KSE Bank index gained 1.08%, but weak performing insurers (off 0.88%) and industrials (0.54% lower) weighed on the market sentiment.

<http://www.ameinfo.com/252827.html>

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## **'Malaysia has a clear lead in Islamic capital market'**

*Monday, December 03, 2010*

KUCHING: The nation's Islamic capital market is seen as being intelligently positioned within the evolving Islamic financial-services industry, says ratings RAM Rating Services Bhd (RAM Ratings).

To this end, RAM Ratings' head of Islamic ratings, Zakariya Othman noted the positive results following the carefully-planned and strategic approach adopted in the country to develop a comprehensive Islamic financial system that would co-exist with its conventional counterpart within the broader financial landscape.

"The findings of a survey by a GCC (Gulf Cooperation Council)-owned research house show that Malaysia has a clear lead over other financial centres in terms of regulatory and legislative frameworks, infrastructure, range of products and services, risk management and audit as well as statistical, marketing and education

of Islamic finance," he added.

As one of the panel members at the 17th Annual World Islamic Banking Conference 2010 (WIBC 2010) in Manama, Bahrain, Zakariya cited two key factors that must be taken into consideration when tackling legal constraints namely the competency of the civil courts in hearing Islamic banking and finance cases, as well as the adherence to a recognised body such as the Syariah Advisory Council of

Bank Negara, or Securities Commission of Malaysia.

He further highlighted that the new Central Bank of Malaysia Act 2009 – which came into effect on Nov 25 2009 – made it mandatory for the courts to refer to the Syariah Advisory Council on rulings concerning syariah matters.

"The subject matter dealt with in the civil courts in Islamic finance cases is finance and not Islam. As such, Islamic finance cases can be submitted under the jurisdiction of the civil courts. However, the judge should have full knowledge of syariah."

On the management of sukuk defaults, Zakariya pointed out that the matter had received less criticism and scrutiny due to the country's robust supervisory structure, established governance and disclosure standards as well as the highly-developed legal framework and court system.

However, he also concluded that a country's success in Islamic finance was not just tethered to the number of sukuk issues or Islamic banks in its financial landscape.

"Regulatory structures and legal frameworks need to be established to encourage the influx of business in that particular jurisdiction," he noted.

<http://www.theborneopost.com/?p=84251>

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### **The Luxembourg financial centre now has a website dedicated to Islamic finance**

*Monday, December 03, 2010*

Luxembourg for Finance, the agency for the development of the Luxembourg financial center, has enhanced its website by the addition of a section dedicated to shariah compliant products and services.

The website, which is available in English and French, can be accessed on [www.islamicfinanceluxembourg.lu](http://www.islamicfinanceluxembourg.lu) or via the existing website [www.luxembourgforfinance.lu](http://www.luxembourgforfinance.lu).

Clients can use the site to do upstream research on their projects, identifying the best vehicles for particular shariah compliant structures.

They can also identify a wide range of services providers with experience in the sector. A selection of brochures focusing on Islamic finance in Luxembourg can be downloaded from the website.

The launch of a dedicated website is just the latest step in a determined campaign to promote the development of Islamic finance in Luxembourg. The Luxembourg Government, which policy is to diversify the financial centre, supports this campaign. Increasingly recognised as a leading Islamic finance center, Luxembourg is the most popular European domicile for shariah compliant investment funds and can rival any stock exchange in Europe for the number of sukuk issues listed.

The Luxembourg Central Bank is the first European central bank to become a member of the Islamic Financial Services Board and is working actively to gain experience of supervisory practice in this area and identifying instruments, practices and solutions for managing liquidity in a shariah compliant manner.

Luxembourg for Finance is currently participating in the World Islamic Banking

Forum in Bahrain, where potential Islamic finance clients can make contact with a large delegation of financial sector professionals from the Luxembourg financial center.

#### *Luxembourg for Finance*

Luxembourg for Finance (LFF) is a public private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL).

Its role is to contribute to the sustainable development of Luxembourg as an international financial center by means of a structured international communications policy and by nurturing new business sectors.

Combining the innovative spirit of the industry and the far sightedness of the country's political leaders, LFF is committed to the development of an integrated and sustainable European financial market place.

#### *Luxembourg*

Located in the heart of Europe between Belgium, France and Germany, Luxembourg is one of the smallest countries in Europe. Granted independence in 1839, the Grand Duchy is a constitutional monarchy.

On account of its size, Luxembourg has always striven to integrate itself into larger political and economic organisations. Thus Luxembourg was a founding member of the European Economic Community, which later became the European Union, and is part of all major international institutions.

The country's traditional openness to the outside world, its political and social stability, its cosmopolitan and multilingual population, its highly qualified work force and modern infrastructure make Luxembourg the ideal gateway to the European market with its 500 million consumers. It is the acknowledged European leader in the cross border distribution of financial products and services.

The Luxembourg financial center benefits from a legal and regulatory frame work that is reliable and flexible enough to be rapidly adapted to an evolving international environment. Luxembourg has been active in Islamic finance since 1978, when the first Islamic finance institution in a western country was established in the Grand Duchy. In 1983, the first shariah compliant insurance company in Europe was established in Luxembourg and in 2002 Luxembourg was the first European stock exchange to list a sukuk.

<http://www.zawya.com/story.cfm/sidZAWYA20110103143658>

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## **Islamic Index Encourages Muslims to Invest in Bombay Stock Exchange**

*Tuesday, December 04, 2010*

The Bombay Stock Exchange has launched a new stock index of companies that are compliant with the Islamic legal code, encouraging Muslims to invest in India's fast-growing stock market.

Islamic law imposes restrictions on investing in companies that charge interest and those that sell products such as alcohol, weapons or tobacco.

The index, called BSE TASI Shariah 50, is composed of the 50 largest and most liquid stocks that adhere to Islamic law. The companies were chosen by the Taqwaa Advisory and Shariah Investment Solutions (TASIS), a Mumbai-based Islamic finance firm whose board members include legal experts and Islamic scholars.

Stocks will be reviewed monthly for Shariah compliance, and non-compliant stocks will be removed. Additional companies will be added on a quarterly basis.

"It will create a market for Indian Muslims," Shariq Nisar, the director of research and operations at TASIS, said in a statement. "We can provide opportunity to domestic investors so that they can invest their money without falling foul of their ethical and religious requirement.

"A lot of Muslim investors who could have invested their money in stock market and benefited from it, they were not having this opportunity earlier."

Islamic indexes already exist in other countries in the Middle East and Asia, including Pakistan and Indonesia, which have the two largest Muslim populations in the world. (India is third, with more than 150 million Muslims, or 13 percent of its predominantly Hindu population).

The other countries' financial systems are not necessarily sophisticated enough to support large stock indexes. India's development in the past decade, however, allows it to support such a large index, which started Monday. "The BSE has the largest number of listed Shariah-compliant stocks in the world," Nisar said. "All Muslim countries of the Middle East and Pakistan put together do not have as many listed Shariah-compliant stocks as are available on the BSE."

The index is expected to encourage members of India's newly emerging Muslim middle class to invest, instead of saving money because of their conservative values

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1309](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1309)

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## **Female Scholars See Gender Gap Fall**

*Tuesday, December 04, 2010*

Asian Islamic financial institutions are attracting more female executives and scholars to fill a shortage of talent, setting a precedent for companies in the Middle East.

Malaysia's Shariah Advisory Council appointed a second female scholar to its 11-member board in November. Indonesia has six women on its panel of 35 experts, Ma'ruf Amin, chairman of the country's National Shariah Council, said in an interview Dec. 30. Malaysia's central bank and the securities commission are both headed by women, while Liza Mohd Noor is chief executive officer at RAM Rating Services Bhd., which provides ratings for Islamic bonds.

"Previously, it was difficult for women to enter the industry; now people have broken that boundary, especially in Malaysia," Aznan Hasan, associate professor at the Kuala Lumpur-based International Islamic University Malaysia, said in a Dec. 20 interview. "More women are coming in and this is good because we need people."

Encouraging women to work in Islamic finance will help meet demand for experts in an industry the Islamic Financial Services Board estimates has been growing 20 percent annually since 2000, with assets exceeding \$1 trillion. About 50,000 professionals will be needed globally over the next five to seven years to meet demand, Ishaq Bhatti, the director of Melbourne-based La Trobe University's Islamic banking and finance program, said in a Dec. 10 interview in Kuala Lumpur.

### **Cultural Barriers**

The lack of prominent female banking executives stems from "history, culture and perceptions of women," said Nida Raza, senior vice president of capital markets at Unicorn Investment Bank BSC in Manama, Bahrain.

In Saudi Arabia, a Sunni Muslim-majority country where women are required to have a male guardian, about 15 percent of the labor force was female in 2009, according to a report by the Geneva-based International Labor Organization, a United Nations agency.

"Getting a visa to Saudi is really difficult, and even when I'm there I face various challenges," Noripah Kamso, chief executive officer of Kuala Lumpur-based CIMB-Principal Islamic Asset Management Sdn. Bhd., a unit of CIMB Group Holdings Bhd., the world's biggest sukuk arranger, said in an interview on Dec. 23. "I was once chased by a Saudi police officer because I entered from the wrong door, and travelling without a male colleague is impossible."

### **Global Sales**

As interest in the industry grows, women, including those from the Middle East, are likely to play a greater role, said Engku Rabiah Adawiah Engku Ali, the first female

appointee to Malaysia's Shariah Advisory Council and an associate professor at the Ahmad Ibrahim Kuliyyah of Laws, International Islamic University Malaysia in Kuala Lumpur.

Global sales of sukuk, which pay returns based on asset flows to comply with the religion's ban on interest, fell 15 percent in 2010 to \$17.1 billion, according to data compiled by Bloomberg. Issuance reached a record \$31 billion in 2007.

Shariah-compliant bonds returned 12.8 percent last year, the HSBC/NASDAQ Dubai US Dollar Sukuk Index shows, compared with 19.8 percent the previous year. Debt in emerging markets gained 12.2 percent, from 29.8 percent in 2009, according to JPMorgan Chase & Co.'s EMBI Global Diversified Index.

The difference between the average yield for sukuk in developing nations and the London interbank offered rate has narrowed 178 basis points, or 1.78 percentage point, to 290 last year, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index. Average yields dropped 252 basis points to 4.74 percent.

#### Male Scholars

The yield on Malaysia's 3.928 percent dollar sukuk maturing in June 2015 rose seven basis points today to 2.99 percent and is 12 basis points higher than on Nov. 30, data compiled by Royal Bank of Scotland Group Plc show. The extra yield investors demand to hold Dubai's government sukuk rather than Malaysia's was at 338 basis points, down from 398 basis points at the end of November, according to the data.

A shortage of scholars increases the risk of conflicts of interest as many sit on various advisory boards at the same time, according to the Manama-based Accounting & Auditing Organization for Islamic Financial Institutions, an industry standards setting body.

Sheikh Nizam Yaquby of Bahrain and Syria's Abdul Sattar Abu Ghuddah, who each serve on 85 boards of Islamic financial institutions, ranked first by the number of seats among the top 20 religious experts in an October report from Zawya, an online Middle East business news and directory, and Funds@Work AG, a Kronberg, Germany-based consulting company.

#### 'Talent Pool'

In Malaysia, regulations are aimed at limiting such conflicts of interest. Under Bank Negara Malaysia regulations, a Shariah scholar can sit on only one board for each type of Islamic financial institution, meaning an expert on the panel of an Islamic bank can only sit on the board of another non-bank entity such as an insurance company, or takaful.

The rule “enlarges the talent pool and gives more opportunities,” said Engku Rabiah, who was once appointed on the board of six to seven Islamic banks and takaful companies before the rule was passed in 2004.

Unicorn Investment Bank’s Raza said the shortage of women in Islamic finance is easing as more female Westerners enter the market.

“This will have a knock-on effect on” the Middle East, Raza said in an interview Dec. 30 from New York. That “may lead to a rise in women in the Islamic finance industry,” she said.

<http://www.businessweek.com/news/2011-01-04/female-scholars-see-gender-gap-fall-islamic-finance.html>

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### **Court orders Islamic bank to compensate firm**

*Tuesday, December 04, 2010*

Al Ain: A leading Islamic bank has been ordered by a court to pay a building materials company Dh9.854 million that the bank had deducted from the company's account without legal cause.

The Al Ain Appeals Court, presided over by Judge Abdullah Ali Abdullah, overturned the initial ruling which was issued in favour of Dubai Islamic Bank after an expert report concluded that transactions between the two parties were faultless, and accordingly the case filed by Al Samah was unfounded.

The appealing party, a company represented by advocate Ibrahim Khouri, filed an appeal against the initial ruling explaining that the bank had refused to issue a statement of the company's transactions and murabahat (Islamic profits), and asked the court to assign a new expert whose decision would be binding.

In its appeal, the company said the first expert did not attend meetings with the two parties to hear their arguments and receive their documents and did not personally visit the bank but delegated one of his employees, who signed all minutes of meetings and followed up all procedures.

The expert also failed to give the appealing party time to submit arguments against the documents submitted by the bank, the company claimed.

Advocate Khouri was seeking compensation of Dh13,777,094 from the bank, which according to the company’s claim, was deducted from the company's account without any right, as well as legal interest until full payment and legal fees.

<http://gulfnews.com/news/gulf/uae/crime/court-orders-islamic-bank-to-compensate-firm-1.740651>

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## **Indonesia Cuts Taxes after Trailing Malaysia**

*Wednesday, December 05, 2010*

Indonesia's plan to offer tax incentives for Islamic finance may spur sukuk issuance, which was 32 percent that of Malaysia last year.

Sales of Shariah-compliant debt rose 56 percent to 26.2 trillion rupiah (\$2.9 billion) in Indonesia in 2010, compared with an 11 percent drop to 28.5 billion ringgit (\$9.3 billion) in Malaysia, data compiled by Bloomberg show. The central bank plans to submit proposals, including tax cuts for mudarabah investment accounts, Mulya Siregar, director of Islamic banking at Bank Indonesia, said in a Dec. 30 interview in Jakarta, without saying when. A mudarabah is a partnership in profit, in which each party provides either capital or labor.

HSBC Holdings Plc and Citigroup Inc., the third- and eighth-biggest sukuk underwriters in 2010, said the plan will boost sales of Islamic debt from the nation with the world's biggest Muslim population. Lebanon, Afghanistan and Australia have announced plans to revise laws to avoid excess levies on financial products that involve transfers of assets to comply with the religion's ban on interest payments.

"The Indonesian authorities are looking at facilitating their corporate sector to issue sukuk," Rafe Haneef, Kuala Lumpur-based managing director of global markets for HSBC Amanah, the Shariah-compliant unit of Europe's largest bank, said in a Dec. 23 interview. "Though there is significant demand for the country's corporate sukuk, there will be resistance in issuance until tax implications are clear."

### *Issuance Drought*

Indonesia had 86 trillion rupiah of Islamic banking assets as of October 2010, or about 3 percent of the total, according to the central bank. That compares with 337.6 billion ringgit in Malaysia, or 20 percent of banking assets, according to the Finance Ministry.

The government failed to raise the targeted amount in 12 consecutive local-currency sukuk auctions in 2010 as investors demanded higher yields than the government was willing to offer, saying the debt was riskier to hold because of a lack of secondary market trading volume. It raised 382 billion rupiah, less than the targeted 1 trillion rupiah at its last sale Oct. 5.

"Once the tax issues are resolved, we expect a strong pipeline of corporate sukuk from Indonesia," Singapore-based Mudassir Amray, head of Asia Pacific Islamic banking at Citigroup, said in a Dec. 29 interview. "At present, the law supports sovereign issuances. The applicability of the law to the companies will also help the corporate sector tap the international Islamic capital market."

### *Global Sales*

Global sales of sukuk, which pay returns based on asset flows, dropped 15 percent to \$17.1 billion in 2010, according to data compiled by Bloomberg. Issuance reached record \$31 billion in 2007.

Indonesia, which sold its first global Islamic bond in April 2009, will tap the international sukuk market in the first half of 2011, Rahmat Waluyanto, director-general of the Debt Management Office, said in an interview in Jakarta on Sept. 29. PT Bank Muamalat Indonesia, the nation's oldest Islamic lender, aims to sell Islamic debt in 2012 depending on its business plan, Andi Buchari Fathoeddin, its director of compliance and corporate planning, said in an interview yesterday from Jakarta. Indonesian companies haven't announced any other plans to sell sukuk, Bloomberg data show.

### *Yield Declines*

The yield on Indonesia's 8.8 percent sukuk maturing in April 2014 fell one basis point to 2.86 percent today, according to prices from Royal Bank of Scotland Group. The yield was as high as 8.77 percent in its first month after issuance.

The yield on Malaysia's 3.928 percent Islamic note due June 2015 fell one basis point to 2.94 percent today, according to RBS data. It has dropped 97 basis points since June 3. The extra yield investors demand to hold Dubai's government sukuk rather than Malaysia's widened three basis points to 331 today, according to data compiled by Bloomberg.

Shariah-compliant bonds returned 12.8 percent last year, the HSBC/NASDAQ Dubai US Dollar Sukuk Index shows. Debt in emerging markets gained 12.2 percent, according to JPMorgan Chase & Co.'s EMBI Global Diversified Index.

The difference between the average yield for emerging market sukuk and the London interbank offered rate narrowed 178 basis points to 290 last year, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index.

### *Approval Process*

Bank Indonesia is also streamlining the approval process for new Islamic banking products, Siregar said in the interview last month. A 10-member joint committee including representatives from the central bank, the national Shariah board and the Indonesian Association of Accountants will start work from January, he said. Under the existing system, products have to be first reviewed for compliance with Shariah law by the panel of scholars and then Bank Indonesia.

An increase in Islamic savings would help support demand for sukuk. Bank Indonesia is proposing reducing income tax imposed on returns earned from mudarabah accounts to 10 percent from 20 percent for customers and banks, Siregar said.

“Indonesia needs to move its timetable for tax reforms more quickly,” Arfat Selvam, an Islamic finance lawyer and managing director of Arfat Selvam Alliance LLC, said yesterday in an interview from Singapore. “There is so much infrastructure development that could benefit from Islamic finance. They have to eliminate double stamp duties so that the cost for Islamic finance is not more than in the conventional.”

<http://www.bloomberg.com/news/2011-01-05/indonesia-cuts-taxes-after-trailing-malaysia-islamic-finance.html>

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### **The Islamic financial oasis**

*Wednesday, December 05, 2010*

With many innovations happening in the nation’s Islamic financial sector, it is just natural for the industry to attract many foreign players into the market.

With the launch of Bursa Suq Al Sila on Bursa Malaysia in August 2009, the nation established the world’s first syariah-based commodity trading platform – spurring further foreign interest in the country’s Islamic financial industry.

However, the boost was triggered even earlier than that, initiated by the release of the Financial Sector Masterplan (FSMP) in 2001. Thenceforth, the sector experienced a rapid revolution in foreign participation, which saw the issuance of dedicated Islamic banking licences to three foreign groups – led by Kuwait Finance House Malaysia Bhd (KFH Malaysia).

Jamelah Jamaluddin

“When we first started, we were in corporate investment banking,” said KFH Malaysia’s chief executive officer Jamelah Jamaluddin.

“In our 2010 business plan, we want to go into the retail market as well as other business areas such as fund management, private equity, treasury and commercial banking,” she added.

Renowned as the first woman to helm the nation’s largest foreign-based Islamic bank, Jamelah came into the industry at a time when KFH Malaysia was mired in internal issues. Ratings agency RAM Rating Services Bhd discontinued its assessment on the bank in June last year, due to an ongoing due diligence status audit.

Jamelah, who took over the captain’s post at KFH Malaysia in February, had earlier instructed several personnel to go on leave pending internal investigations into transactions and contractual arrangements undertaken over the years.

“We will concentrate on recovery measures for this year (2010) as well as business growth, within our retail sector as well as our investment banking segment,” she spoke to reporters last April in response to the matter. Concurrently, she also announced KFH Malaysia’s ‘Five-Year Plan’, slated for the bank’s realignment to be in parallel with the industry.

“The plan includes aggressive NPF (non-performing financing) provisioning and credit control, enhancing credit risk management, improving asset quality as well as being more focused on the bank’s business growth,” stated Jamelah.

Fast-forward, the plan seemed to be working. In August, the Malaysian rating Corporation Bhd affirmed the bank’s long and short term ratings at AA+/MARC-1.

“The focus still remains at taking a prudent approach on assessment and provisioning, ensuring that the bank will have a clean balance sheet and start moving ahead with its new business propositions,” said Jamelah.

KFH Malaysia illustrated just one of many foreign names having set up their operations in the country. However, the ‘attraction’ did not go one-way, as many homegrown Islamic financial players had already extended their reaches abroad, especially in the ‘yet-to-be’ tapped Asean markets.

In September, Maybank Bhd (Maybank) announced plans to expand Islamic finance business in Indonesia – home to the world’s largest Muslim population – with a projection to increase its network there from 290 to 450 eventually. Last month, it launched full-fledged Islamic bank Maybank Syariah Indonesia (MSI), formerly known as PT Bank Maybank Indocorp.

“Maybank is determined to become the number one Islamic bank in Asean,” its chief executive officer Datuk Seri Abdul Wahid Omar told AFP in September. Prior to MSI, Maybank already had about 43 per cent stakeholding in PT Bank Internasional Indonesia Tbk.

Abdul Ghani

Meanwhile, CIMB Islamic Bank Bhd’s (CIMB Islamic) chief executive officer Badlisyah Abdul Ghani stressed that Malaysia could not be a global Islamic financial oasis, if homegrown Islamic banking players remained domestic.

“CIMB Islamic was the first Malaysian-based Islamic finance player to go regional and global. Presently, the bank undertakes its business in 11 countries, while widening its wings to other Asean countries in tandem with the group’s expansion.

“We are seriously looking at developing the business in Indonesia where we have a licensed Islamic window operation; PT CIMB Niaga Syariah. We plan to introduce more products there in the coming years.”



Looking at Indonesia, Badlisyah noted it was the one country that had really put 'serious' efforts towards putting up the right framework for Islamic finance.

"They (Indonesia) have come out with syariah ETFs (exchange traded funds) and sukuk law, as well as mighty links with both syariah and finance ministries there; concurrently making sure that their framework from a regulatory perspective is improved, in order to facilitate Islamic finance better.

"It shows unequal commitment that we cannot see anywhere else, except here in Malaysia. It is in our interest that their framework are in place, thus we would gladly work together with the regulators there to ensure this," underlined Badlisyah.

Interestingly enough, the nation's maiden homegrown full-fledged syariah-compliant bank, Bank Islam Malaysia Bhd (Bank Islam) had yet to 'set sail' onto foreign shores. This, however, did not mean that there would not be any plans to go abroad, according to its managing director Datuk Seri Zukri Samat.

Datuk Seri Zukri Samat

"It (oversea expansion) has always been part of the pillars within Bank Islam's Stability Growth Plan (SGP) for the period from July 1, 2009 to Dec 31, 2012. We are still looking, especially at this part of the Southeast Asian region," he told The Borneo Post recently. "While we do not have any specific discussion with regards to the Middle East markets, but with the right party, we will consider possible partnerships."

Moreover, Zukri underlined that Islamic banking should not be viewed in the same light as that of 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 such accommodations. Still, they are not as conducive and comprehensive as what we have here in Malaysia," he pointed out, adding that Malaysia was well-equipped with a full array of infrastructure to cater for the Islamic banking system.

"Obviously, this has aided our direction towards being the world's premier Islamic financial centre – by having all the ingredients ready for both domestic and foreign participants," he concluded.

<http://www.theborneopost.com/?p=84783>

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## **Islamic banking share improved 6.4 percent in Pakistan**

*Thursday, December 06, 2010*

KARACHI Islamic Banking Industry in Pakistan (IBI) has sustained growth momentum despite prevailing tenuous economic conditions; and overall share of IBI in the country's banking system also improved to 6.4 percent in September 2010.

Sources told Business Recorder on Wednesday that the Islamic banking assets, deposits and financing continued exhibiting strong growth with total assets increasing to Rs 424 billion at the third quarter end (September 2010) from Rs 411 billion at the beginning of the quarter; the Year on Year (YoY) growth in the assets was 31 percent.

The overall share of Islamic banking industry in the country's banking system also improved to 6.4 percent in September 2010 from 6.1 percent as at the beginning of the quarter ie June 2010. The share was stood at 5.4 percent at the beginning of calendar year 2010.

However, the profitability of IBI in Pakistan – based on Return on Assets (ROA) and Return on Equity (ROE) – is lower than the previous quarter and also worsen than the industry average. As the tax adjusted ROA and ROE for Islamic banks as of September 2010 are 0.6 percent and 5.3 percent compared to the industry figures of one percent and 9.9 percent, respectively. While, end of June 2010 quarter ROA was stood at 0.8 percent and ROE at 6.9 percent.

Sources said that growing liquidity surpluses in Islamic banks however, is an another universal problem as banks in almost all the jurisdictions are facing diversification of product mix and tapping non-traditional areas like SME, Agriculture and Microfinance, in a gradual manner. The widening gap in the growth rates of deposits and financing has been instrumental in pileup of huge liquidity surpluses in the industry.

While, the recent issue of government of Pakistan Ijarah Sukuk of around Rs 52 billion coupled with another tranche of Rs 40-50 billion in December, 2010 has temporarily addressed the surplus liquidity issue. Despite this the IBI will have to diversify its financing and investment avenues to find a long-term solution.

Similarly the deposits and financing and investments grew by 38.2 percent and 17.7 percent respectively and reached Rs 338 billion and Rs 233 billion as at the close of the quarter. The relatively lower growth in financing and investments is indicative of the difficulties being faced by IBI in exploring new financing and investment avenues to deploy the growing deposits, they said.

While the relatively cautious approach of IBI in assets' acquisition has enabled the Islamic banks to maintain relatively better quality of financing portfolio. It has slowed down the pace of asset build-up; the share of IBI financing and investments is 4.6 percent compared to that of 6.7 percent of deposits.

Bankers said that the declining profitability can be attributed to difficult economic conditions that have adversely affected the assets quality of banks including Islamic banks as reflected by significantly increased Non-Performing Financing (NPF) ratio. Furthermore, the extensive branch expansion during last couple of years has also contributed in low profitability ratios as the branched so opened are gradually achieving the break even.

Branch network of IBI has mounted to 684 branches in September 2010 from 651 branches in December 2009. The Islamic banks' deposits though grew by just 3 percent during the quarter, the YoY growth was healthy 38 percent. The slower growth in deposits during the quarter could be attributed to recent floods and Eid-related withdrawals in September 2010.

Consequently, similar pattern is exhibited in the YoY growth of fixed and saving deposits which stood at 37 percent and 40 percent respectively, while the QoQ basis growth of fixed and saving deposits is 4 percent and 8 percent respectively. Further, the deposits of financial institutions have increased on YoY basis by 47 percent but a declining trend was noticed on the QoQ basis which can be attributed to the fact that the Islamic banks are shifting their institution's deposit to the interbank placements.

<http://zulkiflihasan.wordpress.com/2011/01/06/islamic-banking-share-improved-6-4-percent-in-pakistan/>

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### **Kazakhstan to License Second Islamic Bank Next Quarter**

*Friday, December 07, 2010*

Kazakhstan's crash economic development program has been soaking up so much cash that President Nursultan Nazarbayev decided some years ago that the country should add an untapped source of financing: Islamic banks.

The best way to gain access to this huge source of funds, he thought, was to encourage Islamic banks to open in Kazakhstan. His administration set out creating the conditions

for that to happen, including drafting legislation to facilitate Islamic banks' operations, which are different from other banks'.

The first Islamic bank to come to Kazakhstan, Al Hilal of the United Arab Emirates, opened in March 2010. The government is likely to license a second bank soon, according to a Malaysian newspaper. Amanah Raya of Malaysia is expected to obtain approval to operate in Kazakhstan in the second quarter of 2011, the Business Times of Kuala Lumpur reported. It will open its doors in the country by the second quarter of 2012, the newspaper said.

Islamic banks base their operations on Sharia law, a set of core principles that govern the Muslim faith. Key tenets of Sharia banking include customer profit-sharing and limits on interest rates – since Islamic law prohibits usury.

The news that a second Islamic bank will be licensed in Kazakhstan soon is a great way for the country to start its chairmanship this year of the Organization of the Islamic Conference, an association of 57 Muslim nations.

It's also a personal coup for Nazarbayev, whose administration has been looking in every nook and cranny for international financing for Kazakhstan's tens of billions of dollars' worth of development efforts over the next two decades.

Amanah Raya's Kazakhstan operation will be based in the commercial center of Almaty. Al Hilal's headquarters is also there. It has a branch in Astana and plans another in the southeastern city of Shymkent.

The Malaysian bank's Kazakhstan operation will be a joint venture. Amanah Raya will have a controlling 55 percent interest in the venture, with the Development Bank of Kazakhstan holding 40 percent and Kazakhstan's Fattah Finance 5 percent.

Fattah Finance, founded in 2009, is the first Kazakhstan company to offer financial services that comply with Sharia law. It started with brokerage services. Its partnership with Amanah Raya will be its first banking venture.

Amanah Raya's Kazakhstan strategies "are being formulated by the parties to ensure that the bank will be acceptable in the retail and commercial markets," the Business Times quoted an Amanah Raya spokesperson as saying.

A preliminary agreement to create the venture was signed in Astana on July 19. Deputy Prime Minister Asset Issekeshov described the agreement as being "of paramount importance given the forthcoming chairmanship of the Organization of the Islamic Conference" and Kazakhstan's hosting of the 7th World Islamic Economic Forum in Astana from June 7 to 9 in 2011.

Kazakhstan officials see Islamic banks as a much-needed alternative to Western financing in the country's quest to keep development on track.

When the global economic crisis hit Kazakhstan in 2008, domestic banks struggled to repay money they had borrowed from the West. The result was that a lot of banks in the United States and Europe stopped loaning money to Kazakh banks.

Capital from Islamic banks in the Middle East and Southeast Asia should help fill the gap, another reason that Kazakhstan officials like Islamic banks is that their lending policies are more conservative than other banks'. That means they are less likely to get into financial difficulty during downturns.

As he does with so many high-profile economic deals, Nazarbayev played a personal role in bringing Al Hilal Bank to Kazakhstan. He is a friend of the sultan of Abu Dhabi, and often visits the Emirates.

The president was party to a handshake agreement on Al Hilal coming to Kazakhstan when he traveled to the Emirates on March 16 and 17 in 2009. A preliminary written agreement on the deal was signed in Abu Dhabi three months later, on June 11. The chief executive of Emirates-based Shamsi Capital said Nazarbayev's determination was crucial to Islamic banking taking root in Kazakhstan.

"The most important ingredient is political will," Adalet Jabiev said at the opening of Al Hilal's Almaty office on March 17, 2010. "Nazarbayev and the Kazakh elite are all for it."

Islamic banking is one of the fastest-growing segments of the global financial market. The assets of Islamic financial institutions worldwide stood at \$900 billion at the end of 2008, according to international banking experts. Islamic banks' annual average growth rate is about 15 percent, the experts said.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1319](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1319)

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## 2. ISLAMIC BANKING & INSTITUTIONS

### **Saudi British Bank Launches Islamic SABB Advance**

*Monday, December 03, 2010*

The Saudi British Bank (SABB) launched "SABB Advance," a Shariah-compliant program, which provides customers with privileged services within Saudi Arabia and abroad.

The program offers excellence to emerging mass affluent customers by providing special benefits regarding all banking and investment services in addition to international recognition that allow them access to various services offered by our foreign partner HSBC worldwide.

Majed Najam, general manager, personal financial services at SABB, said: "This program is designed to satisfy customer's hopes and desires to benefit from priority status and the global existence of the bank, as well, SABB also endeavors to provide excellence to a larger segment of its customers." Majed added: "The SABB Advance program responds to the needs of some customer segments specifically youth and small business owners, particularly after the significant success achieved by SABB Premier."

The launch of the new program is in line with the bank's continuous endeavors to promote Islamic banking and to expand Shariah-compliant products and solutions for retail, corporate, treasury and investment segments as well as Takaful insurance.

The Saudi British Bank (SABB), an affiliate of the HSBC Group, has completed its first cross-border Renminbi (RMB) trade settlement transaction through issuance of a letter of credit to one of its clients.

With this deal, SABB has become the first bank to carry out a RMB trade transaction in the Kingdom, the Saudi bank said in a statement.

The bank said it had worked with the client to complete an RMB transaction with its supplier in China. This landmark transaction follows a decision in June by China's central bank, to extend a pilot programme launched last year that permitted the use of RMB in cross-border trade between designated companies in mainland China and member countries of Association of Southeast Asian Nations (ASEAN), the Saudi bank stated.

The program now includes up to a further 20 provinces as well as countries around the world, it added. The ability to settle trade and other international payments in RMB provides clients in Saudi Arabia with more flexibility while determining payment terms with their suppliers in China.

China remains a key trading partner for Saudi, with its share of imports into the Kingdom having grown from 9.7 per cent in 2007 to 11.3 per cent (SR 40 billion in 2009). This is expected to grow further with China being identified by Saudi traders as the most promising region for trade growth.

Moving the trade transaction to RMB also presents significant foreign exchange and hedging opportunities. About 30 per cent of China's exports are expected to be settled in RMB in the next 5 years, said the Saudi bank in a statement.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1306](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1306)

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## **Abu Dhabi Islamic Bank arranges \$32m Structured Ijara financing for Waha Maritime**

*Monday, December 03, 2010*

Abu Dhabi Islamic Bank (ADIB), a top-tier Islamic financial services group, has acted as Mandated Lead Arranger for the \$32m structured Ijara facility to fund the acquisition of up to 6 Offshore Supply Vessels (OSVs) for Waha Offshore Marine Services (WOMS), the marine chartering and operations arm of Waha Maritime.

The financing represents an important milestone for Waha Maritime in its expansion in the Offshore Supply Vessel (OSV) sector. Waha Maritime is a subsidiary of Waha Capital, one of the Middle East's leading diversified investment holding companies.

The facility will allow Waha Maritime to strategically expand in its business sector. One of the unique features of this deal is ADIB's ability to structure a Shari'a compliant junior finance with limited recourse through a unique Shari'a compliant Ijara structure with a combination of base profit rate and equity upside. This provides a facility tailored to meet Waha Maritime's business requirements and growth aspirations.

Commenting on the agreement, Nuhad Saliba, Global Head of Wholesale banking said, "Our partnership with Waha Maritime builds on our expertise and vision to expand the strategic UAE Oil & Gas sector. Waha Capital is a major investment conglomerate focused on strategic sectors of the UAE economy namely aviation, maritime, real estate and financial services. Waha's expansion in the offshore supply vessels' industry bodes well for the growth and development of the UAE economy."

Salem Al Noaimi, CEO, Waha Capital, said: "This financing deal will further support Waha Capital's growth aspirations in the oil and gas services industry. Over the last three years, Waha Maritime has built a significant offshore supply vessel (OSV) operations catering to the oil and gas industry in the Gulf, Middle East, Caspian, and South East Asia and this new facility will further facilitate the expansion of our business. We are very pleased to partner with ADIB, whose innovative structuring and execution expertise has facilitated the special financing needs of Waha Maritime."

<http://www.ameinfo.com/252798.html>

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### **Kuwait Finance House to Invest \$20 Million in China Sewage Plant**

*Monday, December 03, 2010*

Kuwait Finance House, the country's largest Islamic Bank, will invest \$20 million in a sewage plant in China.

The \$20 million investment is the third from the \$100 million al-Fayez Fund for Private Property, Talal al-Nesf, the bank's Private Banking Services Department Manager, said in an e-mailed statement today. The Chinese sewage plant is one of the most profitable deals financed by the fund, al-Nesf said.

The fund has so far invested \$60 million in major industrial projects in addition to the Chinese sewage plant, al-Nesf said. The fund invests in a number of Asian markets including India, China, Malaysia, Singapore and the Philippines, he said.

The remaining \$20 million will be invested when a lucrative opportunity arises in any of those markets, al-Nesf said.

<http://www.bloomberg.com/news/2011-01-03/kuwait-finance-house-to-invest-20-million-in-china-sewage-plant.html>

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## **ADIB arranges a US\$32 million Structured Ijara financing for Waha Maritime**

*Tuesday, December 04, 2010*

- Abu Dhabi, 3<sup>rd</sup> January 2011: Abu Dhabi Islamic Bank (ADIB), a top-tier Islamic financial services group, has acted as Mandated Lead Arranger for the US\$32 million structured Ijara facility to fund the acquisition of up to 6 Offshore Supply Vessels (OSVs) for Waha Offshore Marine Services (WOMS), the marine chartering and operations arm of Waha Maritime. The financing represents an important milestone for Waha Maritime in its expansion in the Offshore Supply Vessel (OSV) sector. Waha Maritime is a subsidiary of Waha Capital, one of the Middle East's leading diversified investment holding companies.
- The facility will allow Waha Maritime to strategically expand in its business sector. One of the unique features of this deal is ADIB's ability to structure a Shari'a compliant junior finance with limited recourse through a unique Shari'a compliant Ijara structure with a combination of base profit rate and equity upside. This provides a facility tailored to meet Waha Maritime's business requirements and growth aspirations.
- Commenting on the agreement, Nuhad Saliba, Global Head of Wholesale banking said, "Our partnership with Waha Maritime builds on our expertise and vision to expand the strategic UAE Oil & Gas sector . Waha Capital is a major investment conglomerate focused on strategic sectors of the UAE economy namely aviation, maritime, real estate and financial services. Waha's expansion in the offshore supply vessels' industry bodes well for the growth and development of the UAE economy."
- Salem Al Noaimi, CEO, Waha Capital, said: "This financing deal will further support Waha Capital's growth aspirations in the oil and gas services industry. Over the last three years, Waha Maritime has built a significant offshore supply vessel (OSV) operations catering to the oil and gas industry in the Gulf, Middle East, Caspian, and South East Asia and this new facility will further facilitate the expansion of our business. We are very pleased to partner with ADIB, whose innovative structuring and execution expertise has facilitated the special financing needs of Waha Maritime."
- **About Waha Maritime**  
A world class maritime investment company with over US\$450 million in assets, Waha Maritime has blazed new trails in the region's maritime landscape through strategic acquisitions and joint ventures that have added significant new value to the industry. Waha Maritime invests in mainstream shipping and oil field services businesses that can both stimulate new industry growth and bring substantial returns to its shareholders. The company works constantly to unlock new opportunity through improved operations and fresh acquisitions. By skillfully synergising mutual resources, it has helped its portfolio companies achieve new levels of efficiency, productivity and profitability.
- Waha Maritime has a range of exciting investments in ships and maritime assets in the regional oiloffshore support services sector. The company's first investment was completed in July 2008 whenit acquired a 49% stake in the GMMOS Group, a major industrial holding company operating in the marine, oil and gas and crane-hire sectors across the Gulf and Caspian markets. Over the last three years, it has built a world-class offshore supply vessel (OSV) service catering to the oil and gas industry in the Gulf, Middle East, Caspian, and South Asia. Today, it controls close to 60 vessels deployed worldwide in addition to a shipyard with a \$160 million order-book. After gaining profile



as one of the most dynamic new companies in the GCC's maritime sector, Waha Maritime is now exploring new investment horizons in the region and beyond.

- About Waha Capital is a leading Abu Dhabi Securities Exchange-listed and Abu Dhabi-based diversified investment holding company. Waha Capital's strategy is to drive multi-sector business growth and diversification through acquisitions, joint ventures and creation of new business. Its current business portfolio includes big-ticket leasing, financial services, maritime, oil and gas, and real estate development. Waha Capital's main institutional shareholder is Mubadala Development Company.
- About ADIB:  
Abu Dhabi Islamic Bank (ADIB) was established on 20th May 1997 as a Public Joint Stock Company following the Emiri Decree No. 9 of 1997. The Bank commenced commercial operations on 11th November 1998, and was formally inaugurated by His Highness Sheikh Abdullah Bin Zayed Al Nahyan, on 18th April 1999. ADIB's vision is to be a top-tier, global Islamic financial services group and its mission is to provide Islamic financial solutions to the global community.
- The Bank carries out all contracts, operations and transactions in accordance with Islamic Shari'a principles.
- ADIB's core values, reflected in all its activities are: Simple and Sensible; Transparent; Mutual Benefit; Hospitality and Tolerance; and Shari'a inspired. It brings to its customers banking as it should be.
- ADIB - Awards
- ADIB was named 'The Best Islamic Bank' in the Middle East at the Banker Middle East Industry Awards 2010, reaffirming its leadership position in the growing Islamic finance sector.
- ADIB also won the HRD award from the Emirates Institute Of Banking & Financial Studies.
- ADIB's GHINA saving program won the Best Savings Account award at the Banker Middle East Product Awards 2010.
- ADIB won the 'Best Private Sector Customer Service Team' award at the 2010 UAE Customer Service Week forum, held by The International Customer Service Institute UK.
- ADIB won the 'Most Improved Bank' in service excellence and got the top rank in 'Call Centre Performance' in the 6th Annual Bank Benchmarking Index for service excellence by Ethos Consultancy.
- ADIB won the best Islamic bank at the 2010 Islamic Banking and Finance Awards organized by CPI Financial.
- ADIB also won the award for Best Branding category at the 2010 Islamic Banking and Finance Awards organized by CPI Financial.

<http://www.zawya.com/story.cfm/sidZAWYA20110103084536>

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## **KPMG Appoints New Audit Partners in Bahrain**

*Tuesday, December 04, 2010*

Global Audit, Tax and Advisory firm, KPMG Fakhro, today announced the appointment of two new audit partners to strengthen the firm's financial services and owner managed business practices in Bahrain.

Islamic banking specialist, Mahesh Balasubramanian, and owner managed business specialist, Harish Gopinath, were both promoted from within the business.

KPMG Fakhro managing partner, Jamal Fakhro said the appointments reflect KPMG's optimism for the future and the growing needs and expectations of its clients.

"Mahesh and Harish are significant appointments for our expanding financial services and owner managed business teams," said Mr Fakhro.

"The appointments ensure KPMG has senior auditors on the ground to support clients in the growing SME sector in Bahrain and Islamic Banking."

Mr Balasubramanian has extensive experience in banking and financial services, including an in depth knowledge of International Financial Reporting Standards (IFRS), and Islamic accounting standards. Mr Balasubramanian is an associate member of the Institute of Chartered Accountants of India. He leads the Islamic banking services for Bahrain.

Mr Gopinath is an associate member of the Institute of Chartered Accountants of India and has a CPA from American Institute of Certified Public Accountants. He manages audit, accounting and outsourcing assignments and special assignments for SME clients in Bahrain.

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1310](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1310)

## **Baker and McKenzie promotes two partners in the Gulf**

*Tuesday, December 04, 2010*

Baker & McKenzie announces that Bilal Kahlon and Zahi Younes have been promoted to partner with effect from 1 January 2011. Bilal Kahlon is a member of the Gulf banking and finance practice and his promotion follows that of Gordon Prestige in July 2010, bringing the total number of finance partners in the region to five.

Specializing in project and Islamic finance, Bilal recently advised the Saudi Binladin Group on a SAR700m (\$187m) Sukuk Al-Murabaha issued by SBG Sukuk Limited. Zahi Younes spent three years with Legal Advisors in association with Baker & McKenzie in Riyadh, Saudi Arabia, before relocating to the Abu Dhabi office in April 2009.

Zahi has been involved in some of the largest IPOs in Saudi Arabia (including Ma'aden and Kingdom Holding Company) and has recently been advising a number of the firm's institutional clients on restructuring their Middle East operations.

Commenting on the appointments, Borys Dackiw, Managing Partner - Gulf Region, stated "Bilal and Zahi's appointments are both richly deserved. Bilal adds further strength to the leadership of our highly regarded banking and finance group in the Gulf while Zahi's corporate, commercial and capital markets experience in the Saudi market will help us service both regional and global clients of the firm in the UAE."

Baker & McKenzie has been active in the Saudi Arabia market since the mid-1970s, opening its Bahrain office in 1998 and most recently in Abu Dhabi in early 2009. The Firm's Middle East and North Africa presence also includes a long-standing office in Cairo, Egypt.

<http://www.ameinfo.com/252882.html>

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### **Microsoft virtualization solution drives significant savings for Bahrain Islamic Bank** *Tuesday, December 04, 2010*

Microsoft announced that Bahrain Islamic Bank has -achieved significant savings and successfully reduced its carbon footprint after opting for Microsoft virtualization software. The implementation of the new solution, which took only two months, resulted in immediate benefits for the bank.

Virtualizing the servers will enable significant savings for BisB in hardware costs alone, while the energy needs of running the data centre has been reduced by 40%, bringing even greater savings.

BisB, which boasts the largest network of any Islamic bank in the Kingdom of Bahrain, needed a robust and reliable virtualization solution that would support the company's increased application needs and the expansion of its retail base. The bank also wanted to add new modules to its existing core banking application, while the IT department wanted to establish a dedicated test environment.

Hassan Abu-Hassan, Acting AGM IT, BisB said: "We came to the conclusion that we had to rapidly look for an alternative solution whereby we could reduce the number of physical servers to cut the time taken to prepare new servers. Microsoft Hyper-V provided that functionality, in a solution that would also save space and drastically reduce our power and energy consumption."

With the help of Microsoft, BisB deployed Microsoft's Hyper-V virtualization technology, which dramatically increased the number of virtual servers available, giving flexibility to support new applications and provide a robust testing environment.

Mr. Tareq Hijazi, Regional Country Manager, Microsoft Bahrain and Oman said: "As a major financial hub, Bahrain is home to world-class financial institutions, who are constantly on the look-out for technological advancements to boost their productivity and lower their operational cost. We are thrilled to see BisB actively moving in this direction and we are proud to be their technological partner of choice in facilitating their quest for innovation."

From his side, Adam Tamam, Enterprise Sector Manager, Microsoft Bahrain said: "Microsoft's Hyper-V virtualization software is the ideal product for IT managers in the finance and banking industry who need robust, reliable virtualization technology to support their mission critical applications. We have worked closely with the BisB Information Technology team over the past few months to ensure that they achieve the maximum benefit out of their Microsoft Hyper-v deployment."

"This is a real priority for us at BisB," says Hassan. "Doing our bit for the environment is a core corporate social responsibility commitment and we're glad we have been able to make an impact through this initiative."

Through the solution, Microsoft has brought the familiarity of Windows Server to the hypervisor, by building it into the OS, thereby ensuring that the IT staff at BisB have a short learning curve and also by providing one unified set of management tools for both the physical and virtual environment.

<http://www.ameinfo.com/252897.html>

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## **Noor Islamic Bank Launches 'Fit for Life' Credit Cards**

*Wednesday, December 05, 2010*

A unique series of credit cards that focus on the well-being of the cardholders, as well as offering thousands of dirhams of savings on a range of products, has been launched by Noor Islamic Bank.

The 'Fit For Life' credit cards are designed to meet the needs of individuals who not only wish to improve the health of their finances in 2011, but also want to live a healthier lifestyle.

Among the range of unusual benefits available to card holders is a complimentary access to selected golf clubs and fitness centres across the country, as well as a free iPhone 4 with every approved Gold / Platinum / Infinity credit card.

Free valet parking services, buy one get one free offers at fine dining restaurants and discounts from Health Factory with home or office delivered meals, loyalty points with cash back options and access to Noortravel-desk services are also included.

John Chang, Head of Retail Banking at the bank said, "Our 'Fit For Life' credit cards will help our clients adopt a healthier way of life, alongside a more responsible view to managing their finances.

"Our customers are telling us that they, now more than ever, have a desire to better understand and manage their financial situation. Our 'Fit For Life' credit cards are a response to that wish. Although there is an annual fee, the value and savings offered far outweigh the cost and will help customers reduce their annual spending."

Established in 2007 in Dubai, a full service bank, Noor Islamic Bank delivers the broadest range of products for its customers, with an emphasis on unique and personalized services. Noor Islamic Bank's products and services are governed by a Sharia'a Board, comprising leading Islamic scholars with extensive experience and expertise in legal, financial and banking-related matters. Noor Islamic Bank has locations across the UAE in the Emirates of Abu Dhabi, Dubai, Sharjah

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1311](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1311)

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### **Abu Dhabi Islamic Bank organizes \$32m for Waha Maritime**

*Wednesday, December 05, 2010*

The investment symbolizes a significant landmark for Waha Maritime in its development in the Offshore Supply Vessel (OSV) segment. A subsidiary of Waha Capital, Waha Maritime, is amongst the Middle East's leading diversified investment holding companies.

The service will permit Waha Maritime to deliberately get bigger in its business segment. One of the distinctive attributes of this contract is ADIB's talent to make up a Shari'a biddable junior finance with inadequate recourse throughout a sole Shari'a acquiescent Ijara arrangement with a grouping of base profit value and equity benefit.

This offers a talent customized to meet Waha Maritime's firm necessities and development objectives. Remarking on the accord, Global Head of Wholesale banking, Nuhad Saliba, expressed that their association with Waha Maritime put together on their proficiency and dream to enlarge the deliberated UAE Oil & Gas segment.

Waha Capital is a main investment multinational aimed on calculated segments of the UAE economy known as real estate, aviation, maritime, and financial facilities. Waha's development in the offshore delivery vessels' industry augurs well for the development and expansion of the UAE economy.

Abu Dhabi Islamic Bank ADIB a top-tier Islamic financial services group, has acted as Mandated Lead Arranger for the US\$32 million structured Ijara facility to fund the acquisition of up to 6 Offshore Supply Vessels (OSVs) for Waha Offshore Marine

Services (WOMS), the marine chartering and operations arm of Waha Maritime. The financing represents an important milestone for Waha Maritime in its expansion in the Offshore Supply Vessel (OSV) sector. Waha Maritime is a subsidiary of Waha Capital Waha Capital, one of the Middle East's leading diversified investment holding companies.

The facility will allow Waha Maritime to strategically expand in its business sector. One of the unique features of this deal is ADIB ADIB Abu Dhabi Islamic Bank ADIB's ability to structure a Shari'a compliant junior finance with limited recourse through a unique Shari'a compliant Ijara structure with a combination of base profit rate and equity upside. This provides a facility tailored to meet Waha Maritime's business requirements and growth aspirations.

Commenting on the agreement, Nuhaad Saliba, Global Head of Wholesale banking said, "Our partnership with Waha Maritime builds on our expertise and vision to expand the strategic UAE Oil & Gas sector. Waha Capital Waha Capital is a major investment conglomerate focused on strategic sectors of the UAE economy namely aviation, maritime, real estate and financial services.

Waha's expansion in the offshore supply vessels' industry bodes well for the growth and development of the UAE economy." Salem Al Noaimi, CEO, Waha Capital, said: "This financing deal will further support Waha Capital's growth aspirations in the oil and gas services industry. Over the last three years, Waha Maritime has built a significant offshore supply vessel (OSV) operations catering to the oil and gas industry in the Gulf, Middle East, Caspian, and South East Asia and this new facility will further facilitate the expansion of our business. We are very pleased to partner with ADIB Abu Dhabi Islamic Bank, whose innovative structuring and execution expertise has facilitated the special financing needs of Waha Maritime."

[http://www.globalislamicfinancemagazine.com/index.php?com=news\\_list&nid=1312](http://www.globalislamicfinancemagazine.com/index.php?com=news_list&nid=1312)

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## **Bahrain Islamic Bank Tejoori Continues its Success in 2011**

*Wednesday, December 05, 2010*

Bahrain Islamic Bank continues its success with its Tejoori Islamic bank account which enters its fourth year in 2011 with more surprising and amazing offers for its customers. The Bank has just launched its new campaign for Tejoori.

Islamic account in 2011 vowing to offer many amazing surprises and prizes for its customers. To shed more light on this new promotional campaign, Mrs. Fatima Al Alawi, BisBBisB Retail Banking Assistant General manager said: "First of all, we wish to announce the launch of the new promotional campaign for Tejoori Islamic account in 2011. Since its launch in 2008, this account has offered our customers more prizes and amazing surprises that delighted the winners and changed the lives and future of many of them."

Al Alawi added: "The Tejoori Islamic account has been able to strengthen its market position and to be an example to be followed by many Islamic banks that have similar offerings and that give prizes to the winners in compliance with Islamic Sharia'a. We are indeed happy to always have the lead by offering everything that is for the good of our customers."

Retail Banking Assistant General Manager continued: "The Tejoori Islamic account promotional campaign has been launched early this year to offer 424 cash prizes worth US\$1.5 million, divided into the following categories: 35 monthly prizes totaling US\$75,000 comprising 18 prizes each with a value of US\$1,000, 11 prizes each with a value of US\$2,000, 5 prizes each with a value of US\$5,000, one prize with a value of US\$10,000 in addition to four quarterly prizes totaling US\$600,000, with the first being US\$50,000, the second being US\$100,000, the third being US\$150,000 and the fourth being US\$300,000."

Mrs. Fatima Al Alawi further said: "We urge members of the public to join the list of lucky winners by taking advantage of Tejoori's Islamic account through investing their funds in this account. The more a customer invests in this account and for longer periods, the more chances are for winning such attractive prizes with the use of a custom made system designed for use in Tejoori account prize draws.

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### **Etika Completes Acquisition of Two Companies for RM89.5 Million**

*Wednesday, December 05, 2010*

Etika International Holdings Ltd, a leading regional food and beverage group, has completed the acquisition of Susu Lembu Asli (Johore) Sdn Bhd and Susu Lembu Asli Marketing Sdn Bhd for RM89.5 million.

Etika is one of the world's largest manufacturer and distributor of sweetened condensed milk while the newly-acquired companies acquired are engaged in the manufacture and distribution of pasteurised milk and other beverages in Malaysia.

Etika's Group Chief Executive Officer Datuk Kamal Tan said the acquisition would generate a new revenue stream for the group that would contribute positively to earnings with immediate effect.

"The acquisition of the companies provides a strategic platform for Etika to gain a foothold in the larger dairy market through Susu Lembu Asli's established and well known brand "Goodday" and their range of healthier product offerings.

"As such, our dairies division is moving to expand our healthy product segment," Tan informed.

## **Bank Negara Publishes Shariah Parameter for Istisna Contracts**

*Thursday, December 06, 2010*

It has been reported that Bank Negara Malaysia (BNM), the central bank, last week published the draft of its latest Shariah consultation on Islamic financial products, the "Concept Paper of Shariah Parameter Reference 5: Istisna Contract (SPR5)".

Malaysia has championed the development of a modern scientific and systemic approach to the Shariah governance process in the Islamic finance industry. In this context, the Malaysian banking regulator started developing its Shariah parameter initiative in 2009 to provide a standard guidance on operations and application of the main Shariah contracts in Islamic finance and to promote harmonization of Islamic finance market practice in Malaysia.

The identified Shariah contracts under this initiative are Murabahah, Ijarah, Mudarabah, Musharakah, Istisna and Wadiah. Bank Negara issued consultative concept papers for Ijarah (SPRC 2) and Murabahah (SPRC 1) in July and August 2009. In December 2009, it published a draft concept paper — a Shariah parameter reference 3 (SPRC 3) on the Mudarabah contract.

This follows the publishing in October 2009 of a "Concept Paper — Guidelines on Takaful Operational Framework" which outlines the parameters governing the operational processes of Takaful business. In August 2010, BNM published a concept paper for Musharaka (SPR4), and in December 2010 it published this latest one, SPR5 on the Istisna contract. This leaves the Shariah parameter on Wadiah (current accounts) still to be finalized and published in draft form for consultation with the industry stakeholders.

This concept paper, SPR5, sets out the Shariah requirements for the application of the Istisna contract, and Bank Negara has invited all relevant stakeholders particularly Islamic financial institutions to provide feedbacks on the concept paper by Jan. 28, 2011.

According to the SPR5 concept paper, the essential elements of the Istisna contract include legal capacity of contracting parties; the offer and acceptance; and the condition that the subject matter of the contract must be lawful which in turn includes the works and asset specification.

In addition, the principal features of Istisna derived from the essential elements of the contract are a binding contract; the asset of the Istisna; the price of the Istisna; the Istisna work; and the delivery of the Istisna asset.

Indeed, there are useful illustrations of the binding nature of the Istisna' Contract; the nature of the Asset; the price and mode of payment; and the Istisna Work and delivery. It



also discusses and illustrates where applicable the enhanced features of the Istisna' contract including parallel Istisna.

The SPR5 will serve as guidance for Istisna transactions and to ensure Istisna business activities and innovations are within their risk management capacity and do not compromise long-term sustainability of the business. The guidelines also aim to promote operational efficiency and best practices that would safeguard the interests of stakeholders and in particular participants.

As with all the SPRs and guidelines, this latest parameter on Istisna contracts is endorsed by the Shariah Advisory Council (SAC) of Bank Negara Malaysia. Specific definition and guidelines on the basis of legitimacy in adopting the Istisna contract are described to facilitate the understanding of the Shariah contract requirements.

The Shariah legitimacy extraction process is thorough and tried and tested. The features identified in this parameter, as in the previous ones, serve to assist the Islamic financial services industry to identify, understand, apply and distinguish the contract from other contracts prevalent in the industry.

The features identified and described in this parameter, as in the ones before, are extracted from the text of fatwas opined by Shariah boards or committees of financial authorities and financial institutions. For each of the fatwa, on a particular conditionality, activity, situation or context relating to the contract, the underlying concepts and principles were deduced and synthesized to guide the development of the Shariah parameter.

Bank Negara stresses that the features outlined in this parameter may serve as general guidance for the application of the Istisna contract. Any practice by the Islamic financial institutions (IFIs) that are not specified in the parameter may be conducted as long as it does not contradict the features outlined in the parameter.

In other words the guidelines that will become the actual Shariah parameter, once adopted, will be the guidelines of last resort or the apex guidelines which will be applicable to the Malaysian Islamic banking sector per se. The draft allows for other structures as long as they do not contradict the features of the Istisna' principles outlined in SPR5.

The scope of the parameter, according to BNM, is confined to the Istisna' contract as endorsed by the SAC of BNM and adopted by the Islamic financial institutions under the purview of the central bank.

This parameter also takes into consideration pertinent mechanisms and contracts such as Ijarah, Wa'd, Wakalah, Kafalah, Urbun and Rahn where relevant. These are identified as secondary features mentioned in this parameter.

The draft SPR5 defines "Istisna" as requesting someone to construct, build or manufacture an asset. Technically, Istisna is an agreement to sell to a customer a non-existent asset that is to be manufactured or built according to the agreed specifications and delivered on a specified future date at a predetermined selling price.

Generally, it refers to the production of materials into finished products by a manufacturer or contractor at the request of a customer. The use of an Istisna' contract enables flexibility to the purchaser to specify the required asset in accordance to his needs and made payment based on agreed terms. In the context of modern financial practice, the construction and manufacturing of financing facilities have been structured by the Islamic Financial Institution (IFI) based on the contracts of Istisna, parallel Istisna and combination of Istisna' and Ijarah Mawsufah fi Zimmah.

The legitimacy of the Istisna contract, says BNM, is based on the Sunnah of the Prophet Muhammad (peace be upon him) and the consensus of Muslim jurists (Ijma).

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

#### **RAM Ratings Upgrades Ratings of Golden Crop's Sukuk**

*Monday, December 03, 2010*

RAM Ratings has upgraded the long-term ratings of Golden Crop Returns Berhad's (Golden Crop) Series 2, 3, 4 and 5 Sukuk Al-Ijarah (Sukuk) to AAA, AA2, AA3, and A1, respectively. Concurrently, the rating of Series 1 has been reaffirmed at AAA. All the long-term ratings have a stable outlook.

The rating upgrade is premised on the improved loan-to-value (LTV) ratios and debt service coverage ratios (DSCRs) of the transaction, following the redemption of the RM90 million Tranche 2 Sukuk on 22 November 2010. The stable outlook reflects our view that the securitised assets' performance will continue to fall within our expectations, thereby maintaining the LTV ratios and DSCRs at levels that commensurate with their ratings.

Golden Crop is a bankruptcy-remote, special-purpose company that had been set up as the financing vehicle for the sale-and-leaseback transaction involving 17 plantations and 5 mills under the purview of entities within the Boustead Holdings Berhad Group (Boustead). The redemption of the Tranche 2 Sukuk had resulted in the disposal of 2 estates and a mill by Golden Crop; the remaining 13 estates and 4 mills (collectively, the Plantation Assets) within the transaction continue to provide credit support for the RM242 million Tranche 3 Sukuk.

As at end-November 2010, the cumulative LTV ratios stood at 34.3%, 42.8%, 52.9%, 57.2% and 64.4%, respectively, for the Series 1 to Series 5 Sukuk; the DSCRs for the same came up to a respective 3.2 times, 2.5 times, 2.0 times, 1.9 times and 1.7 times. "The current LTV ratios and DSCRs are commensurate with the assigned ratings," notes Siew Suet Ming, RAM Ratings' Head of Structured Finance Ratings.

The disposal of the 2 estates is not expected to cause significant deviations in Golden Crop's overall yields of fresh fruit bunches (FFB). Its FFB yield of 9.6 metric tonnes per hectare (MT/ha) in 1H 2010 is similar to that of 1H 2009, and better than the industry average of 8.4 MT/ha for the same period.

Going forward, we expect Golden Crop's estates to generate FFB yields of around 20 MT/ha per annum. On the other hand, its overall plantation expenses were reduced to around RM3,984 per hectare in FY Dec 2009 (FY Dec 2008: RM4,502). Even so, plantation costs are likely to rise over the medium term, pushed up by labour issues and higher fertilising expenses. This is, however, partially addressed by Boustead's initiatives of enhancing labour productivity via mechanisation and replanting with higher-yielding trees.

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### **Russia considering Debut Sukuk in Tatarstan**

*Thursday, December 06, 2010*

The Russian republic of Tatarstan is considering facilitating the issuance of the debut sovereign sukuk of Tatarstan, work on the feasibility study on the sukuk origination is set to start in January 2011. President Rustam Minnikhanov recently signed a memorandum of understanding with Malaysia, Kaula Lumpur and Kuwait Finance House.

President Minnikhanov's delegation included Iskander Muflikhanov, the economic adviser to the president; Ivan Yegorov, director general of Holding Company Ak Bars; Linar Yakupov, director general of IFC Linova; Yevgeny Tikhturov, head of the Tatneft Financial Board; and Yevgeny Pronin, deputy director general of Kamaz, the truck and transport manufacturing giant of Russia.

The MoU and the possibility of a Tatarstan sukuk origination in 2011 are just some of the developments on Islamic finance to emerge out of Russia. Indeed, Tatarstan is the most proactive Russian republic in this context which is manifested through its close relationship with the Islamic Development Bank (IDB) Group.

The IDB last year, for instance, established a joint venture Tatarstan Islamic Investment Company with the government in Kazan. Normally, it would be the IDB's private sector funding arm, the Islamic Corporation for the Development of the Private Sector (ICD), that would be the equity investor. In this case it is the IDB itself.

“We are not allowed under our articles of memorandum to investment in the equity of companies in non-IDB member countries. So we are managing the investment on behalf of the IDB. In Tatarstan all the set up was done by ICD. When it came to the commitment stage, the IDB stepped in, because it has this mandate to promote Islamic finance globally and to help Muslim communities anywhere,” explained Khaled Al-Aboodi, CEO of ICD.

Al-Aboodi is very optimistic about the fit between Islamic finance and republics such as Tatarstan, albeit this is dependent on a number of factors including the willingness of state and national governments and regulators to embrace and facilitate the introduction of Islamic finance in their jurisdictions through enabling legislation, tax neutrality measures for such products and through regulatory and legal frameworks.

Russian businessmen and corporates see huge potential for the involvement of Islamic finance and investment in the Halal business space, which is nascent in Russia and the CIS region, despite its huge combined Muslim population of over 150 million. Halal business includes establishment of Islamic financial institutions such as banks, asset management companies, small ticket leasing companies; Halal food manufacturing businesses; Halal restaurants and supermarkets etc.

In November, in fact, the first Halal industrial park in Russia called Baltach was launched in Kazan, the capital of Tatarstan and which forms part of the larger Kazan Halal Hub. The park will house small and medium-sized enterprises (SMEs) involved in the Halal business industry. The main goal of the project is the processing of agricultural, livestock and meat processing products, grown and reared by surrounding local farmers. This would be in cooperation with foreign firms with proven expertise in the sector.

The promoters, which include IFC Linova and Amanah Raya Group Berhad of Malaysia as the main investor, stress that Baltach Halal Industrial Park will boost the SME sector in Tatarstan; will bring economies of scale to companies involved in the sector; will provide much-needed consultancy services to local entrepreneurs and employment and product quality assurance. The initial investment in the Baltach project is 150 million rubles and the project will be managed by a holding company called NHIDC, whose financing and investment activities of local companies and other partners will be exclusively under Islamic financial contracts such as Murabaha, Ijara, Musharaka, Mudaraba, Istisna and Wakala.

Indeed, investing in the Halal business activity is a major theme of the Kazan Summit 2011 which will be held in June and which will comprise a Halal Business Exhibition and Forum; an Islamic finance conference; and an investment and business conference.

According to the organizer of the summit, IFC Linova, the main objectives of the summit are to identify strategic development prospects of international economic relationships between Russia and Muslim countries; to develop cooperation in the sphere of direct

investments in private sectors of Russia and Muslim countries; and to facilitate discussions and development of Islamic finance in Tatarstan, Russia and the CIS.

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## **Yemen Plans First Sukuk Offering to Fund Budget Deficit**

*Thursday, December 06, 2010*

Yemen, the poorest country in the Middle East, plans to sell \$500 million of local currency Islamic bonds for the first time to fund the budget deficit and spur the Shariah-compliant finance industry.

The central bank may offer sukuk in the domestic market from the first quarter, Deputy Finance Minister Jalal Yaqoub said in a telephone interview Dec. 29 from Sanaa, the capital. The government is seeking technical assistance on the sale from the International Monetary Fund. Tadhamon International Islamic Bank, the largest Islamic bank in Yemen, and Cooperative & Agricultural Credit Bank said they will participate in the sale.

“The issuance of the sukuk will create investment opportunities and diversify banks’ portfolios, both Islamic and conventional banks,” Masood Ahmed, director of the IMF’s Middle East and Central Asia Department, said in a telephone interview from Washington Jan. 4. “It will help the government to diversify the sources of budget financing.”

Yemen, which is battling al-Qaeda, an uprising in the north and a secessionist movement in the south, needs funds to bridge its fiscal gap, the biggest on the Arabian Peninsula. Muslims make up the majority of the population of 23.5 million, according to the Central Intelligence Agency World Factbook. Growth in the \$30 billion economy will slow to 4.1 percent this year, from 8 percent in 2010, the IMF said in its October Regional Economic Outlook report.

### *Financing Deficits*

The government’s 1.84 trillion-rial (\$8.6 billion) budget for 2011 forecasts a deficit of 316.4 billion rials, state-run news agency Saba said Dec. 29. The government plans to fund the gap through domestic borrowing including sales of Islamic bonds and from external loans such as a three-year, \$369.8-million credit facility from the IMF, according to the organization.

Foreign debt rose to \$6.49 billion last September from about \$6 billion a year earlier, Saba news agency reported Dec. 29, citing a central bank report. Yemen received a total of \$808 million in loans from the Arab Monetary Fund, a unit of the 22-member Arab League, the fund said Dec. 26 on its website.

Yemen's proposed Islamic notes will target individual investors and local banks, the Finance Ministry's Yaqoub said. The government will determine sale details by the end of the first week of February, he said. The central bank currently sells 91-day, 182-day and 364-day treasury bills, according to data on its website.

### *Savings*

"Yemeni citizens have a reasonable amount of savings, but the funds haven't been used in projects," Yaqoub said. "We want the savings that go to the Islamic banks to go to big development projects like electricity, roads, water and schools."

Other governments are also seeking to benefit from growing interest in Islamic finance. Afghanistan drafted an Islamic banking law to permit standalone Shariah-compliant banks, Sudan sold Islamic bonds to local banks last month and the Palestinian Authority plans to sell its first sukuk this year. Global assets held by Islamic financial institutions may climb to \$1.6 trillion in 2012 from about \$1 trillion, the body said in April.

Shariah-compliant bonds returned 12.8 percent last year, the HSBC/NASDAQ Dubai US Dollar Sukuk Index shows. Debt in emerging markets gained 12.2 percent, according to JPMorgan Chase & Co.'s EMBI Global Diversified Index.

Global sales of sukuk, which pay returns based on asset flows, dropped 15 percent to \$17.1 billion in 2010, according to data compiled by Bloomberg.

### *Sukuk Investments*

The yield on Malaysia's 3.928 percent Islamic note due June 2015 fell 9 basis points to 3.02 percent today, according to Royal Bank of Scotland Plc prices. The extra yield investors demand to hold Dubai's government sukuk rather than Malaysia's was little changed at 319 basis points, according to data compiled by Bloomberg.

The difference between the average yield for emerging market sukuk and the London interbank offered rate narrowed six basis points to 284 yesterday, according to the HSBC/NASDAQ Dubai US Dollar Sukuk Index.

Yemen has 17 banks, including three Islamic banks, Saba Islamic Bank, Tadamon International Islamic Bank and Islamic Bank of Yemen for Finance and Investment, according to central bank data. Islamic banks in the country have "ample liquidity for an instrument like a sukuk," which will help spur demand, the IMF's Ahmed said.

### *Needing Sukuk*

Sanaa-based Cooperative & Agricultural Credit Bank will buy the bonds to diversify holdings, economic and investment adviser Moneer Saif said in a telephone interview Jan. 5 from the capital. The bank's Shariah-compliant unit CAC Islamic is seeking a license from the central bank, he said.

“Of course we will buy,” Saif said. “It will be one of our priorities. Islamic banks need Islamic products as an alternative to achieve good profits and compete with conventional banks.”

Oil accounts for 60 percent of government revenue and 90 percent of exports, the IMF said in a report on Aug. 19. Oil reserves are expected to be depleted within a decade, the Washington-based lender said.

U.S. pressure on Yemen to crack down on al-Qaeda has intensified since the local wing of the group claimed responsibility for a failed attempt to blow up a U.S. airliner on Dec. 25, 2009. In October, two parcel bombs sent from the country to U.S. synagogues were seized in the U.K. and Dubai.

The country’s economic “challenges are compounded by a difficult security situation and civil unrest, a rapidly growing population, poor infrastructure, and weak institutional capacity,” the IMF said.

#### *‘Failure’*

The government’s plan to finance infrastructure with Shariah-compliant funds may not succeed because existing electricity and water projects are “already a failure,” Rasheed al-Sakkaf, head of treasury at Tadamon International Islamic Bank, said in a telephone interview Jan. 3.

Al-Sakkaf said his bank would only buy if the project is economically viable. “If the profit is good, we will buy more.”

Islamic bonds are typically backed by assets or cash flow because of the ban on interest. Investors earn any profit from the assets instead.

Yemen delayed the sukuk sale from last year because the government had difficulties “getting well-skilled staff to run the sukuk project,” Yaqoub said.

The 15 percent increase in oil prices last year, economic growth and a recovery in the rial have set the stage for a sukuk offering this year, the IMF’s Ahmed said. The currency has gained 12 percent since reaching a 2010 low of 239.98 on Aug. 4, according to data compiled by Bloomberg.

“The conditions should be there for them to be able to diversify their domestic debt instruments by introducing their sukuk in the market,” he said.

<http://www.bloomberg.com/news/2011-01-05/yemen-plans-first-sukuk-offering-to-fund-budget-deficit-islamic-finance.html>

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## **Monetary Policy to Lift Sukuk Market**

*Thursday, December 06, 2010*

The sukuk market in 2011 will be driven by the recovery made in global economic activity, flexible monetary policies, and sovereign fund-raising efforts to support economic growth as well as the revival of private sector projects, said a report.

A major report by Kuwait Finance House into the Sharia-compliant bond market further predicts the entry of new players in the emerging markets, as well as new non-Islamic exporters willing to take advantage of the sukuk market with potential debut in Thailand, Japan and Europe, which will boost demand for sukuk.

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, according to the report.

Over the years, the sukuk market has grown by 10 per cent to 15 per cent annually to reach approximately \$100 billion and contributed to 12 per cent of the global Islamic finance assets in 2009, according to the report.

Prospects for the sukuk market remain bright. In 2009, global sukuk issuances surged by 58.8 per cent year -on-year to \$24.7 billion compared to the \$15.5 billion raised in 2008. In the first nine months of 2010, total sukuk issued globally increased further to \$27.9 billion, 62.3 per cent higher than the \$17.2 billion raised in the first nine months of 2009 and surpassing the 2009 full year issuance of \$24.7 billion, the report added.

This was in line with a gradual global economic recovery and improved market condition and investor sentiment, the report said.

By issuer type, approximately 77.3 per cent of 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, the report added

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#### 4. ISLAMIC INVESTMENTS; EQUITIES/SECURITIES & FUNDS

##### **Islamic Banks in Afghanistan Set for \$3 Billion of Idle Funds**

*Friday, December 07, 2010*

Islamic Banks in Afghanistan plan to expand services that comply with the Islamic Shariah and set up standalone Islamic banks to attract investment and an estimated \$3 billion its residents haven't entrusted to banks.

The country's central bank, Da Afghanistan Bank, is drafting legislation to enable non-Islamic banks to convert into full-fledged Shariah-compliant lenders, Muhammad Qaseem Rahimi, director general of the Financial Supervision Department, said. Seven of the nation's 17 financial institutions provide limited Islamic services such as loans and savings accounts, he said. The law will be submitted to parliament for approval in September.

"There is a great potential to attract around \$3 billion within four years," Khan Afzal Hadawal, chief executive officer of Bank-e-Millie Afghan, the nation's oldest lender, said in Kabul Dec. 28. "You will be surprised if I tell you that some people keep cash in their pillows."

Afghanistan, where 99 percent of its 29 million people are Muslims, is vying to expand Islamic financial services and lure international investors to help reduce the nation's reliance on overseas aid for reconstruction after more than three decades of war. Islamic banking will help attract "idle" cash from Afghans, who refuse to use non Shariah compliant institutions, the central bank's Rahimi said.

The central bank plans to issue licenses for as many as six Islamic banks by the end of 2012, Rahimi said. Afghan United Bank, Ghazanfar Bank and Maiwand Bank are seeking permission to provide products that meet Shariah principles, he said.

The new regulation will enable banks to offer more Shariah-compliant financial services such as debit cards and investment options through their windows, Rahimi said. The parliament needs to approve Islamic banking laws before the central bank issues licenses to start Shariah-compliant services, he said.

"Islamic banks will definitely have a lot of potential customers to deal with," he said. "By having full-fledged Islamic banks, it will improve the peoples' confidence. It will help banks fund more development projects."

Afghanistan's government is limited to using short-term bills and international aid to finance development, according to the central bank's five-year plan to build its finance industry and reduce reliance on aid.

## **5. ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS & CONFERENCES**

### **IFSB Secretary General Receives the 2010 Award for Outstanding Contribution**

*Tuesday, December 04, 2010*

Professor Datuk Rifaat Ahmed Abdel Karim, Secretary-General of the Islamic Financial Services Board (IFSB) is the recipient of the Islamic Business & Finance Award 2010 for Outstanding Contribution to the Industry

On December 14 2010, the IFSB announced that Professor Abdel Karim will end his term as the Secretary- General of the IFSB on 30 April 2011. He will be succeeded by Mr. Jaseem Ahmed. Professor Abdel Karim has been steering the IFSB from its inception in 2003.

IFSB has grown from nine founding members in 2003 to 195 members as at December 2010. The IFSB has also issued 14 standards and guiding principles for the Islamic financial services industry, with the last three recently approved for issuance by the IFSB Council on 14 December 2010.

Earlier this year, Professor Abdel Karim received the Royal Malaysian Honorary Award of Darjah Kebesaran Panglima Jasa Negara (P.J.N.) which carries the title 'Datuk', the Prize of the Islamic Development Bank in Islamic Banking and Finance 1431H (2010), the 2010 London Sukuk Summit Islamic Finance Award, and the World Islamic Banking Conference 2010 Industry Leadership Award for Outstanding Contribution to Islamic Banking.

The Islamic Financial Services Board (IFSB) is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders.