

An optimistic start



QATAR

By Amjad Hussain

A new year has commenced, with hopes and expectations that the Qatari economy will continue to prosper despite the ongoing geopolitical events in the region. The banking sector has remained strong and stable and the activity within the sector is starting to pick up again. The key development to look out for during the coming weeks will be the meetings of the board of directors of Qatari banks to determine the performance of the banks over the past year.

Masraf Al Rayan held its board meeting on the 16th January to discuss and approve the financial statements for

the year ending the 31st December 2017. Qatar International Islamic Bank and Qatar Islamic Bank announced that their boards will also meet on the 24th and 17th January respectively to do the same. The outcomes of these meetings will be widely anticipated by the banking sector.

In other news, Qatar National Bank recently announced the successful completion of a Formosa bond issuance under its euro medium-term note program and listed on the Taipei Stock Exchange. Under this program, a US\$720 million tranche was issued with a maturity of 30 years callable every five years. The Reg S issue attracted strong interest from Taiwanese investors and was arranged by Standard Chartered Bank. Separately, the Commercial Bank of Qatar (CBQ) has agreed to

extend the exclusivity period by 30 days to the 24th January 2018 granted to Tabarak Investment owned by Tabarak Commercial Investment One Person Company in respect of the potential sale of CBQ's stake in United Arab Bank in the UAE.

Expectations for the banking sector are high for the new year and it is hoped that the results of the banks for 2017 will provide the impetus for the banking sector to continue to grow. It is also hoped that activity within the banking sector continues to pick up as the first quarter passes by. ☺

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Japan's ORIX and BTMU increase competitiveness in Malaysian Islamic finance market



JAPAN

By Dr Etsuaki Yoshida

In November last year, ORIX, a non-bank giant corporation in Japan, launched an Islamic leasing business in Malaysia involving the Islamic Banking and Finance Institute Malaysia as the Shariah screening body. ORIX offered a new product in the sense that it is a Shariah compliant operating lease similar to conventional leasing services offered previously but this time with an added flavor of Shariah compliance to attract Muslim customers.

ORIX is not an amateur in Islamic finance as its Shariah compliance business covers Sri Lanka, the Middle East and Pakistan with a track record in Islamic finance that includes Sukuk. ORIX's Pakistani local entity acquired Standard Chartered's local business and now offers Mudarabah services as well.

The aforementioned is significant in two ways:

1. There is diversity in Japan's financial institutions which offer Islamic financial services in Malaysia. Other than Bank of Tokyo-Mitsubishi UFJ (BTMU), Mizuho and SMBC, Nomura also provides securities broking and

asset management services while Hong Leong Mitsui Sumitomo offers Takaful services.

2. The aforementioned institutions offer operating leasing services that are Shariah compliant. Islam prefers transaction of physical goods to just financial deals. In this regard, the financial service involves the real sector activity in a true sense which should be the main focus of industry players for the quality development of Islamic finance.

In early January this year, BTMU arranged an Islamic syndicated financing for STC Malaysia Holdings, a local subsidiary of Saudi Telecom; HSBC and Standard Chartered were also involved in the deal. The RM1.5 billion (US\$378.87 million) Islamic financing is based on commodity Murabahah. BTMU is the first Japanese bank to arrange this kind of syndication financing extended to non-Japanese borrowers. Non-Japanese customers are usually occupied by local and non-Japanese international banks, and it had looked like there was no room for Japanese banks to step in. This deal is worth paying attention to in the sense that Japanese banks may finally become more competitive in the Malaysian Islamic finance market.

There are two points for qualitative development. Firstly, the BTMU deal should be used for the growth of the company (STC), not just for refinancing purposes. Islamic encourages business and entrepreneurship, but this financial transaction lacks this element. Secondly, the deal is based on commodity Murabahah, in which a party agrees to buy a commodity from a counterparty which promises to later repurchase it with a pre-agreed mark-up. It is not based on equity-like contracts such as Mudarabah and Musharakah.

These points are in line with typical and major criticisms against the current practice of Islamic finance. Last year, BTMU announced its gradual investment into Bank Danamon in Indonesia with a plan to eventually become the largest shareholder. It does not involve any Islamic financial services according to information, but it is highly likely considering the fact that Bank Danamon currently offers Islamic financial products. Hopefully, the bank will give more consideration to the religious values as part of quality Islamic financial services, rather than just focus on market share and profit. ☺

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