



Supporting The Global Islamic Finance Industry's Aspirations

KPMG's Islamic Finance Group

FINANCIAL SERVICES

Islamic Finance continues to draw attention from industry practitioners and regulators alike as an increasingly mainstream offering; its rising pre-eminence in selected markets around the world also brings its share of issues.



Key Issues

KPMG member firms' experience of working with clients in Islamic Finance gives us in-depth insight into the issues faced by banks, takaful providers and other Islamic financial institutions.

COMPLIANCE-RELATED ISSUES

Accounting Standards Compliance and the specific nature of many Islamic products as well as the increasing complexities of reporting GAAPs and IFRS in particular, can help to make financial reporting for many Islamic financial institutions very complicated. Some jurisdictions also require what can be a complex reconciliation of the mismatch between local accounting treatments and those prescribed by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI).

Financial Regulatory Supervision Compliance to local regulatory authority standards, may not always be customized to Islamic banks' business models or aligned to Islamic Financial Services Board (IFSB) standards.

Sharia'a Compliance & Governance remains subjective, interpreted almost on a case-by-case basis at some Islamic financial institutions and may require industry driven initiatives to become more standardized.

Risk Management Compliance based on requirements for conventional financial institutions can be difficult to customize for many Islamic financial institutions to mitigate or manage the risks pertaining to their business models and products.

Tax Treatment of Islamic financial products in certain jurisdictions can be different compared to that accorded to conventional counterparts.

RESOURCE-RELATED ISSUES

Human capital shortages have been a key restraint on the growth of Islamic finance, slowing the development of products and critical research.

Information systems need to tailor and develop specific sets of inputs and metrics, particularly for management reporting of Islamic financial institution information.

Liquidity management options for Islamic financial institutions are still under-developed, requiring the installation of specific strategies to manage liquidity shortages and surpluses.

Whilst these issues and challenges are significant hurdles for the development of the Islamic finance industry in markets around the world, KPMG member firms' experience with some of the industry's leading providers, enables us to advise on many aspects.



KPMG's Global Islamic Finance Group

KPMG firms were among the first professional advisors to work to meet the needs of banks, takaful providers and other Islamic financial institutions across national boundaries.

KPMG's Islamic Finance Group (IFG) comprises of a global network of professionals with in-depth knowledge of Islamic finance providing practical, value added assistance to KPMG firms' clients across a range of specialisms and issues. Members of the team are based in KPMG's three operating regions: EMA (Europe, Middle East and Africa), Asia Pacific and the Americas with centres of excellence based in Bahrain, Malaysia and the UK.

Based on an Islamic Financial Institution's life cycle, KPMG's IFG has in-depth skills and experience to assist in the following areas:

Figure 1: KPMG firms' services for an Islamic Financial Institution's business life-cycle



The services listed above are not performed by all KPMG member firms and are not offered by member firms in certain jurisdictions due to legal or regulatory constraints.

Our Credentials

Assisting to make your ambitions a reality

KPMG firms' credentials in Islamic Finance around the world, helps to show our broad ranging experience as well as our commitment to forging a path of excellence for the industry. Our firms have supported the development of the industry; working with leading players helping to pioneer development in specific countries. The following is a selection of our recent engagements:

- | | | |
|----------|---|---|
| 1 | Policies Review & Risk Management Framework Development for an Islamic Investment Bank in Bahrain
A newly established Islamic Investment Bank required a review of front, middle and back office policies. Subsequently, they required assistance in developing a risk management framework. | <ul style="list-style-type: none"> • A cross functional team of professionals from business performance, financial risk management, human resources and IT advisory services reviewed respective policies using benchmarks based on the Central Bank of Bahrain and Islamic Financial Services Board's guidelines and industry best practices. • KPMG's professionals provided the client with a detailed report, listing our recommendations on the policies. • KPMG in Bahrain also advised on the development of an enterprise-wide risk management framework including Risk Policies for Reputational and Strategic Risk and Internal Capital Adequacy Assessment Process (ICAAP), Disclosure policy and framework. • This was designed to be compliant to the guiding principles laid out by the Basel Committee for Banking Supervision and also the regulations stipulated by the Central Bank of Bahrain. • Tools for rating banks and large corporate entities, investment evaluation models for energy sector companies, profit rate risk measurement tool and stress testing tools were also developed. |
| 2 | Market Assessment for a Commercial Bank in Saudi Arabia
A leading Islamic commercial bank in Saudi Arabia wished to establish an investment company in Saudi Arabia. The bank appointed KPMG to assist in preparing their application to the regulators. | <ul style="list-style-type: none"> • KPMG in Saudi Arabia conducted a detailed market assessment of the local investment banking market including a competitive scenario analysis. • Our report detailed the critical success factors and key legal, regulatory and operating requirements for the new company. • Our work provided an in depth understanding of the market and the basis for its business plan and strategy to the regulator. |
| 3 | Assisting with Establishing Islamic Banks in New Markets for an International Islamic Development Organization
An Islamic Development Organisation tasked with developing the Islamic Finance industry foothold into new and emerging markets engaged KPMG member firms on separate occasions to assist with the set-up of two Islamic Banks and an Islamic Financial Services company based in South East Asia, South Asia and the Middle East respectively. | <ul style="list-style-type: none"> • KPMG firms conducted detailed market assessments to establish the viability and critical success factors of the new Islamic Finance entities in their respective markets. • Our firms' professionals also developed strategic business plans to establish marketing, operational and organizational strategies for new entities as well as actionable implementation plans to translate strategies into action. • Financial models were also developed to consider the financial viability of the new entities and financial figures were projected into the future to derive output in the form of pro forma financial statements, including risk management and capital adequacy projections. |

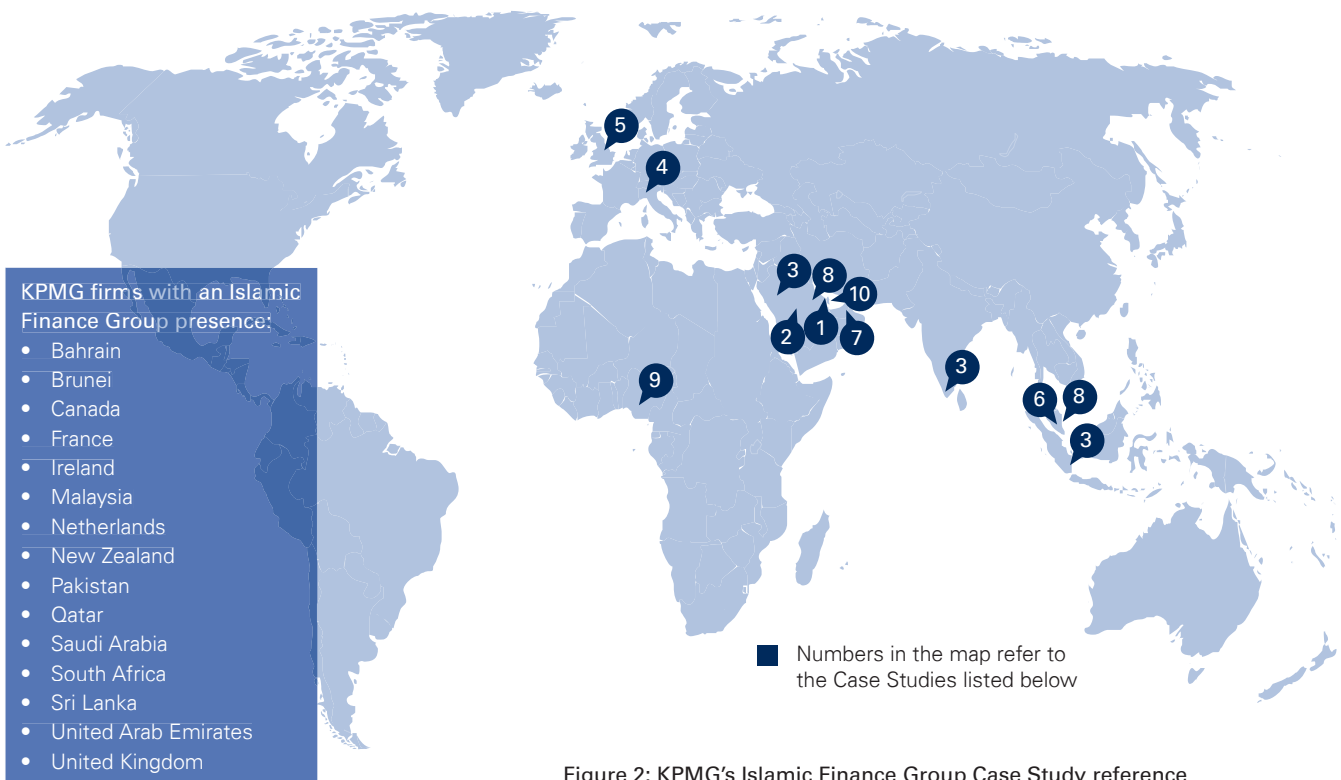


Figure 2: KPMG's Islamic Finance Group Case Study reference

4

Quality Assurance Review for an Islamic Finance arm of a Conventional Bank in Europe

A conventional bank wished to launch an Islamic finance window for its European activities and appointed KPMG firms to review its Sharia'a governance and operating framework.

- KPMG in the U.K. performed a series of interviews with executive management in the bank to assess their awareness and understanding of Islamic finance.
- We reviewed and benchmarked governance and operational procedures against industry best practice both locally and globally.
- Our work highlighted to the bank key areas which needed to be addressed prior to launch to safeguard against reputational and operational risk.

5

Assistance with establishing a Stand Alone Islamic Bank and Takaful Provider in Europe

KPMG member firms' on-going work with a stand-alone Islamic bank and Takaful provider in Eastern Europe has helped to put our organization at the forefront of the development of Islamic finance in Europe.

- KPMG in the U.K. assisted the bank in its application for a full U.K. banking license.
- We worked closely with the bank and Takaful provider on both corporation tax and VAT issues. Our professionals sit on HM Treasury and HM Revenue & Customs working parties developing U.K. tax legislation.
- Our firms' professionals also worked on a range of issues with the bank and Takaful provider including U.K. and IFRS accounting opinions on a wide range of Islamic products, statutory and other audits as well as transaction services in relation to the bank's initial public offering and listing on the Alternative Investments Market of the London Stock Exchange.

6

Risk Management Guidance for a leading Islamic Bank in Malaysia

An established Islamic bank in Malaysia needed to demonstrate compliance with Basel II, Islamic Financial Services Board (IFSB) and Bank Negara Malaysia (BNM) standards.

- KPMG in Malaysia structured the engagement in two workstreams. The first developed frameworks for Operational Risk Management, Anti Money Laundering, Market Risk Management and Credit Risk Management.
- Under the second workstream we conducted a Credit and Operational Risk Gap analysis based on Basel II, IFSB and BNM requirements.
- By the end of the engagement, the Bank was able to adopt Basel II's Standard Approach for Credit Risk and Basic Indicator Approach for Operational Risk as well as initiate the transformation of its risk management practices to comply with Basel II, IFSB and BNM standards.

7

Assistance in Conducting a Core Banking Gap Analysis for a Leading Islamic Commercial Bank in the UAE

A leading Islamic commercial bank in the UAE requested assistance in identifying the key user requirements, including current satisfaction level of users of the current system as well as to carry out a gap analysis to illustrate the gaps between the functional requirements of the users and the functionality offered by the core banking system.

- In the first phase KPMG firms assisted the client in understanding the business unit's requirements from the core banking system and prioritizing of the requirements based on business priorities.
- In the next stage we reviewed the core banking system and the IT architecture. We also assessed the degree of user satisfaction with the available system functionalities.
- A gap analysis was conducted and the gaps were categorized as system / process gaps.
- The identified gaps were prioritized in terms of criticality and roadmap to address these gaps was developed.

8

Assisting with Establishing an International Islamic Investment Bank in Malaysia

A successful Middle Eastern Investment Bank was looking to establish a hub in South East Asia, specifically taking advantage of Malaysia's supportive regulatory framework for Islamic Finance institutions.

- KPMG in Malaysia was engaged to help the Bank move from concept to operational readiness in two key phases. The first phase was composed of the project management of the application to Malaysia's central bank, Bank Negara Malaysia (BNM) involving the development of a business plan for the new Bank, establishment of a prudential foundation through a risk management framework and development of an internal control policy.
- In the second phase, KPMG helped to bring the new Bank to a state of operational readiness primarily through the development of strategies, policies and procedures for the Treasury, Risk Management, Financial Control and IT functions. In addition to this, we managed the post-submission requirements of BNM.
- By the end of the engagement, the Bank achieved operational readiness and was successfully granted its approval in principle and subsequently its banking licence.

9

A Capacity Development Programme for an African Central Bank

The regulatory authority of an African country with a majority Muslim population, wanted to develop their domestic Islamic Finance industry and learn from Malaysia's emergence as a global Islamic Finance hub.

- KPMG firms prepared a capacity development program for the authority and other selected stakeholders and organized a study tour of key operating and regulatory institutions on Islamic Banking in Malaysia.
- KPMG secured the commitment of professionals from regulatory authorities, Sharia law firms and industry players to conduct interactive workshops for the delegation over a two week period in Malaysia.
- Our work allowed the authority to consolidate their understanding and KPMG has since been involved in assisting the regulator to review and refine a draft framework for introducing Islamic banking into this market.

10

Assisting with establishing an Islamic Investment Bank in the Qatar Financial Centre ('QFC')

A leading Qatari owned bank and one of the largest regional Islamic investment banks was looking to establish an Islamic Investment Bank in the QFC (the "Bank"), specifically taking advantage of the QFC's supportive regulatory regime and strong regional reputation

- KPMG firms provided advisory assistance and support for the Bank throughout the registration process with the QFC.
- We assisted the Bank in developing policies and procedures manuals.
- Our firms' professionals also provided accounting support services in the initial phase of the Investment Bank's operations.

Awards received by KPMG

KPMG firms have received accolades as the advisors of choice for the Islamic finance industry on multiple occasions. We are proud to share some of these with you.

2009 London Sukuk Summit	Outstanding contribution by an Accounting & Auditing Firm to Islamic Financial Services	The annual Sukuk Summit Awards features a panel of judges made up of respected industry experts who are responsible for nominating institutions and individuals that they deem to have attained outstanding achievements, success and excellence in their respective categories.
Euromoney Islamic Finance Awards:	Best Islamic Assurance and Advisory Services Provider 2009	Euromoney's Islamic Finance Awards has been said to be the benchmark of achievement in the Islamic finance sector.
	Best Islamic Assurance and Advisory Services Provider 2008	KPMG firms won the award for two consecutive years.
International Real Estate Finance Summit 2008:	Best Islamic Advisory Firm	The international real estate finance summit focuses on current real estate issues affecting both conventional and Islamic finance circles. The award is recognition of the multi disciplinary Islamic finance advice which KPMG firms have provided to the Real Estate and financial services sectors around the world.



Contact us

Brendan Nelson

Global Chairman, Financial Services
KPMG in the U.K.
Tel: +44 (0) 20 7311 5390
Email: brendan.nelson@kpmg.co.uk

Europe Region

Paul Furneaux

Partner, Financial Services
KPMG in the U.K.
Tel: +44 (0) 20 7694 2624
Email: paul.furneaux@kpmg.co.uk

Samer Hijazi

Director, Financial Services
KPMG in the U.K.
Tel: +44 (0) 20 7694 2807
Email: samer.hijazi@kpmg.co.uk

Tom Woods

Partner, Financial Services
KPMG in Ireland
Tel: +353 (1) 410 2589
Email: tom.woods@kpmg.ie

Kashif Jahangiri

Director, Financial Services
KPMG in Ireland
Tel: +353 (1) 700 4060
Email: kashif.jahangiri@kpmg.ie

Middle East Region

Jamal Fakhro

Managing Partner, Financial Services
KPMG in Bahrain
Tel: +973 (1) 722 4807
Email: jfakhro@kpmg.com

Jalil Al-Aali

Partner, Financial Services
KPMG in Bahrain
Tel: +973 (1) 722 4807
Email: jalaali@kpmg.com

Andrew Jackson

Partner, Financial Services
KPMG in Saudi Arabia
Tel: +966 (1) 291 4350
Email: atpjackson@kpmg.com

Munther Dajani

Partner, Financial Services
KPMG in Abu Dhabi
Tel: +971 (2) 632 3476
Email: mdajani@kpmg.com

Muhammad Tariq

Partner, Financial Services
KPMG in U.A.E.
Tel: +971 (4) 403 0300
Email: muhammadtariq@kpmg.com

Omar Mahmood

Director, Financial Services
KPMG in Qatar
Tel : +974 4329698
Email: omarmahmood@kpmg.com

Reyaz Mihular

Partner, Financial Services
KPMG in Sri Lanka
Tel: +94 (0) 11 2426 401
Email: reyazmihular@kpmg.com

East Asia Region

John Lee

Partner, Financial Services
KPMG in Malaysia
Tel: +60 (3) 7721 3388
Email: jhhlee@kpmg.com.my

Anita Menon

Partner, Financial Services
KPMG in Malaysia
Tel: +60 (3) 7721 3388
Email: anitamenon@kpmg.com.my

Africa Region

Ahmed Jaffer

Partner, Financial Services
KPMG in South Africa
Tel: +27 (11) 647 7030
Email: ahmed.jaffer@kpmg.co.za

Americas Region

Steve Watts

Partner, Financial Services
KPMG in Canada
Tel: +1 416 777 8532
Email: scwatts@kpmg.ca

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2009 KPMG International. KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. Printed in Malaysia.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.