

Islamic Finance *news*

2008

GUIDE

January 2008

Note from the editor

Unlike its conventional counterpart, Islamic finance had a successful year in 2007. The sum of Islamic assets was said to have reached US\$900 billion, marking a 20% growth from the previous year. The global Sukuk market recorded a new high with a market value of US\$51.5 billion – a 90% growth from 2006, which saw only a total of US\$27.2 billion issuance of the Islamic bond.

The year also witnessed several landmark deals, including the US\$2.53 billion exchangeable Sukuk issued by ALDAR Properties PJSC, the largest exchangeable deal to date.

It was also a year of significant innovation as we saw new structures from Red Sea Gateway, the Egyptian Fertilizer Company acquisition and Tamweel. But what stood out was Mobily's US\$2.85 billion project financing, which proved that innovation need not be complicated thus paving the way for funding other high-technology and communications deals in the future.

The UK also set a precedent by issuing the world's first Shariah compliant exchange-traded funds (ETFs), beating Malaysia which holds a series of "firsts" in the Shariah compliant finance industry.

With such exciting developments, can Islamic finance get any better? Looking at the numbers and the developments throughout the year, one can only answer in the affirmative.

Demand for Islamic investments rises from an estimated 1.3 billion Muslims worldwide and Islamic assets are set to hit US\$1 trillion by 2010. Day by day, Islamic banking grows more popular and banks churn out product after product to feed the insatiable hunger.

There is little doubt that new precedents will be set in the Sukuk sector and it is said that the issuance of global Sukuk is likely to double to US\$100 billion this year due to higher take-up of Shariah compliant financial products among Middle East investors.

All eyes will also be on Indonesia, Pakistan and the UK as these three countries have been identified as the next big growth market for Islamic bonds.

The race for a share of the lucrative pie is set to get even hotter this year as more non-Muslim countries enter the realm of Islamic finance. Hong Kong, which holds the gateway to China's booming economy, has made major decisions in relation to its capital market and is poised to set waves in the industry.

It has, been smooth sailing for the industry and it's not too much to say that it has yet to face its biggest challenges which are expected to crop up more often this year as the market continues to grow.

One of the industry's biggest challenges is the serious lack of Shariah experts who play an important role in the industry. It is worrying that only a handful are qualified to sit on the Islamic review boards at the world's top banks and financial institutions. The issue must be addressed quickly as it raises concerns over the ability of Shariah supervisory boards to provide enough of a rigorous challenge and oversight.

In this third edition of the *Islamic Finance news* Guide, we have painstakingly compiled the industry's most comprehensive and authoritative review of 2007 and preview of 2008. Featured within are 25 exclusively authored industry, sector and market reports and the full results of the *Islamic Finance news* Deals of the Year and Poll for 2007. Like its previous editions, the Guide also features a full review of stories from last year, the industry's largest Arabic structured finance terminology glossary and much, much more.

We would like to thank Professor Rodney Wilson, who kindly wrote the introductory industry overview for the third year running, and all other contributors for making time amid their busy schedules to share their insights.

Last but not least, heartfelt thanks to our readers for your continued support. Till next year!

Kind regards,



Arfa'eza A Aziz
Editor

CONTENTS

INTRODUCTION

Developments in Global Islamic Financial Markets in 2007 and Prospects for 2008	9
----------------------------------------------------------------------------------------	----------

By Prof Rodney Wilson, Durham University, UK

ISLAMIC CAPITAL MARKETS

Bringing Industry Participants onto a Single Platform	17
--------------------------------------------------------------	-----------

By Dr Azmir Agel, IIFM

LMC's Role in the Primary and Secondary Islamic Capital Market	20
-----------------------------------------------------------------------	-----------

By Liquidity Management Centre

SECTOR REPORTS

Malaysian Islamic Finance Landscape	27
--------------------------------------------	-----------

By Baljeet Kaur Grewal, KFH Malaysia

Investing in Islamic Structured Products	33
-------------------------------------------------	-----------

By Neil D Miller, Dean Naumowicz and Aziza Atta, Norton Rose

Islamic Finance – The Offshore Connection	37
--------------------------------------------------	-----------

By Tahir Jawed, Maples and Calder

Profit Rate Swap – Breaking New Frontiers	40
--------------------------------------------------	-----------

By Kareem Hussaini, The Islamic Bank of Asia

Macro Trends in Equipment Leasing	45
------------------------------------------	-----------

By James A Cracco, First Leasing Bank

Challenges of Regulating Shariah Compliant Securities and Investments: The GCC Example	47
-----------------------------------------------------------------------------------------------	-----------

By Andrew Henderson, Clifford Chance

S&P Foresees Mounting Demand for Islamic Products	50
--------------------------------------------------------------	-----------

By Emmanuel Volland, Standard & Poor's

Risk Management in Islamic Banking: Key Issues	55
-------------------------------------------------------	-----------

By Dr Sunil Kumar, IRIS intergrated risk management AG

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CONTENTS

Globalization of the Islamic Banking Industry 59

By Dourria Mehyo, Path Solutions

2007 Global Takaful Review: Evolving Trends, Opportunities and Challenges 63

By Sohail Jaffer, FWU Group

MIDDLE EAST

Bahrain 69

Why Sukuk Pioneer Still the Preferred Venue; By Jane Dellar, Bahrain Financial Services Development

Jordan 71

Islamic Leasing in Jordan; By Raed Rafi Al-Ali, Bank of Jordan

Lebanon 74

Sky's the Limit for Islamic Banking in Lebanon; By Badih S Khatib, Arab Finance House

Syria 76

The Syrian 'Experiment' on Islamic Banking; By Louay Habbal

UAE 79

Islamic Banking in the United Arab Emirates; By Dr Taha El Tayeb Ahmed, Badr Al Islami

EUROPE

Italy 82

Islamic Financial Services in Italy; By Alberto Brugnoli, ASSAIF

Turkey 84

Marking the Next Phase: Innovation; By Paul Wouters, Bener Law

AFRICA

Africa 88

Challenges for Islamic Banking in Africa; By Ahmed Moola, Absa Islamic Banking

INDIAN SUBCONTINENT

India 90

Scope of Islamic Investments in India; By Taher Badshah, Kotak Mahindra Offshore Funds

Sri Lanka 94

Interest Picking Up in Sri Lanka's Islamic Market; By Faizal Salieh, Amana Investments

CONTENTS

SOUTHEAST ASIA

Brunei 97

Developments in the Islamic Banking and Capital Market in Brunei Darussalam; By Mohamad Daud Ismail, Daud Ismail & Co

Indonesia 100

Accelerating Islamic Banking Growth in Indonesia; By Ali Sakti and Nasirwan Ilyas

AWARDS

Full Report 107

Deals of the Year 2007 Report & Poll 2007 Report

NEWS BRIEFS

January - December 120

TAKAFUL NEWS BRIEFS

January - December 147

GLOSSARY

Exclusively sponsored by Standard & Poors 154

LEAGUE TABLES

Islamic League Tables 160

By Dealogic

Islamic Funds Tables 164

By Eurekahedge

EVENTS ROUNDUP

168

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Islamic Financial Services in Italy

By Alberto Brugnoli

The history of Islam in Italy started when Sicily and some Italian regions were part of the Muslim Umma between 828 and 1300. From that time, and through the country's unification in 1861, Islam was almost entirely absent. In the 1970s, the first trickle of North African immigrants began arriving: They were mostly of Berber and Arab origin and came mainly from Morocco. In more recent years, they have been followed by people from Albania, Egypt, Tunisia, Senegal, Somalia, Pakistan and other Islamic countries.

Immigrants and their status in Italy became politically visible only in the early 1990s with the adoption of the first of four laws legalizing immigrant status. As such, the melting pot phenomenon that has characterized the major western societies for the last 50 years is a new experience in Italian public opinion.

Italy's situation also differs from that of other major European countries in the sense that it has developed industrially without much dependence on foreign workers. Therefore, the new immigrants have sometimes been perceived as connected to structural problems in Italian society or as a competing force with local labor.

Present situation

According to the latest Italian official statistics, Muslims make up about 32% of the 3.7 million foreigners living in Italy as at January 2007. To these 1.2 million Muslim legal residents, another 100,000 to 150,000 unofficial Muslim immigrants should be added. The number of foreign Muslims who have been granted Italian nationality is estimated at 50,000, while Italian Muslims (converts of full Italian ancestry who previously belonged to the Catholic faith or had no religion) are estimated to be 10,000. Therefore, the number of Muslims living in Italy is currently around 1.4 million.

Today, Muslims represent around 2.3% of Italy's population, a percentage much lower than that of other major European Union countries, and still slightly lower than that recorded in Italy between the middle of the ninth century and the end of the 13th century. While in medieval times the Muslim population was almost totally concentrated in insular (Sicily, Sardinia) and southern (Calabria, Puglia) Italy, it is now more evenly distributed, with almost 55% of Muslims living in the north of Italy, 25% in the center and 20% in the south.

The relatively small size and young age of the local Muslim community means that Islam has yet to make a significant impact on public life, but there are signs that this is changing.

For example, while Islam is not yet formally recognized by the state, despite being the second-largest faith after Catholicism, Rome houses the biggest mosque in Europe. This post-modern building, designed almost 25 years ago, displays an impressive unity of oriental and occidental architecture.

Italian regulation of Islamic financial services

The modern Italian banking system has witnessed, since the country's unification, the promulgation of banking laws that met the specific regulatory needs of the different periods of its industrialization process. The last major reform of the entire credit and financial market took place between 1985 and 1993, and resulted in a model that follows the rules of both public and business laws and that requires an interdisciplinary approach to individual issues.

The last issue to which the banking system has been confronted is the emergence of new models of credit brokerage based on principles that are religious in nature and that find their source in the Quran. This issue has resulted in a lively — and still open — debate on the compatibility of Islamic activities with the current Italian banking regulatory system.

The debate focuses on the resolution of important interpretative issues on the legal classification of the Islamic activities; and it also aims to determine whether the current regulatory structure can embrace the Islamic model of banking activity or whether, in light of any pronounced incompatibility, it becomes necessary to identify other norms that actually permit the legal regulation of the Islamic model.

The issue of the difference in the level of risk that the depositor assumes in the Islamic versus the Italian system and the fact that the Islamic banks do not collect interest when providing financing has been addressed with particular care.

The issue of the so-called "EU (European Union) passporting" — where an institution authorized in a EU country may offer products throughout the EU without the need to have separate authorization in each member country — and the second EU directive on banking (646/1989) with its two fundamental principles of mutual recognition and prudential vigilance has also had a significant bearing on the debate. The proposed solutions can be found in *La Banca Islamica*

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Islamic Financial Services in Italy (continued...)

e la *Disciplina Bancaria Europea* (The Islamic Bank and the European Banking Legislation), G Gimigliano/G Rotondo (ed. by), Giuffr  Editore, Milano (2006).

Events in 2007

Last year saw an array of events and publications that have fostered awareness of the Islamic financial services (IFS) industry and helped build up the momentum. In January, the Fondazione Housing Sociale – set up by the Fondazione Cariplo, one of the largest banking foundations in the world – commissioned to ASSAIF a study on the structuring of Shariah compliant home finance products for the Italian Muslim community.

“There is a viable local market for Islamic financial products in Italy. Given its size, a number of research institutes, banks and legal partnerships are looking at IFS with keen interest.”

In early May, the city of Padova and Banca Popolare Etica organized a widely attended conference on Islamic finance. At the end of May, the well-known Universit  Cattolica of Milan held a seminar on Islamic finance attended by several students of the prestigious university. In July, the European Business Ethics Network (EBEN) hosted in Bergamo a two-day seminar on “Finance & Society in Ethical Perspective” where, inter alia, different aspects of Islamic equity finance were discussed.

In October, the Italian Banking Association (ABI) and the Union of Arab Banks (UAB) signed in Rome a memorandum of understanding that, in due time, shall lead to the establishment of the first Islamic bank in Italy. ABI, the Islamic Development Bank and UBAE had previously organized a major event in Rome on “Banks and Islamic Finance”. At the end of October, Welcomebank/Etnica published “Stili Migranti”, a thorough study where the “Islam marketing” issue in Italy is widely analyzed. November saw the presentation of *Banche e immigrati: credito, finanza islamica e rimesse* by N Borracchini that focused on Islamic finance and money transfers. In December, M Mauri, a researcher at ASSAIF, put the final touches to *Islamic Banking in Italy*. This work, shortly to be published by Il Mulino, will be the reference book for the IFS in Italy.

Features

The first Murabahah deal ever transacted in Italy has been concluded in the historical city of Pavia. It featured the acquisition of an industrial building by a special purpose vehicle and its disposal to a local Muslim association for its use as a cultural center. It will soon be followed by an *Ijarah wa iqtina* transaction. This single shot deal required several months of legal and fiscal work, performed by ASSAIF members, to put together a transaction that could satisfy both the Shariah requirements and the Italian civil code.

In the end, the Murabahah, which had been privately funded, went through with the full satisfaction of the Ministry of Finance and local Shariah scholars. It must be noted, though, that the double stamp issue, common to many EU countries, made this transaction pricey.

Home finance is a particularly promising market for the IFS industry. Last year, 20% of the real estate transactions, equivalent to €17.5 billion (US\$26 million), registered an immigrant as a buyer. Very detailed market studies that analyze regions, cities, trends, flows and the buying power of different groups of immigrants are available. Cassa di Risparmio di Fabriano e Cupramontana, a regional bank in Central Italy, proposes a mortgage for the Muslim immigrants that is “Quranic compliant”.

Conclusion

There is a viable local market for Islamic financial products in Italy. Given its size, a number of research institutes, banks and legal partnerships are looking at IFS with keen interest. Important initiatives are expected this year in areas such as financial inclusion and religious diversification, consumer finance, home finance, pensions and investments.

Although not part of the Islamic world, Italy plays a key role in the Euro-Arab dialogue and is taking the initiative in shaping a new EU Mediterranean policy. Italy is also relevant to Middle Eastern investors for its industrial heritage and real estate, whether they are adhering to Shariah principles or not. ☺

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