Islamic ETFS: Ready to fly

The ETF universe is vast and growing, with global assets topping US$2 trillion at the end of July fuelled by a stellar global equity performance in the second quarter and an increased appetite for passive investing. Yet the Islamic ETF market has been slow to take off compared to the unit trust and mutual fund industries. This week we explore the ETF universe, and take a look at why Islamic investors remain shy of one of the fastest-growing stars in global asset management firmament.

There is nothing complex or intimidating about exchange-traded funds (ETFs), which are simply a basket of securities, funds, indexes or commodities that are traded on an exchange and are usually linked to or track a benchmark index.

The market is both big and booming. According to a recent report from ETFGI, net inflows of US$44.08 billion in July pushed year-to-date inflows to a record US$148.53 billion. Coupled with an impressively strong market performance this helped to push global exchange-traded product assets to a record US$2.16 trillion at the end of July 2013. A new report by Cerulli Associates entitled ‘ETF and Retail Alternative Products and Strategies 2012’ estimates that assets could reach US$3.8 trillion by 2016, and around 63% of investment managers surveyed in the Cerulli report expect ETF growth to accelerate this year as the high flow of funds encourage mutual fund managers to get involved.

A tempting prospect

Passive funds have surged in popularity over the last few years, as investors rebel against the high costs and poor returns perceived to be generated by active managers. In the past four years in the US, investment in passive funds has outperformed actively managed funds by 0.8%.

As interest grows, the asset class is expanding into new markets. Vanguard, the third-largest ETF provider in the world, held over US$280 billion in assets as of June this year and has expanded into a range of new countries including Hong Kong. “Investors worldwide have become more focused on broad diversification, low investment costs and transparency,” said Jim Norris, the managing director for Vanguard International, in an April interview with ETF Strategy.

Islamic interest

While these characteristics have not always been a priority for Islamic investors, ETFs offer an array of advantages which are becoming increasingly pertinent in today’s expanding cross-border markets. Shariah compliant ETFs offer convenient access to the relevant sectors of the wider global equity market without requiring time consuming specific scholar approvals as can be the case for actively managed mutual funds.

This makes for a much lower total expense ratio. Conventional ETFs are currently offered at a total expense ratio of usually less than 0.34%.
DEALS

Chartered Bank acquires Bina Group, makes partial redemption of its US$40.54 million Sukuk Mudarabah program

Sentral 384 disburse semi-annual profit payment of its US$60.06 million Islamic paper on the 3rd September

Ample Zone makes partial redemption of its US$45.05 million Sukuk Ijarah on the 29th August

Emirates Airline considers issuing US$4.5 billion in Sukuk to finance aircraft acquisitions

ILM appoints Standard Chartered Bank as primary dealer for inaugural Sukuk

Malaysian treasury to test demand for debut Sukuk with Malaysian Islamic Chamber of Commerce

IDB sees 18.4% growth in investments towards infrastructure projects

Asprey's US$60.06 million Islamic facility at ‘AA3/P1’

RAM assigns ratings to UMW Holdings’ Islamic papers

Moody’s affirms Sime Darby’s US$1.5 billion Sukuk Ijarah at ‘A3’

Moody’s affirms Petroliam Nasional’s US$1.5 billion corporate Sukuk an ‘A1’ rating

RAM affirms Emirates NBD’s US$1.13 billion Islamic facility at ‘AAA’ and maintains long-term negative outlook

ASSET MANAGEMENT

Public Mutual announces gross distributions for Islamic funds

RATINGS

MARC affirms Celcom Networks’ US$1.5 billion Sukuk Murabahah at ‘AAIS’

RAM assigns ratings to UMW Holdings’ Islamic papers

Moody’s affirms Sime Darby’s US$1.5 billion Sukuk Ijarah at ‘A3’

Moody’s affirms Petroliam Nasional’s US$1.5 billion corporate Sukuk an ‘A1’ rating

RAM affirms Emirates NBD’s US$1.13 billion Islamic facility at ‘AAA’ and maintains long-term negative outlook

MOVES

Medgulf Takaful appoints Nader Al Mandeel as CEO

Ithmaar Bank appoints general manager Ahmed Abdul Rahim as acting CEO

Suresh Sadasivan to lead Abu Dhabi Investment Authority’s internal equities department for Asia

Former Maybank Syariah Indonesia president director to head Malaysia’s RHB Islamic Bank

Zain Saudi’s CEO resigns

Gulf Finance Corporation appoints David Hunt as CEO

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than 10bps, and while Shariah compliant ETFs cannot necessarily match this, they can often be considerably better value than competing mutual funds, while also being more transparent as their holdings are revealed on a daily basis. “You can just go to an exchange and buy an ETF. They give you easy access to a particular market or region and are very cheap, about 80 to 100 bps,” says Angelia Chin-Sharpe, the CEO of BNP Paribas Investment Partners. “If you want exposure to a market where you don’t have the resources to research, then this one instrument could be ideal. Other than that you can use it as a technical allocation by weighting other sectors which you are more bullish about without having to buy a whole list of stocks.”

Index growth

A key factor for Islamic ETF growth is of course the availability of Shariah compliant indexes for these funds to track; most ETFs are based on an underlying benchmark index. While in the past these were less readily available, over the past decade almost every major index provider has created a Shariah compliant offering, covering almost every major class and region with more coming onto the market all the time.

The S&P and Dow Jones family are well known, and these families continue to expand to provide even wider access for Islamic asset managers. In India, S&P recently launched a new index with the Bombay exchange, while in June last year it also announced the launch of the S&P/OIC COMCEC 50 Shariah index designed to track the performance of the top 50 Shariah compliant firms across OIC member states. Alka Banerjee, the vice-president of global equity and strategy indices at S&P, commented on the launch that: “Demand for Shariah compliant investing solutions and interest in the equity markets of Islamic countries has increased over the past several years. The S&P/OIC COMCEC 50 Shariah is unique in that it encapsulates in one index the performance of Shariah compliant stocks from Islamic countries located throughout the world.”

Index providers are innovating as well as expanding geographically, and in

Fund focus: MyETF-DJIM25

Malaysia is home to one of the world’s largest ETFs, the government-owned MyETF-DJIM25, which was launched in January 2008 and tracks the performance of the benchmark Dow Jones Islamic Market Malaysia Titan 25 Index.

Fund

As at the 31st July 2013 the fund had a total net asset value (NAV) of RM296.34 million (US$90.27 million) and accounted for 30% of Malaysia’s total ETF industry despite a ratio of just one Islamic ETF to five conventional (in comparison, Islamic unit trust funds in Malaysia make up just 12% of the total industry). The fund is managed by i-VCAP (advised by BNP Paribas) and its Shariah advisor is CIMB Islamic Bank while its trustee is Deutsche Trustees Malaysia.

Performance

Since inception the fund has seen a cumulative performance of 17%, compared to 6.28% for its benchmark. Year-to-date it has also outperformed, bringing in 4.46% over 3.08%. In June this year the fund’s NAV per unit rose to an all-time high of RM1.16 (US$0.35) before easing off to end the quarter at RM1.15 (US$0.35), representing a 7.17% underlying quarterly gain. In comparison, the underlying benchmark index gained 6.29%. Meanwhile, the fund’s unit price traded on Bursa

Securities closed at RM1.15/unit, up 6.48% for the same period.

Outlook

Emerging market equities in 2013 have seen an outflow of liquidity and underperformed developed markets, and the Malaysian bourse was not spared, with net foreign outflows in June leading the ringgit to weaken significantly to RM3.20 against the US dollar from RM2.95 in early May. Nonetheless, given its defensiveness, Malaysia remains one of the top performing markets in the region; boosted by a strong equity performance and a favorable investor reaction to the general election.

Figure 1: Fund movement

Figure 2: MyETF top 10 holdings, July 2013

Sime Darby
Axiata Group
Maxis
IOI Corporation
Digi.Com
Petronas Chemicals Group
IHII Healthcare
Kuala Lumpur Kepong
Petronas Gas
UMW Holdings
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February this year S&P Dow Jones Indices launched its GIVI Shariah indexes based on low volatility combined with an alternative weighting scheme that measures a stock by its intrinsic calculated value rather than on market capitalization. And while S&P Dow Jones remains a dominant player in the index universe, several other heavyweights are also driving it forward: including global Islamic finance information provider and Islamic Finance news partner IdealRatings, which recently partnered with Russell Indexes to offer a new Russell-IdealRatings Islamic Index Series based on the Russell Global Index universe of over 10,000 securities. The new family, which includes a global large and small cap index as well as covering developed, emerging, US, BRIC and GCC markets, was specifically designed to provide benchmarks for both active, index-linked and exchange-traded funds.

Islamic universe

As of the end of last year there were just 12 Shariah compliant ETFs worldwide, with total assets of under US$500 million – compared to over 3,000 funds and around US$2 trillion in assets for the conventional industry.

iShares by BlackRock and the db-X series from Deutsche Bank are the market leaders, and offer exposure to all leading global markets including the US, Europe, Japan and emerging markets on multiple European exchanges including the LSE, Deutsche Borse, NYSE Euronext Amsterdam, NYSE Euronext Paris and the Stuttgart Stock Exchange. Several other players are also active in the market: including Daiwa Securities of Japan which offers an ETF tracking the FTSE Japan Shariah Index, and BNP Paribas which launched its first Islamic ETF in 2007 and a second a few years later to track the Dow Jones Islamic Market (DJIM) China/Hong Kong Titans Index. Malaysia, despite being one of the key players in the Islamic finance universe, has only one domestic ETF, the MyETF-DJIM25 (see sidebar) managed by government investment vehicle i-VALUE CAP; while the Middle East has also seen only a few providers enter the market including HSBC Amanah and Falcon Financial Services.

Several other providers have tried and failed, suggesting that rather than a lack of supply it is a lack of demand that is stifling growth. In October 2010 Javelin Exchange Traded Shares, a US issuer that partnered with Russell Indexes to provide benchmarks for both active, index-linked and exchange-traded funds.

Emerging markets

However as new markets emerge new providers are also moving in to take advantage of high regional growth. With weak US growth and a Chinese slowdown, the Middle East and Southeast Asia are the new hotspots for index-linked investment and as investors turn to passive strategies over active ones, the sector may finally be looking up.

Saudi Arabia is a key focus for the next year, and according to ING Investment Management the market will open up with an increased flow of IPOs and greater access for foreign investors. Fadi Al Said, the head of strategy at ING Investment Management, told ETF Strategy that: “In 2011 and 2012, the real GDP growth in the MENA region will average out at 3.4%, exceeding that of the G7 which we predict will stand at 2.2%.” In Saudi Arabia strong economic growth and massive government spending will drive the markets, with Fadi confirming that: “By identifying the best relationship between growth and value, ING foresees good opportunities for alpha creation in 2012.”

Islamic choices in the GCC remain limited, although several conventional funds already exist including the Market Vectors Gulf States Index ETF and PowerShares MENA Frontier Countries ETF. However in 2011 HSBC Amanah launched its first Gulf ETF with the Saudi 20 ETF, tracking the HSBC Amanah Saudi 20 Equity Index of Shariah compliant firms and listed on Tadawul, the Saudi exchange.

Osama Shaker, the managing director and head of financial markets at HSBC Saudi Arabia, commented on the launch that: “ETFs have enjoyed a phenomenal global success and continue to rise in popularity. We believe there’s international demand for Saudi exposure and expect that the Saudi economy will continue to grow, driven by high oil prices and historical government reserves as well as improving private sector spending.”

ASEAN advantage

Southeast Asia is unsurprisingly another region to watch, with the leading ASEAN economies of Malaysia, Indonesia, Thailand and the Philippines seeing steady growth and strong returns even as the European debt crisis and weak US growth turn investors towards other opportunities. Simon Smith of ETF Strategy points out that ASEAN nations currently hold 3.1% of total global GDP but account for just 1.9% of the MSCI AC World Index, with this under-representation highlighting the growth potential and investor opportunities continued...
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in the region. Last year PwC released a report entitled ‘The Southeast Asian Tigers Roar Again: This Time For Real’ which highlighted the growing importance of the Southeast Asian region for investment, predominantly due to its cheap labor pool.

“Long recognized as a low-cost production platform, Southeast Asia will continue to reap the benefits of its competitively priced labor pool, which is expected to endure as the region’s greatest asset,” said the report. “The average economic growth rate of the fastest five is projected to reach an average of 5.8% annually from 2011-15.”

Southeast Asia’s largest economies, Indonesia, Malaysia, the Philippines, and Thailand, along with Vietnam and Singapore, had a 2010 combined gross domestic product (GDP) at purchasing power parity of approximately US$3 trillion, equivalent to nearly three-fourths of Japan’s and one-third of China’s economies.

While there are over 14 ETFs which currently focus on ASEAN, from providers including Deutsche Bank, Amundi, Credit Suisse, HSBC and RBS, there are currently no Islamic ETFs specifically covering the region. The closest investors can currently get is the Malaysian MyETF-DJIM25 and the iShares MSCI Emerging Markets Islamic ETF, which covers some Asian countries – suggesting a clear opportunity in such a booming market.

Narrow asset focus

One of the biggest gaps in the Islamic ETF universe is the continued focus on equities to the exclusion of any other asset class. There is no reason for an exchange-traded fund to limit itself to the equity market, yet many investors seem to believe that equity is the only option available. In fact, an ETF can track any index and cover almost any asset class – so why are Islamic providers not offering funds covering commodities, property or, given the booming Sukuk market, fixed income?

Although equity makes up the lion’s share of conventional ETFs it is by no means the only asset class. According to BlackRock, conventional fixed income exchange-traded products saw record-breaking inflows of US$25.5 billion between January and April this year, and reached US$49.9 billion in 2012. For Islamic investors, a key attraction of ETFs should be the opportunity to diversify their portfolios easily, and access investments that have a low correlation with their existing equity investments. Yet despite a number of Shariah compliant indexes that track Sukuk, commodities and other asset classes, ETFs following these themes have yet to reach the market. One bank that has done so is Kuveyt Turk, which in 2010 launched its GoldPlus ETF which trades gold on the Turkish exchange via an index from BMD Securities.

However, according to Tariq Al Rifai, the head of investor relations at Kuwait Finance House and speaking to Reuters this year, investor interest exists but providers have not yet responded to this. “Our Sukuk index is very popular, but products remain manager-driven.”

A question of selling

According to market experts, the problem may be in the channels available for selling to Islamic investors. In the US and Europe funds are often sold through independent advisors whose profits are not derived from the cost of the product, and are therefore happy to sell ETFs which have low management fees. In the GCC region however, most funds are sold to institutional investors through placement agents and fund marketers who charge sale-based commissions and thus prefer to market funds with higher margins. While an ETF might have a management fee of 0.5% for example, a mutual fund might charge 2%.

A bright prospect

Nevertheless, the advantages of Shariah compliant ETFs are undeniable and as demand and supply converge, we should expect further growth. “There are tremendous opportunities in Shariah compliant ETF industry,” says Saeid Hamedanchi. “The industry is young and underdeveloped globally, but we expect that it will comprise a minimum of 10% of the Islamic funds industry within the next five years. This translates to assets reaching around US$10 billion.”

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DEALS

Making a choice
MALAYSIA: Malaysia-based port operator Northport is contemplating the raising of RM1 billion (US$300.31 million) either through Sukuk or via the stock market to fund infrastructure upgrade. The firm will come to a decision by October, said Abi Sofian Abdul Hamid, its CEO."

Partial redemption
MALAYSIA: LBS Bina Group has made a partial redemption of its RM135 million (US$40.54 million) Sukuk Mudarabah Islamic medium-term note program guaranteed by Danajamin Nasional, amounting to RM10 million, on the 30th August.

Profit payment due
MALAYSIA: Property developer Sentral 384’s semi-annual profit payment of its RM200 million (US$60.06 million) Islamic medium-term notes program was due and payable on the 3rd September.

Carrying out redemption
MALAYSIA: The partial redemption of Ample Zone’s Class C Sukuk, part of its RM150 million (US$45.05 million) Sukuk ijarah program, was made payable on the 29th August 2013. The special purpose vehicle is a subsidiary of investment holding company Larut Management Services.

Alternative needed
MALAYSIA: BIMB Holdings’ plan to fund the acquisition of the remaining 49% stake it does not own in Bank Islam Malaysia with a 10-year Sukuk worth RM1.5 billion (US$447.63 million), backed by the former’s shares in Bank Islam, has been disallowed by Bank Negara Malaysia. According to a Malaysian financial daily, BIMB will meet to discuss alternative assets to back the issuance. The proposal was said to be rejected due to fears that the deal might distort the bank’s capital ratio in light of Basel III’s capital adequacy requirements.

Aircraft financing
UAE: Emirates Airline, in need of approximately US$5.34 billion a year over the next five years to finance the purchase of 119 aircrafts, is considering raising US$4.5 billion via Sukuk early next year to finance the expansion.

Landmark issuance
MALAYSIA: The International Islamic Liquidity Management Corporation (IILM) has engaged Standard Chartered Bank as one of its primary dealers for the first tranche of its US$2 billion program worth US$490 million. The ‘A-1’ rated issuance is expected to be well-received with high demands from Malaysia and West Asia, according to Leon Koay, Standard Chartered’s head of global markets and co-head of wholesale banking.

Testing the waters
MALAYSIA: The treasury has announced plans to sell its debut Islamic notes worth RM2.5 billion (US$753.19 million) in the smallest auction of the year in order to test demand for its longest-ever maturity Sukuk, according to Bloomberg. Due in 2033, the 20-year Islamic bond will have limited orders mainly from life insurers and pension funds, said Manulife Asset Management.

Hong Kong and Malaysia strengthen ties to boost Islamic finance, trade and investment
GLOBAL: On the heels of the recent amendments to its regulations to accommodate Islamic finance, Hong Kong last week conducted a bilateral exchange of ideas with its Malaysian counterpart — Bank Negara Malaysia (BNM) in Kuala Lumpur.

Hong Kong in July this year announced amendments to its Inland Revenue Ordinance and Stamp Duty Ordinance to provide comparable taxation framework for common types of Sukuk. This is seen as a significant step forward towards facilitating the Islamic finance infrastructure in the island. The meeting with BNM further strengthens cooperation with Hong Kong Monetary Authority (HKMA) in the areas of trade and investments in addition to promoting Islamic finance.

Both the regulators have assured continued support to their financial and private sector players to collaborate and reinforce relations. These will be initiated by setting up a private sector-led joint forum in promoting Islamic finance in Hong Kong which will capitalize potential areas of development and synergize their competencies. The first of the joint forums is expected to be held in Hong Kong later this year. The meeting also discussed an impetus to the offshore renminbi business initiatives.

Commenting on the occasion the governor of BNM, Dr Zeti Akhtar Aziz said: “Today’s discussions reflect the commitment of both BNM and the HKMA towards deepening our already strong bilateral ties. We will work together to create a conducive ecosystem which will further facilitate deeper and expanded economic activity between Malaysia and Hong Kong. ” The CEO of the HKMA, Norman Chan, also echoed similar thoughts and stated: “I am pleased to be able to strengthen our collaboration with BNM on a number of bilateral initiatives that help promote the financial market development in Malaysia and Hong Kong. I trust our collaboration will continue to be fruitful and bring about a win-win situation for both of us.”

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AFRICA

Quality training
NIGERIA: Shariah compliant Jaiz Bank has engaged REDmoney Group, the parent company of Islamic Finance news, to conduct a Shariah audit and internal control training for its staff. The three-day training was facilitated by industry expert Abdulkader Thomas. (6)

Still an option
EGYPT: Sovereign Sukuk is said to still be on the agenda of the post-Mursi government as a means of attracting investors from Asia and the Gulf countries who prefer Shariah compliant instruments, said Reuters. (5)

Proposal presented
UGANDA: The Ministry of Finance is seeking parliamentary approval to procure a UGX200 billion (US$76.12 million) financing facility from the IDB to fund the Opuyo-Moruto electricity transmission line project. (7)

Diversifying funding source
NIGERIA: The federal government is planning to procure US$150 million in financing from the IDB as a possible option to fund the expansion and upgrade of state electricity operator, Transmission Company of Nigeria. (6)

ASIA

Major initiative
PAKISTAN: The Securities and Exchange Commission of Pakistan is planning to establish a separate board/exchange specifically for SMEs as an effort to boost the growth of the SME sector. (5)

Smaller board size
SINGAPORE: The Singapore Exchange is aiming to reduce the standard board

continued...

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Global sovereign wealth fund assets dominated by countries in the Middle East
GLOBAL: According to an update by the Sovereign Wealth Fund Institute (SWFI), sovereign wealth fund assets across the globe reached US$5.8 trillion as of August 2013. The regions of Asia and the Middle East are reported to possess the bulk of this sum, holding 40% and 35% market share respectively. There are approximately 35 sovereign wealth funds based in Muslim countries, and out of the 57 members of the Organization of Islamic Cooperation 16 countries are home to sovereign wealth funds. This includes Brunei, Kuwait, Malaysia, Qatar, Saudi Arabia and the UAE.

As the world’s largest crude oil exporter, Saudi Arabia is ranked second after Norway in the SWFI list with the Saudi Arabian Monetary Agency holding a total of US$675.9 billion in assets. This is followed by Abu Dhabi Investment Authority in the UAE with US$627 billion-worth of sovereign assets attributable to revenues from the oil and gas industry. Sovereign wealth funds sourced by oil and gas-related activities make up 59% of the global sovereign assets with the remaining 41% derived from other non-commodity related activities.

According to the data, five sovereign-backed entities from the UAE were listed: Investment Corporation of Dubai, International Petroleum Investment Company, Mubadala Development Company, RAK Investment Authority and Abu Dhabi Investment Authority — all of which account for US$816.6 billion in sovereign assets from the emirates. Kuwait Investment Authority currently maintains US$386 billion, while Oman’s State General Reserve Fund conserves about US$8.2 billion in assets.

Most sovereign wealth funds in the UAE obtain their reserves from revenues accrued in the oil and gas industry. Similar to the UAE, Brunei Investment Agency has sovereign reserves of US$40 billion which are also derived from oil production activities. Malaysia’s sovereign wealth fund on the other hand, represented by Khazanah Nasional, retains US$39.1 billion in assets predominantly attributable to the non-commodities sector. (6)
lot size of securities to 100 units from the current 1,000 units, in line with the practices of other developed exchanges. Targeting to decrease it to one unit in the longer-term, the exchange released a consultation paper seeking comments from stakeholders, due on the 6th September.\(^{(5)}\)

**Projected growth**

**PAKISTAN:** Speaking at the Islamic Finance news Pakistan Roadshow Yaseen Anwar, the governor of the State Bank of Pakistan, said that the Islamic banking industry in the republic is on course to double its market share by 2020. Yaseen also revealed that a five-year strategic plan for Islamic banking will be released soon.\(^{(5)}\)

**Expanding presence**

**SRI LANKA:** Shariah compliant Amana Bank has launched a branch in Kinniya, a town in the Trincomalee district of the eastern province of Sri Lanka.\(^{(5)}\)

**Time to open doors**

**MALAYSIA:** The Malaysian Islamic Chamber of Commerce has called for regulators to amend laws relating to Waqf, which is presently governed by state Islamic religious councils, to extend the regulations to other bodies including corporates, government-linked companies, universities and cooperatives for the establishment of corporate Waqf.\(^{(5)}\)

**Remaining stable**

**MALAYSIA:** The central bank of Malaysia has conducted two Al-Wadiah tenders worth RM700 million (US$210.89 million) for eight days and RM600 million (US$180.77 million) for 14 days respectively, in addition to a RM200 million (US$60.26 million) commodity Murabahah program tender for a period of 22 days, to absorb excess liquidity from the financial system. The intervention was carried out on the 26th August to maintain the stability of short-term interbank rates.\(^{(5)}\)

**GLOBAL**

**IDB infra push**

**GLOBAL:** Ahmed Mohamed Ali, the president of the IDB, has highlighted the infrastructure sector as the Islamic bank’s priority area for investments. The IDB recorded an 18.4% growth in development projects to US$9.8 billion in 2012 from the previous year.\(^{(5)}\)

**Ready, set, go**

**GLOBAL:** According to S&P, ample infrastructure investment opportunities in Malaysia and the GCC, coupled with a growing need for diversified funding source on the back of improved global investor sentiments have the potential to drive the Islamic bond market into the mainstream. The agency also opined that more banks will come to market as they seek to restructure their existing debts and to meet the credit needs of their corporate clients particularly in the area of project finance.\(^{(5)}\)

**Discontinuing service**

**GLOBAL:** HSBC Holdings will cease its wealth management operations in Bahrain, Jordan and Lebanon as part of the bank’s restructuring strategy. The UK lender has thus far exited 54 businesses and scaled back its Islamic and private banking businesses in an attempt to increase its profits.\(^{(5)}\)

**Saudi Arabia’s Alkhabeer Capital partners with USAA Real Estate Company to broaden US real estate investment portfolio**

**GLOBAL:** Founded in 2004, Saudi Arabia’s Shariah compliant investment firm Alkhabeer Capital has partnered with USAA Real Estate Company (UREC) to enhance its real estate investment avenues in the US. Following the collaboration on the 1st September, Alkhabeer acquired Park Ten Plaza, a ‘Class A’ three-storey building located in Houston’s Energy Corridor. Built in 1999, the plaza is a 155,789 sq ft office space and home to over 300 multinational companies, including some of the largest energy companies in the world.

“We have partnered with USAA Real Estate Company to complement our business plan with access to quality real estate investment opportunities in the US. We believe in the depth of the US real estate market, and our focus in 2013 will be on quality, income-producing assets,” said Ammar Shaha, the executive director and CEO of Alkhabeer.

In a bid to buttress its expansion strategies in the GCC and western markets, Dr Henri Chaoul, the chief investment strategist at the Islamic investment firm, recently revealed that the company seeks to list on Tadawul, the Saudi Arabian stock exchange. Pending regulatory approvals, the firm also plans to launch an IPO floating 30% of its capital by early 2014. Alkhabeer launched three new Shariah compliant funds in 2012 worth US$139.94 million, targeting property and industrial developments in Saudi Arabia and Europe. This has increased its Islamic portfolio to 10 funds, which comprise of six real estate funds, three publicly listed funds and an industrial private equity fund.

Commenting on the deal, the president and CEO of UREC Len O’Donnell said: “Park Ten Plaza’s location and diverse tenancy represents a very attractive institutional quality opportunity, affording Alkhabeer and UREC strong cashflow with growth potential.” Headquartered in San Antonio, Texas, UREC is the real estate investment arm of USAA, United Services Automobile Association — a Fortune 500 financial services group of companies providing financial products and services to the US military community since 1922.\(^{(5)}\)
Underserved market
GLOBAL: The Association of Chartered Certified Accountants (ACCA) has called for governments, international institutions and business associations to gain a better understanding of the role of SMEs in global supply chains and to encourage further activity among these entities. The association also recommended that governments and regulators realize that the internationalization of SMEs goes beyond the export market to include import, foreign direct investments, international sub-contracting and technical cooperation.

Not AAOIFI-compliant
GLOBAL: AAOIFI has withdrawn the certification granted to Path Solutions’ Islamic banking and finance information systems, rendering the latter no longer compliant to AAOIFI standards.

West African representative
GLOBAL: Global Islamic finance legal network i5fin has partnered with CLK Advocats, making the latter its exclusive representative for Ivory Coast.

MIDDLE EAST
Not doing too good
BAHRAIN: The Bahrain All-Share Index closed on a one-month low at 1,186.28 points on the 27th August with Islamic banks Ithnaa and Gulf Finance House losing a value of 9.62% and 7.41% respectively while Al Baraka gained 1.39%.

Pioneering move
UAE: Dubai Islamic Bank will be issuing its priority and premier customers with Visa Signature Debit Cards, making it the first Shariah compliant bank in Central Europe, the Middle East and Africa to do so.

Solid growth prospects
OMAN: The Omani Islamic banking industry is projected to command a 6-8% share of system assets within the next three to five years according to Moody’s, in its latest report on Islamic banking in Oman. Commenting that Shariah banking is credit positive for local banks as it enables revenue diversification, Moody’s also highlighted that the industry will face multiple challenges including high costs for establishing Islamic franchises, risk in managing potential real estate concentrations and constraints in liquidity management.

System upgrade
IRAQ: Islamic private bank Kurdistan International Bank for Investment and Development has integrated Path Solutions’ iMAL solution into its core banking system.

Efficient utilization
JORDAN: Jordan Dubai Islamic Bank has integrated Microsoft’s Virtual Desktop Infrastructure technology allowing the remote control of desktops and trimming manpower operation costs.

Challenge ahead
UAE: As the UAE enters a new stage of economic growth which is seeing increasing levels of liquidity in the market, banks in the emirates continue to...

Creditworthiness of corporate entities determine investor confidence as Sukuk becomes more mainstreamed
MALAYSIA: Parallel to the credit risk of each company, three Malaysian corporate Sukuk have been assigned a stable outlook by Moody’s. The Sukuk Ijarah programs issued by Petronium Nasional (Petronas), Axiata Group and Sime Darby, each amounting to US$1.5 billion, were rated at ‘A1’, ‘Baa2’ and ‘A3’, respectively. All three issuances - which do not have any material asset-backed or equity features — were rated on par with the company’s senior unsecured obligations, indicating that certificateholders ultimately rely on the creditworthiness of the corporates backing the Sukuk. This projection was elucidated in a research report by Moody’s entitled ‘Petronas, Axiata, Sime Darby: A Comparison of Three Malaysian Corporate Sukuk’.

Simon Wong, Moody’s vice president—senior credit officer and co-author of the report, noted that the dependant investor reliance on creditworthiness is to ensure that both the periodic distribution and redemption amounts are paid when due. Another vital credit feature is that the beneficial ownership will be re-purchased by the firms upon maturity of the Sukuk and certificate holders have no priority recourse to the Sukuk assets in an event of a dissolution or default. According to Dealogic, global corporate issuance of Sukuk tripled between 2010-12 to US$19 billion, with Malaysia accounting for 78% of the total issuance in 2012.

S&P recently released a report noting that Sukuk have the potential to grow and join the mainstream market due to increasing investor appetite. Although Islamic bonds may still seem an alternative means of investment, the GCC and Asian Sukuk markets are becoming more interdependent as the number of cross-border transactions pick up. S&P forecast that new Sukuk issuances worldwide will exceed US$100 billion this year as sovereign and quasi-sovereign entities enter the market raising funds for infrastructure and economic growth. Evidently, liquidity levels are improving as larger and more frequent issuances emerge, demonstrating the acceptance of Sukuk as a mainstream debt instrument.

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4th September 2013
Agreement signed
SAUDI ARABIA: Saudi Hotels & Resort Areas Company (SHARCO) has procured a 10-year Murabahah financing facility worth SAR308 million (US$82.11 million) from Riyad Bank to fund the construction of a hotel in the capital city.

Product rolled
SAUDI ARABIA: Amlak International for Real Estate Development and Finance Company has launched an Ijarah financing product enabling customers from both the public and private sectors to acquire commercial and residential properties.

Web-based solution
BAHRAIN: Kuwait Finance House-Bahrain has launched an online payment channel on its website to ease credit card payments for its customers.

New listing
KUWAIT: Shariah compliant Warba Bank has become a publicly-listed entity on the Kuwait Stock Exchange from the 1st September as a ban disallowing the trading of its stock was lifted, reported Reuters.

Central Park residences
UAE: Arady Developments, a joint venture between Deyaar Development and Dubai Properties Group, will be developing a 575,000 sq feet, 48-storey residential tower at the Dubai International Financial Center as part of the upscale Central Park residences project.

Strategic collaboration
UAE: Dubai International Financial Center’s CEO, Jeff Singer, has said that the financial center is open to cooperating with upcoming financial free zone Global Marketplace Abu Dhabi (GMAD) to boost the growth of the DIFC. GMAD is scheduled to be launched in the fourth quarter of this year.

Diversifying portfolio
QATAR: Qatar Investment Authority, the state’s sovereign wealth fund, is looking to hire senior bankers and industry executives in line with its plan to enter the Asian and US markets in a bid to balance its portfolio, which is currently skewed towards the European market.

RESULTS

BIMB Holdings
MALAYSIA: BIMB Holdings reported pre-Zakat and tax profits of RM213.04 million (US$63.85 million) for the quarter ended the 30th June, marking a 23% accretion from a year ago. The growth is attributed to higher contribution from its Islamic banking and Takaful businesses.

Hong Leong Islamic Bank
MALAYSIA: Hong Leong Islamic Bank has reported a 62% increase in post-tax profit to RM226.7 million (US$68.3 million) for the financial year ended the 30th June based on pro forma accounts as compared to the previous financial year. The bank’s net income grew by 31.9% to RM489 million (US$147.33 million).

Faisal Islamic Bank
EGYPT: Faisal Islamic Bank reported a 68% leap in net profit to EGP413.2 million (US$88.14 million) for the quarter ended the 30th June, against the EGP281 million (US$54.54 million) registered in the same period last year.

Tadawul All Share Index
SAUDI ARABIA: The Tadawul All Share Index lost 148.59 points to close at 7,766.52 points at the end of August against the close of July 2013 with total equity market capitalization decreasing against the close of July 2013 with total equity market capitalization decreasing by 1.32% to stand at SAR1.5 trillion (US$411.58 billion). Total value of shares traded on the index also saw a downturn of 12.18% to SAR93.47 billion (US$24.93 billion) in August from the previous month.

Mumtalakat Holding Company obtains US$250 million revolving credit facility
BAHRAIN: The investment arm of the kingdom of Bahrain, Mumtalakat Holding Company, successfully secured a US$250 million revolving credit facility on the 1st September. The transaction involved National Bank of Bahrain and Gulf International Bank as the mandated lead arrangers, facility agent and structuring bank, whilst Bank of Bahrain and Kuwait, Arab Bank and Mashreq Bank acted as the co-arrangers for the deal. The legal firms involved in the transaction were UK-based Charles Russell and Elham Ali Hassan & Associates in Bahrain.

Part of the proceeds from the facility were utilized for the repayment of a US$500 million existing syndicated facility which was procured in 2008 and matured at the end of August this year. According to representatives from the investment firm, Mumtalakat has consistently refinanced the facility over the past two years, and has repaid up to US$250 million in outstanding debt. Commenting on the deal Mahmood Al Kooheji, CEO of the sovereign wealth fund, said: “The new revolving credit facility is part of Mumtalakat’s overall financing and funding strategy, which utilizes a balanced mix of local, regional and international banks, as well as key pools of liquidity in global capital markets.”

Earlier this year, the company allocated up to US$150 million for investments in local projects including a total of US$87 million for the real estate and tourism sectors to boost the Bahraini economy. According to data by the Sovereign Wealth Fund Institute, as of August 2013 Mumtalakat holds approximately US$7.1 billion in assets attained from non-commodity related resources. In July 2012, the investment firm issued a RM3 billion (US$912.47 million) ringgit-denominated Sukuk Murabahah program which was assigned a long-term rating of ‘AA2’ with a stable outlook by Malaysia-based RAM Ratings.
News

Moves

Medgulf Takaful
BAHRAIN: Nader Al Mandeel has been appointed the new CEO of Medgulf Takaful, bringing with him over two decades of experience.

Nader was previously a director of insurance supervision at the Central Bank of Bahrain.

Ithmaar Bank
BAHRAIN: Ahmed Abdul Rahim, the general manager of Ithmaar Bank, has been promoted to acting CEO; succeeding Mohammed Bucheerei who retired on the 31st August.

ADIA
UAe: Sovereign wealth fund Abu Dhabi Investment Authority (ADIA) has appointed Suresh Sadasivan as its head of internal equities department for Asia excluding Japan. Sadasivan was previously the head of Asia Pacific equities at Legal & General Investment Management.

RHB Islamic Bank
MALAYSIA: Former president director of Maybank Syariah Indonesia, Ibrahim Hassan, has been appointed as CEO and managing director of RHB Islamic effective the 2nd September. Ibrahim brings with him 30 years of experience.

Zain Saudi
SAUDI ARABIA: Telecommunication provider Zain Saudi has appointed Hassan Kabbani as its new CEO following the resignation of Fraser Curley.

The telecom operator was recently afforded a five-year extension for the repayment on its US$2.3 billion Murabahah facility initially due in 2011.

Gulf Finance Corporation
UAe: Gulf Finance Corporation, a subsidiary of SHUAA Capital, has named David Hunt as its new CEO.

Hunt was formerly the firm’s CEO for Saudi Arabia and and the managing director and chairman of the executive committee of SABB Takaful.

Ratings

Telco Sukuk
MALAYSIA: Network service provider Celcom Networks’ RM5 billion (US$1.5 billion) Sukuk Murabahah program has been assigned an ‘AAAIS’ rating by MARC, carrying a stable outlook.

Stable ratings
MALAYSIA: Industrial enterprise UMW Holdings’ RM300 million (US$89.92 million) Islamic commercial papers/medium-term notes program (2010/2027) has been affirmed at ‘AAA/Stable/PI’ by RAM. Th ratings agency also reaffirmed UMW’s RM2 billion (US$599.44 million) Islamic medium-term notes program at ‘AAA’ with a stable outlook.

Rating assigned
MALAYSIA: Multinational conglomerate Sime Darby’s US$1.5 billion Sukuk Ijarah program has been rated ‘A3’ by Moody’s. The rating carries a stable outlook.

Stable outlook
MALAYSIA: Telecommunications provider Axiata Group’s US$1.5 billion Sukuk Ijarah, issued via Axiata SPV2, has been affirmed at ‘Baa2’ by Moody’s with a stable outlook.

Corporate Sukuk rated
MALAYSIA: Petronas Global Sukuk’s Sukuk Ijarah program worth US$1.5 billion has been affirmed at ‘A1’ by Moody’s with a stable outlook. The firm is an SPV of national oil company Petroniim Nasional.

Strong rating
SAUDI ARABIA: Property developer Dar Al Arkan has been reaffirmed at ‘AA3/PI’ by RAM with a stable outlook.

Negative outlook
UAe: Emirates NBD’s RM3.8 billion (US$1.13 billion) senior unsecured conventional/Islamic medium-term notes has been reaffirmed at ‘AAA’ by RAM while maintaining the negative outlook on its long-term ratings due to concerns over deterioration in the bank’s loan portfolio which have yet to improve.

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Query:

An Islamic bank as a buyer has signed an Istisnah agreement with a customer as a seller, whereby the customer has to arrange for the construction and delivery of a building to the bank.

Both parties have also signed a forward lease agreement, whereby the bank leased the described building to the customer by way of Ijarah Muntahiya Bittamlik (financial lease basis).

Both parties have agreed on the specifications of the building and the Istisnah purchase price.

The customer, a few months after signing the Istisnah agreement, pleaded that the cost of construction has substantially gone up due to strong demand for building materials, and that the bank should pay the additional amount to complete the project in accordance with the agreed specifications by way of increasing the purchase price.

Shariah guidance is sought to know if it is permissible to increase the purchase price under the Istisnah agreement and at the same time to also increase the amount of the lease due to the reason mentioned above.

Pronouncement:

It is the Shariah ruling that the Istisnah agreement including the specifications of the asset is binding on both parties — the seller and the purchaser — and that the price under the Istisnah agreement must be known and fixed.

In principle, the bank is not under obligation to increase the purchase price due to increase in the cost of materials, and likewise the customer is not under obligation to return extra amount to the bank in case of decrease of the cost of construction.

However, the bank has discretion to agree with the customer to increase the Istisnah price to the extent of actual excess over the original cost provided that there are genuine reasons for such an increase.

The bank should ascertain the genuine increase in the construction cost either through its own expertise or by hiring an external surveyor. This is because the bank is not allowed after signing the Istisnah agreement to advance any extra amount to the customer which has no connection with the subject matter of the Istisnah contract. Any amount exceeding the original cost of construction under Istisnah will be considered as a prohibited interest-bearing loan payable with more than its face value.

It is advised that the purchase price under the Istisnah contract should be paid in accordance with the performance of the construction of the building duly certified by the independent architect. This is to ensure that the customer does not spend the money paid by the bank outside the project.

An addendum to the Istisnah agreement and forward lease agreement will be executed to formalize the required changes in the documentation should there be genuine requirement.

Dr Hussain Hamed Hassan
Chairman of the DIB Shariah Board
Managing director, Dar Al Sharia Legal & Financial Consultancy, Dubai, UAE
Islamic megabanks: What’s the deal?

Both Indonesia and the IDB have announced plans to establish a Shariah ‘megabank’ in order to facilitate the development of an Islamic inter-bank market with the intention of providing much-needed liquidity management solutions to the industry. However, with no standard definition of a ‘Shariah megabank’ and with no predecessors to benchmark against but the contentious ‘too big to fail’ conventional counterparts, the proposition raises questions as to its feasibility, success and, at a more fundamental level: whether or not an Islamic megabank is actually needed.

Commenting on the difficulty of determining how an Islamic megabank would differ from other multinational Islamic financial institutions (given that it has yet to come into existence and details of its focus are unclear) Amjad Hussain, a partner at Qatar-based legal firm K&L Gates, shared with Islamic Finance news that: “Part of the rationale behind the mega Islamic bank is to help establish a benchmark for the Islamic industry by focusing on best regional and global practice and product development. A bank that has these objectives will be very much welcomed in the region as it will help to address a key issue that has been raised by many commentators: the need to invest in product research and development, and pan-regional growth.”

Farouk Alwyni, CEO of Indonesia-based consulting and boutique investment banking company Alwyni International Capital, echoes Amjad’s sentiments, noting that a commercial megabank would complement a multilateral entity such as the IDB with regards to cross-border transactions. Defining it as a universal bank which combines both deposit-taking and investment banking activities supported by a paid-up capital of at least US$1 billion, Farouk nonetheless cautions against being overambitious in the setting up of such an institution: “When you have too large of a capital and if it is not used efficiently or quickly, there will be too many idle funds which would most likely end up in the treasury and the bank would probably end up allocating these funds in short-term instruments.”

Citing the common key challenges of credit risk assessment and ensuring sufficient protection of the interest of lenders, Amjad believes that a mega Islamic bank would not carry any additional systemic risk relative to other regional banks. Speaking on the matter of the IDB-proposed megabank in Qatar, Amjad said: “Given the anticipated shareholders and the choice of its establishment, it is likely that the bank will be carefully monitored and will be subject to stringent supervisory oversight by the Qatari authorities.”

While in Indonesia, the discussion deciding between converting a large state-owned conventional bank to become a fully-fledged Islamic megabank or merging existing Shariah banks into one entity is still on the table. Farouk opined that: “Converting one of the existing conventional banks is most feasible because if we combined the existing banks, this will reduce the number of Islamic banks available – and it is better to have more (Shariah banks) for healthy competition instead of a possible monopoly by a single large bank.”

Regardless of the DNA of its setup and anticipated hurdles in overcoming cultural clashes (in case of a merger), management and system conversion and integration, a well-regulated and well-capitalized Islamic bank is seemingly lauded by market players as a catalyst propelling the industry forward. — VT

Syria’s geopolitical fate could impact Jordan and Lebanon ratings

The heightened effects of the ongoing civil war in Syria have caused severe volatility in financial markets across the GCC and the MENA region. The prospect of a combined military intervention from the US and the UK as well as fear of turmoil in the Middle East gravely affected global market sentiments last week. As of today S&P assigned sovereign foreign currency ratings to Lebanon and Jordan of ‘B/Negative/B’ and ‘BB-/Negative/B’ respectively.

Speaking to Islamic Finance news Trevor Cullinan, the director of sovereign ratings, at S&P said: “At this point in time we think that the country that’s most at risk is Lebanon. We also see potential spill-overs to Jordan. Otherwise we don’t have any other negative outlooks in the Middle East region specifically because of the Syria conflict.” He further explained that some of the key areas through which the Syria conflict could potentially affect these countries include further destabilization of the political situation in Lebanon, the incurring of fiscal costs due to the high number of refugees, as well as an adverse impact on economic growth and economic wealth in these countries because of reduced tourism receipts.

S&P maintains a stable outlook on Kuwait with a sovereign rating of ‘AA/Stable/A-1+’, indicating that the agency does not expect to change the ratings due to the implications of the Syrian conflict on the state. Nevertheless, in the unlikely event of a temporary closure of the Strait of Hormuz, Cullinan conveyed that there could be negative implications for the sovereign ratings of Qatar, Kuwait and Bahrain. He concluded that among other things, any ratings impact would need to be assessed in the light of how long the Strait remained closed. — NA
Positive outlook for Islamic banks in Oman in spite of challenges ahead

The Central Bank of Oman introduced the Islamic Banking Regulatory Framework back in December last year. As the final country in the GCC to pass legislation allowing Islamic finance, Oman’s prospects of expanding into the Islamic banking industry is viewed as credit positive for the country’s banks.

In a report by Moody’s entitled ‘Islamic Banking in Oman: Solid Growth Prospects Moderated by Industry Challenges’ the ratings agency notes that the Islamic banking industry in Oman is expected to diversify revenue generation expected to face sizable costs in establishing new franchises and build operational risk management infrastructures which ensure Shariah compliance. The industry will also be exposed to risks related to liquidity management in view of the dearth in domestic Islamic instruments.

Khalid Howladar, a vice-president and senior credit officer at Moody’s and one of the authors of the report, explains to Islamic Finance news that amid a broadly improving operating environment and strong government support for the industry, the market outlook of Islamic banking in Oman and the GCC remains positive. In light of the volatile financial markets in the GCC, Khalid says: “The increased political risk in the region is also pushing up oil prices and this will in turn improve liquidity in the system.”

Taking into account Oman’s projected growth margin, he further believes that the market share of Islamic finance assets in the GCC will increase in the next five years as the industry has room to grow most in the particular region. Islamic assets in GCC countries currently account for 15-50% of the total banking system assets. (9) — NA

Issue now, bankers urge players

A weak foreign currency, expensive pricing and spiking yields do not bode well for the corporate bond and Sukuk issuance market, say Malaysian bankers, as the effects of an unhealthy outlook on Malaysia by foreign rating agencies and the depreciation of the ringgit have prompted an increase in yields for Malaysian government securities (MGS) and a sell-off by foreign investors who are said to hold up to 50% of these papers.

Since the 22nd May, the ringgit has declined by 8% and is currently ranked the third-worst performer among Asia’s 11 most traded currencies, based on data by Bloomberg. In August, the ringgit experienced a 1.2% drop, making it the fourth consecutive month in which it has seen a dip. However, speaking to Islamic Finance news, a Malaysia-based debt capital markets expert said that the exchange rate depreciation alone has not affected private debt securities, but instead the market has seen its spillover effects into pricing and yields, which have increased to “unusual” levels. These are expected to put a damper on the issuance market.

"Already we have seen corporate bond and Sukuk issuances at lower levels compared to last year, and the markets are currently very expensive for issuers. This is not only for the ringgit market, but in the global markets as a whole. International markets are currently very choppy on the back of Ben Bernanke (the chairman of the US Federal Reserve)’s statement last month. The deals by Malaysia Airports and Prasarana which were concluded last week also saw the issuers dealing with yields and pricing much higher than what they are used to,” he said.

One of the ways Indonesia has dealt with its weakening currency, the expert said, is through the raising of its overnight policy rate. “The Indonesian government increased their overnight policy rate by 50bps and as interest rates went up, people became interested in putting money into the republic again. This could be something that Bank Negara Malaysia might propose at the next monetary policy meeting,” he added.

Fluctuations in sentiment and a relatively dour mood in the global financial markets are not expected to abate as the year comes to an end, which is why bankers are currently encouraging issuers to come to the market as fears of worsening market conditions might materialize. “We don’t know what might happen towards the end of the year, and early next year for that matter, and issuers don’t know what is going on in both the ringgit and dollar markets; which is why we are encouraging issuers to take advantage of the current situation before it becomes more expensive to issue,” the expert said. (9) — NH
Kinsteel in bad shape

Malaysia-based steel manufacturer Kinsteel, which has two Islamic facilities worth RM100 million (US$30.56 million) each, is said to be facing cashflow pressures as its financials deteriorate and concerns arise over its immediate cash position.

Analysts at RHB have said that the group is currently facing financial distress and the market is concerned about its short-term cash position in light of a series of repayments totaling to RM100 million (US$30.56 million) due this week.

As at the 30th June the steel maker, which is owned by the Pheng family and has a 37.34% stake in Perwaja Holdings, had RM2.05 million (US$626,094) in cash and bank balances. The group has since proposed a private placement of 104 million new shares to raise approximately RM30 million (US$9.16 million). In addition to its cashflow concerns, the entity also faces summons from national oil and gas provider Petronas and electricity supplier Tenaga Nasional for unpaid bills worth RM304 million (US$92.84 million).

Although analysts have declined to comment on any possibilities of a default on its outstanding debt, Kinsteel’s weak financial position was reflected in MARC’s recent downgrade on its RM100 million (US$30.56 million) Murabahah commercial papers and RM100 million (US$30.56 million) Murabahah medium-term notes program to ‘CID’ and ‘BB+ID’ respectively. The ratings have been placed on MARCWatch Negative. — NH

Shariah screening: More than just lip-service

Every Islamic index uses a difference screening process and while these retain common characteristics, they can vary significantly in their classifications. So while investors might view all indexes classified as ‘Islamic’ as generally equal in terms of compliance, the classifications an index uses can be a bigger factor than you might think in both its performance and its attitude towards the Shariah.

Most Shariah indexes exclude businesses who trade in alcohol, gambling, non-Halal meat (pork), tobacco and interest-based financial services. Some indexes, such as the S&P family, also screen against what it perceives as nonethical scientific and business activities such as genetic cloning, media and advertising and previous metal cash trading (although they do permit news and sports channels and media and advertising companies which derive more than 65% of their revenue from GCC countries).

However, there are some classifications in which indexes can diverge considerably, due to the cloudy nature of their Shariah compliance. For example, the classification of arms dealing and weapons or defense manufacturing firms is often treated with ambiguity. Most index providers exclude the sector altogether, following the stance of the FTSE (and its Shariah consultant Yasaar) that the industry is not compliant with Shariah. However, S&P and its supervisory board in comparison believe that weapons are permissible when used for self-defense but non-permissible when used in situations of unprovoked aggression: therefore the weapons themselves are neutral and their manufacture is permissible. The ethical basis of this may seem less than stable, but it does allow the index to track high-performing defense firms that may improve its overall performance.

Accounting and financial screens are another area which can see a differing approach. Usually the constituents of an index are subject to a number of financial ratios which they must pass: such as a low level of leverage (to exclude highly indebted companies) and a low level of interest-based income (usually under 5%). However some indexes are more strict on these than others. For example, MSCI analyzes total debt over total assets, as well as cash and interest-bearing securities over total assets and account receivables and cash over total assets, and excludes any firms that have ratios higher than 33.33%.

On the other hand, many indexes are happy to allow manufacturing firms such as IBM and Apple, which have a high proportion of their own assets placed in interest-bearing accounts and instruments. How is this reconcilable with Shariah? Only the investor can make the choice, but it is worth noting that investors themselves are not always aware of the differences.

Nonetheless, the impact of screening on stock selection can have an impact beyond that of comfort in Shariah compliance. The screening methodology can in fact have a significant effect on index performance. According to Simon Smith of ETF Strategy, excluding alcohol and tobacco companies will usually increase the beta of an index as these are “core consumer staples with dependable revenue streams”, while removing media and advertising firms from the index may lower its cyclicality.

However, the exclusion of major industries such as tobacco, gambling, defense and alcohol conversely can reduce political risk, as these industries are often subject to a significant degree of government control or intervention; while the financial screens and exclusion of high-leveraged companies will give any portfolio tracking the index a lower financial risk and better credit factors. — LM
Resurgence of the Afghan silk route?

Afghanistan has seen significant improvements recently in the areas of security, health, education and banking, with the enactment of a whole raft of laws over the past decade changing the face of the legal landscape and regulatory framework. But are these sufficient to assist the country in its aim of becoming a strong banking and Islamic finance center? SYED SIDDIQ AHMED explores.

Legal and regulatory: New laws and regulations have paved the way for the establishment of many banks and financial institutions. Currently out of 16 licensed financial institutions, six institutions provide Islamic financial services to the Afghan population. The Islamic Banking Division - Financial Supervision Department of the central bank, Da Afghanistan Bank (DAB), oversees the Islamic banking activities in the country.

With more than 24.2% of the country’s GDP, the Afghan banking sector has made substantial progress in its size and coverage. While there have been recent amendments to the Banking Law by the Afghan parliament, the Supreme Council of DAB has also submitted the final draft of the Islamic Banking Law to the Ministry of Justice. A draft law on Afghan Deposit Insurance Corporation (ADIC) has also been sent to the Ministry of Justice for their comments and approval. The DAB Supreme Council has also approved amendments to the money services regulation.

Business environment: While Afghanistan has made headway in terms of economic stability and infrastructure development, the country is yet to build confidence for foreign investors and fully address its security concerns. Afghanistan has immense wealth in natural resources and the economy has large base of small-scale businesses. It has been working for some time now on its efforts to rebuild the country and reduce unemployment: with some major national construction projects including the US$35 billion New Kabul City, Ghazi Amanullah Khan City and Aino Mena in Kandahar. The infusion of large amounts of capital in the form of international aid has also played a significant role in the revival of its economy.

Total banking assets of Afghanistan as at June 2012 were US$4 billion. The total assets of the Islamic banking sector rose to US$170.6 million in June 2013 from to US$154.9 million as at the end of 2012 (from US$145.0 million in 2011). Islamic banking activities have seen a gradual increase on both sides of the balance sheet; however the asset side struggles to carry out the required financing activities. Some of these banks tend to rely on international Shariah compliant instruments for their profits.

DAB established the Afghan Institute of Banking and Finance (AIBF) for capacity building and human capital development both for Islamic as well as conventional banks. DAB has also established the Microfinance Investment Support Facility for Afghanistan (MIFSA) to support the activities of the microfinance sector. AIBF, however, runs through the support of organizations such as the World Bank and USAID. AIBF in October 2012 signed an agreement with Islamic Investment and Finance Cooperatives (IIFC) to train its staff in several provinces of the country.

<table>
<thead>
<tr>
<th>Islamic banking windows as at the 30th June 2013 (US$ million)</th>
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<td><strong>Total assets</strong></td>
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<td><strong>Term/Time deposits</strong></td>
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<td><strong>Saving deposits</strong></td>
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<tr>
<td><strong>Total deposits</strong></td>
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<tr>
<td><strong>Financing and investments</strong></td>
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*Source: DAB*

The government of Afghanistan recently announced that it is planning to sell Islamic compliant bills. The state has also shown interest in offering long-term maturity Sukuk in the near future.

Opportunities: With a Muslim population of about 99%, Islamic finance has huge potential in commercial banking, SME financing, microfinance and Takaful areas. There is a keen desire for Islamic banking among the general population, which otherwise remain unbanked due to the religious reasons. Government initiatives through the enactment of enabling legislations will give a boost to Islamic finance in the country.

Substantial opportunity exists in offering financial intermediation and project financing for infrastructure development in the country. Being a landlocked country; Afghanistan has vast potential in air and other road transportation projects. Islamic trade finance activities can be undertaken with neighboring countries reliant on exports from Afghanistan. There are also considerable prospects for financial institutions to expand their footprint away from Kabul and other major cities into smaller cities and towns.

Challenges: Afghanistan faces challenges in terms of its credibility in enforcing the banking laws. Following the notorious Kabul Bank’s corruption case, which misappropriated about US$900 million of depositor’s funds, the international community has yet to regain confidence in the Afghan banking system. There are accusations that money laundering and terrorist financing laws are not strictly enforced, and there is a lack of professional capacity among domestic players. A shortage of trained human capital in line with the development of the Islamic finance industry in the republic is also a cause of concern.

In a recent move German bank Commerzbank, which provides dollar correspondent accounts to almost all the Afghan banks in the country, has said that it will sever ties with them if they do not open respective dollar accounts with US banks. Incidences like these raise doubts regarding the integrity and influence of Afghan banks on the global banking industry.

Outlook: Government and regulatory authorities have done an admirable job in carrying out their mandate to reduce dependence on foreign aid and to take Afghanistan on a progressive path. However, given issues like the high employment rate, security, contraband drug activities and a housing crisis, Afghanistan’s banking industry still faces an uphill struggle to clear allegations and prove its resilience not only to the Afghan public but also to the outside world.
Islamic REIT yet to scale up

Real estate is one of the most commonly utilized asset classes in Islamic finance. Whether in Sukuk, real estate funds, Islamic investments or any other securitization products or offerings, the presence of property provides convincing justification for a product to be Shariah compliant. SYED SIDDIQ AHMED discusses.

Islamic finance, which emphasizes the importance of the real economy and underlying real assets, has long regarded real estate as one of its pivotal asset classes with which to structure its products and income strategies. The real estate sector’s close alignment with the economy acts as an anchor to the financial sector both in times of boom and bust. Islamic real estate investment trusts (REITs) have grown to become one of the most appealing asset classes for Shariah compliant income-focused investors and portfolio managers.

Market developments: According to Eurekahedge there are 46 real estate Islamic funds in the global market today. While the majority of them are domiciled in the Cayman Islands (11) and Kuwait (nine), there are four real estate funds that are listed in Saudi Arabia and four in Bahrain. While the Malaysian market has listed two i-REITs on its bourse, namely Al-‘Aqar KPJ REIT and Al-Hadharah Boustead REIT, Emirates REIT is the GCC’s first i-REIT. As of May 2013, Emirates REIT has assets under management (AUM) of more than AED740 million (US$201.4 million).

As at June 2013, Singapore’s Sabana REIT is the world’s largest listed Shariah compliant REIT, both in terms of market capitalization and total assets, which stand at approximately SG$749.3 million (US$587.7 million) and SG$1.2 billion (US$940 million) respectively. The Sabana REIT gave an annualized distribution of 7.55% and 7.96% in the second quarter of 2012 and 2013 respectively. Its debut in the Singapore market in November 2010 which raised SG$664.4 million (US$539 million) in the IPO was oversubscribed by 2.5 times.

Opportunities: Since REITs are characterized by paying out at least 80-90% of the income as dividends, investors can diversify their investments in REITs, making their portfolios more income-generating. In light of the current overall global financial situation, investors with less risky financial objectives may opt for REITs either individually or through real estate mutual funds. Being Shariah compliant investments, i-REIT stakeholders can explore new opportunities and aim to acquire specialized property areas such as auto dealers, shopping yards, prisons, parking lots etc.

Islamic REITs offer attractive yields which are often a major incentive for many Shariah compliant investors, particularly for people near or in their retirement years. The scarcity of investments with good yields makes REITs more desirable. With the growing popularity of the ethical funds, the US and European markets have also explored the opportunity to invest in Islamic funds and i-REITs could be a popular choice of investment. They may be especially attractive to baby boomers that are looking for relatively safer investments with a high dividend payouts.

Given the open-ended characteristics of REIT shares, they can be easily traded on the stock market and provide greater liquidity for investments. Jurisdictions such as Malaysia have tax benefits for i-REITs, especially if the dividend payouts are not less than 90% of the REIT’s taxable profits. Investments can also be made by small and retail investors who are able to access property markets of different regions through the purchase of shares in REITs which have property ownerships across continents.

Challenges: Real estate companies and institutions that are involved in i-REITs have small or limited number investment-grade assets or the assets are not suitable to be converted to i-REITs. Non-Muslim owners of investment-grade real estates might not be motivated to go for i-REITs, especially when the occupying tenants contribute substantial income from their rentals, but run activities which do not comply with Shariah. Shariah compliance of the REIT on an ongoing basis can also pose a challenge. Shariah restrictions in i-REITs may weigh them down in competing with non-i-REIT instruments where such restrictions are absent. For example, rental income from non-permissible activities must not exceed 20% in a Shariah compliant REIT. i-REITs may also be perceived as meant for Muslims only.

There is a need to arrive at global consensus on regulations for Shariah compliant REITs which in reality might be a challenge, but given the existing Islamic regulatory frameworks in developed Islamic markets there might be a window of opportunity. Similar to many investment grade Sukuk, i-REIT may also be subject to the practice of ‘buy and hold’ by investors.

Outlook: Notwithstanding the slow growth of i-REITs in recent years, a boost in real estate, construction and other related sectors may provide much-needed momentum. With the UAE and other real estate markets regaining their growth, the outlook for Shariah compliant REITs seems positive. Standardization of regulations and structures of i-REIT may provide a huge impetus for developing the i-REIT market across jurisdictions, including the US which contributes a lion’s share of 72% of the global REIT market. While there are developments in i-REIT structures such as stapled-REITs and hybrids of equity and mortgage REIT, the need for innovation and fine tuning of the regulations cannot be overemphasized. Given the benefits that i-REITs have to offer, the potential of the instrument has yet to be realized both by investors and other stakeholders.

Figure 1: Real estate Islamic funds by region (As at the 30th August 2013)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>9%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>2%</td>
</tr>
<tr>
<td>Europe</td>
<td>9%</td>
</tr>
<tr>
<td>Middle East/Africa</td>
<td>43%</td>
</tr>
<tr>
<td>Global</td>
<td>17%</td>
</tr>
</tbody>
</table>
Recent Islamic finance developments in Russia

Following the first Islamic finance deal of a syndicated Murabahah, and the opening of the first Islamic window at Elips Bank, the Russian market has seen a spate of interesting new products. ROUSTAM VAKHITOV looks at the key areas in which Islamic finance industry is finally developing in one of the world’s biggest markets.

A new project, launched in the second half of 2012, was the first Shariah compliant insurance service (Takaful) in Russia. The insurance company Euro-policy began selling Shariah compliant insurance policies in Kazan, the capital of Tatarstan, touted as one of the brightest Islamic centers in Russia with a high ratio of ethnic Muslims in its population.

Euro-policy now offers a limited number of products (in comparison with conventional insurance companies) including comprehensive motor coverage, world traveler insurance and property insurance (for both individuals and companies). World traveler insurance and comprehensive motor coverage are reportedly the two most popular products with customers. In the near future, the insurance company also hopes to obtain a license to provide the population with obligatory motor insurance.

The company has adopted “the provisions of the Shariah council”, however it has not been reported whether a proprietary Shariah council has been formed. The AAOIFI standard on Takaful was used as the basis for the provisions.

Euro-policy originally planned to sell at least 150 insurance policies, and since this target has been reached, the company has been even more optimistic on the future of Islamic insurance in Russia. Renat Bekkin, the Shariah advisor of the insurance company, is responsible for Shariah supervising control and the enhancement of new Takaful-based products. He feels confident about the future of the project but admits that the product range is below market level — partially due to the fact that the insurance rules and standards of the Russian Federation impose limitations on the use of insurance funds for investment purposes (for example, in some circumstances the funds can only be invested in a limited number of finance instruments, which may be not Shariah compliant) while on the other hand, Shariah also limits the use of the Takaful fund resources.

Another major problem, according to Bekkin, is the absence of a developed Islamic banking sector in Russia. However, with the emergence of more Islamic banking projects, the problem is losing its urgency. Moreover the Islamic banks themselves also depend on the Islamic insurance.

Local authority incentives
Recent months have marked a high level of involvement by local governments in Islamic finance projects. SmartCity, the largest and most ambitious project to develop a business suburb in Kazan, was presented to the president of Tatarstan in July 2012 and upon approval was successfully promoted to investors. SmartCity aims to create a regional and international business hub in Tatarstan, as well as becoming a major exhibition and conference center. It is hoped that Islamic finance will be one of the major sources of financing for this project. The project has a significant Malaysian presence: with AJM Planning, Urban Design Group and Amanah Capital Group all participating. From Tatarstan’s side, the project is supported by Tatarstan Investment Development Agency and JSC ‘Tatarstan Development Corporation’.

Future developments
Over 2011-12 Russian financial institutions, businesses, government agencies and the population itself have become more and more involved in Islamic finance projects.

So far Islamic finance projects in Russia have not faced any intentional prohibitive measures. The major restrictions are to be found in banking and insurance rules and standards. However these restrictions are rationalized by the authorities as necessary in order to minimize possible frauds in the conventional banking system of Russia. The system itself was established only in the 1990s so it has not had enough time to develop and fraud still takes place, albeit at a lower rate than previously.

In order to further propel the development of Islamic finance in Russia, the following are required: a) facilitation and assistance to businesses which are willing to be involved in Shariah compliant activities; b) knowledge dissemination; c) efficient cooperation with investment banks and funds prepared to invest in such projects; and d) efficient instruments of selection of attractive investment projects, ready to structure them in a Shariah compliant way. In any case, the Islamic finance sector continues to grow from standalone deals into a niche market, potentially available to a larger number of domestic businesses.

Following the success of Islamic windows in Kazan and Ufa, it is expected that in the future we will see the opening of Islamic windows in Moscow. Within Russia, it is reasonable to expect that not only Tatarstan and Bashkortostan but other Russian regions, including non-Muslim parts of Russia, will become more involved in Islamic finance projects as well.

Two local banks in Tatarstan, one of which is Tatagroprombank, recently announced programs related to Islamic finance. Tatagroprombank announced a program of implementing Islamic trade finance products; while another Tatarstani bank intends to execute an Islamic finance program worth US$100 million. The program is focused on financing local Shariah compliant projects using Islamic finance instruments.

Following Russia’s WTO accession in 2012, the Russian market has become more open to foreign products and services, so more Halal products and services may be imported. The banking restrictions are also to be liberalized.

Overall, the Russian business community and retail customers will receive access to a larger volume of products and services, while foreign players have become more active in the Russian market and may enter it with retail services in the coming years. 

Roustam Vakhitov is a partner and the head of tax at Baker Tilly Tax Service. He can be contacted at Roustam.Vakhitov@bakertilly.ua.
Challenges of screening Sukuk

In previous articles IdealRatings have presented the fundamentals of Sukuk Shariah screening and the challenges facing it today. In this article, GHADA ESSAM presents a few more controversial issues in Sukuk structuring that remain outstanding, unclear and elusive to many Sukuk market practitioners.

What once was unclear and debatable can be resolved after many rounds of discussion, justification and proofing. However, another set of more sophisticated structural issues then evolves to replace the prior set. This process is continuous and will always be so as long as there is innovation in Islamic finance.

The first issue we present in this article is the combining of purchase and sale undertaking in Sukuk contracts. The purchase undertaking is, by definition, the originator’s promise to Sukukholders to buy back the underlying assets any time at their discretion, whereas the sale undertaking is the promise by Sukukholders to sell the assets back to the originator anytime at his discretion.

So eventually, via either undertakings, the outcome is the same: which is the return of ownership of the assets back to the originator (original owner).

In screening Sukuk compliance, we have found many controversies and a dozen of opinions over the discussed issue. Some fully disagree, as in their view it would incur Inah. Others drift from the Inah perspective to a concern over combining binding contracts and hence their emphasis is rather on whether or not the undertakings are bilateral binding. Are both undertakings signed by both the promisor and promisee? Or does each of them sign only the contract they are bound to?

A middle view allows the combination of the undertakings provided they utilize different trigger events. That is, the enforceability of both undertakings is not tied to the same conditions such as dissolution date, tax event, early redemption and change of control. It is worth mentioning, however, that using total loss as a condition of enforcement is refuted by all scholars without exception, since it would then become an explicit unconditional guarantee of the assets.

Empirically, very few Sukuk structures do not use any undertaking and have structured other mechanisms for liquidation such as Sukuk Tasnee and Sukuk Al-Marai. On the other hand, the majority of Sukuk utilize at least one undertaking, or use both with different trigger events: such as issuances from the government of Dubai, Qatar Islamic Bank and Saudi Electricity’s global Sukuk. A very limited number of Sukuk utilize intersecting trigger events — such as Dana Gas, Emaar Sukuk 2016 and Turkiye Finans 2018 — and despite the consensus on the impermissibility of enforcing any of the undertakings in a case of total loss, there also remain a few Sukuk with such condition.

The second controversy to discuss is the ‘asset substitution undertaking clause’, sometimes called an ‘in kind’ exchange of assets. By definition this is a promise by which Sukukholders are bound to exchange with the originator the underlying assets with other assets that are at least of the same value and also Shariah compliant. In other words, the asset substitution undertaking is an asset-exchange option at the full discretion of the originator throughout the tenure of the Sukuk.

The first challenge that IdealRatings team met in screening this clause was that it is not commonly recognized by market practitioners, nor is it among any of the standards of AAOIFI, the Securities Commission of Malaysia or the IFSB. The IdealRatings Sukuk team decided to take the issue to prominent Shariah scholars and experts in Saudi Arabia, the GCC and Malaysia and have reverted back with varying opinions: including an absolute refutation, an approval and a conditioned approval, with significant supporting proofings for each.

Having applied the varying scholars’ opinions, our analysis has shown that 18 international Sukuk issuances from prominent GCC originators would disqualify it from the investment universe, when adopting the refusing view. In other words, the asset substitution undertaking clause is the sole reason these Sukuk are disqualified from the investment universe of the largest two Islamic wealth management institutions in Saudi Arabia whose Shariah boards have refuted the clause completely.

The asset substitution undertaking clause is the sole reason these Sukuk are disqualified from the investment universe of the largest two Islamic wealth management institutions in Saudi Arabia

Scholars from Malaysia and the GCC, on the other hand, have accepted the use of the asset substitution undertaking clause provided the assets are in a state of economic use (not in total loss), as illustrated and justified in the Shariah pronouncement of global Sukuk Wakalah.

In fact, some scholars have argued further that it is necessary to utilize such mechanisms in Sukuk structuring to be able to validate the Sukuk portfolio throughout the tenure of the Sukuk, particularly Sukuk with underlying assets such as equities, leases and mortgage contracts.

Their argument is that only through such an option/mecahnism can Sukuk managers exchange non-compliant equities with a compliant portfolio, and exchange maturing lease or mortgage contracts with other new contracts to keep the outstanding value of the Sukuk portfolio constant throughout its tenor.

continued...
The empirical analysis of these varying opinions shows that the number of disqualifying Sukuk by the total loss condition is very few compared to disqualification by absolute refutation, standing at five and 18 respectively.

Another argument arises on the guarantee of insurance payments, when a Sukuk manager, whether a lessee or a Wakeel, guarantees the full re-instatement value of the assets should the insurance operator for any reason evade or delay payment. This is a practice refused by most scholars, who instead insist that the guarantee should be conditioned by negligence of the Sukuk manager in performing his duties. While that sounds reasonable in theory, it is in practice almost impossible to assess the negligence of the Sukuk manager.

Similar to previous issues, through screening hundreds of Sukuk, the IdealRatings Sukuk team concluded three models for this issue. Some Sukuk issuances do condition the guarantee of insurance payments to a proved case of negligence by the manager, and apart from that, the manager is deemed not liable.

Another model phrases the guarantee unconditionally, while in the third model the matter of insurance payments and insurance shortfalls is not covered (disclosed) in the offering circular. Typically the permissibility of each of the three models is subject to the mandate of each Shariah board.

More issues are still in the queue, and so as long as Islamic finance exists and is in demand, more issues will evolve; as practitioners, regulators and arrangers innovate new Islamic financial instruments and new structures to elude prohibitions. These innovations on the other hand are challenged by the universe of specialized scholars, which is not only broadening but also deepening its expertise every day. Eventually, it is the duty of the regulators and scholars to exert significant efforts and genuinely cooperate to shorten the gap between compliance and innovative structuring.

Ghada Essam is the Sukuk product manager at IdealRatings. She can be contacted at gessam@idealratings.com.

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- Understanding the various standards and codes of important industry standard setting bodies

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CASE STUDY

Turkey’s third local market Sukuk issuance

On the 21st August, the Turkish treasury successfully sold a Sukuk Ijarah worth TRY1.81 billion (US$894.47 million) receiving strong demand from investors and was able to satisfy the intended issuance size. The lease certificates were sold via a direct sale method, open only to Turkish banks. Although most investors that attended the bid were local, foreign investors were also able to partake in the issuance through the Turkish banks which were involved. Demand for the paper was not only received from participation banks but also from conventional banks.

"This figure signifies the success of the issuance and the development of the Islamic finance market in Turkey"

Speaking to Islamic Finance news, Taskin Temiz, general director of public finance in the Turkish treasury said that the treasury managed to obtain the largest amount of proceeds from a lease certificate issuance in the local market. The TRY1.81 billion issuance was higher than the previous two Sukuk deals sold in the Turkish market. “Considering current market conditions, this figure signifies the success of the issuance and the development of the Islamic finance market in Turkey,” said Temiz. The deal was a standalone issuance, being part of Turkey’s 2013 Financing Program which commenced in October 2012.

Proceeds from the Sukuk will be used for budget financing purposes by diversifying borrowing instruments, expanding the investor base and increasing domestic savings. The Sukuk Ijarah structure remained as the preferred choice for the issuance due to its wide acceptance among core Sukuk investors. Carrying a maturity period of two years, the certificates are governed by the laws of the Turkish republic and will be due on the 15th August 2015. The lira-denominated issuance is traded on the Borsa Istanbul and fixed at a 4.5% yield, payable every six months.

In line with its announcement of two Sukuk issuances per year, this particular deal marks the second issuance from the Turkish treasury. In a report by Kuwait Financial Center (Markaz), the last Sukuk issuance made by Turkey was in February worth TRY1.52 billion (US$751.15 million). The sovereign first entered the market in September 2012 with a US dollar-denominated lease certificate which raised a total of US$1.5 billion, followed by a TRY1.6 billion (US$790.69 million) lira-denominated Sukuk issued a month later.

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Bangladesh reaches a new peak in financial inclusion

By Md Shamsuzzaman

Bangladesh is the second-best South Asian country at ensuring access to financial services for its citizens. A recent UKaid-funded study by Institute of Micro Finance found that around 66% of households now have access to financial services including savings, credit and insurance from banks, micro-finance institutions and cooperatives.

The study unveils the following:

Access to any financial services 76.77%
Access to credit facility 54.12%
Access to savings 56.53%
Access to insurance services 11.1%

Bangladesh comes second only to Sri Lanka, where 80.4% of the population is covered by the financial umbrella, in contrast to only 48% of households in India and approximately 60% in Pakistan. Bangladesh also tops the table when it comes to micro-finance penetration across Asia, as shown in Figure 1 and 2.

It is evident that 23.23% of the nation’s households do not have access to any financial services, either formal or quasi-formal. The formal financial market consists of banks and financial institutions whereas the quasi-formal market comprises of micro finance institutions and co-operatives.

Bangladesh Bank, the central bank, has been providing a big thrust to financial inclusion over the last couple of years through mobile banking, school banking and extending facilities to farmers and freedom fighters of the country.

Meanwhile mobile banking has received popularity for its easy payment services. Some 3 million customers now use mobile banking services involving average daily transactions of US$4.5-5 million, according to data from the central bank. Presently, the market for mobile financial services is being captured by ‘mcash’ of Islami Bank, ‘bkash’ of Brac Bank and Dutch Bangla Bank.

In recent years, accounts opened by farmers have reached a high of about 9.58 million, as the central bank has placed emphasis on reaching out to unbanked growers. Beneficiaries of the government’s safety net program have opened 2.58 million accounts while freedom fighters have opened 1.08 million accounts. Under school banking schemes, 180,000 accounts have been opened by school children.

According to a Global Findex report, 40% of Bangladesh’s adults have accounts with formal financial institutions: whereas in India it is 35%; Pakistan is at 10% and Sri Lanka records the highest level with 69%.

Md Shamsuzzaman is the executive vice-president of Islami Bank Bangladesh. He can be contacted at zaman.jbbl@gmail.com.

Figure 1: Micro finance penetration in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Micro finance penetration (%)</th>
<th>Coverage of poor families (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>43</td>
<td>52</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>7</td>
<td>29</td>
</tr>
<tr>
<td>Vietnam</td>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td>Cambodia</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Nepal</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Figure 2: Financial services penetration in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Access to financial services (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>76.77</td>
</tr>
<tr>
<td>India</td>
<td>8.31</td>
</tr>
<tr>
<td>Nepal</td>
<td>27.63</td>
</tr>
<tr>
<td>Pakistan</td>
<td>59.88</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>80.04</td>
</tr>
</tbody>
</table>

IFN Country Correspondents

AFGHANISTAN: Zulfiquar Ali Khan
head of Islamic banking division, financial supervision department, Da Afghanistan Bank

AUSTRALIA: Talal Yassine, managing director, Crescent Wealth

BAHRAIN: Dr Hamid Al-Talib
director, Islamic Finance Knowledge Centre, Deloitte & Touche

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BELGIUM: Prof Laurent Martelie
CEO, ISFBN

BERMUDA: Belaid A. Bruegner
director of asset management, PwC

BRUNEI: James Chiew Swye Hua
service partner, Akbarhamezham Davies & Co

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

CZECH REPUBLIC: J. Dr Ivana Holickyova,
judge, judiciary, Appellate Court Pardubice

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Kader Merbouh
co head of the Executive Master of the Islamic Finance, Paris-Est University

HONG KONG & CHINA: Anthony Chan
New Line Capital Investment Limited

INDIA: H Jayesh
founder partner, Juris Corp

INDONESIA: Faeczi A. Alfizri
chairman, Centre for Islamic Studies in Finance, Economics, and Development

IRAQ: Majid Fares
Islamic finance expert, SEO

IRAQ AQ: Khlaed Saqag
partner and head of Jordan & Iraq offices, Al Tamimi & Co

IRELAND: Ken Owens
Sharifah funds assurance partner, PwC Ireland

JAPAN: Sardar A. Bawara
president, Japan Islamic Finance

JORDAN: Khlaed Saqag
partner and head of Jordan & Iraq offices, Al Tamimi & Co

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Sakhe
partner, Al Tamimi & Company

LUXEMBOURG: Marc Theisen
partner, Theisen Law

MALDIVES: Aashith Mumeza
head of Islamic finance, Capital Market Development Authority

MALTA: Rhuan Bittichtig
president, Malta Institute of Management

MAURITIUS: Samier K. Tegally
associate, Conyers Dill & Pearman

MOROCCO: Mohamed Boulif, principal consultant, Al Maii Islamic Finance Training and Consultancy

NEW ZEALAND: Dr Mustafa Farouk
counsel member for Islamic financial institutions, FIANZ

NIGERIA: Azwaah Ado
Sharifah auditor, Jaiz Bank

OMAN: Anthony Watson
senior associate, Al Beady Mansoor Jamal & Co

PAKISTAN: Bilal Rasul
director (enforcement), SEC of Pakistan

PHILIPPINES: Rafael A Morales
managing partner, SyCip Salazar Hernandez & Gatmaitan

QATAR: Amjad Hussain
partner, Khalid, Gates

RUSSIA: Rozsami Vakhtin
managing partner, International Tax Associates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

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partner, King & Spalding

SENEGAL: Abdoulaye Yenow
Islamic finance adviser, Africa Islamic Finance Corporation

SOUTH AFRICA: Anan Muhammad
CEO, First National Bank — Islamic Finance

SINGAPORE: Teo Wice
partner, Allen & Gledhill

SIERRA LEONE: Roshan Madewala
director/CEO, Research Intelligence Unit

SWITZERLAND: Khudasa Abdullahi
associate of investment banking, Faisal Private Bank

TAZANIA: Khalilah Abdallah
head of product development and Sharia compliance, Antioch Bank

THAILAND: Shah Fahad Youssufzai, vice-president and head of strategic marketing and product development, Islamic Bank of Thailand

TUNISIA: Karim Aouas
Managing partner, Smarteco

TURKEY: Ali Ceylan
partner, Baspinar & Partners

UAE: Moinuddin Malim
CEO, Mashreq Al Islami

UK: Karim Amous
co head of Islamic banking supervision, Faisal Private Bank

USA: Joshua Brockwell
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Md Shamsuzzaman is the executive vice-president of Islami Bank Bangladesh. He can be contacted at zaman.jbbl@gmail.com.

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Indonesian Islamic banking and micro-financial services

INDONESIA
By Farouk Abdallah Alwyni

Mulyaman D Hadad, the chairman of the newly-created Indonesian Financial Services Authority (known locally by the acronym OJK), recently suggested that the Islamic banking industry in the republic should broaden financial access to micro and small businesses in order to increase the market share of Islamic financial institutions and boost the overall Islamic economy.

He contended that activity to finance micro-businesses should not just be viewed as complementary financing but should be treated as a comprehensive Islamic micro-financial service combining financing and capacity building.

Islamic financial institutions are expected to not only provide financing to micro businesses, but also provide business knowledge and skills. Mulyaman contended that the measurement for the success in providing microfinance services should not only consider the amount of financing approved, but also the ability to enable micro businesses to improve their business capacity. He said that he has yet to see more concrete measures on this regard from Islamic financial institutions in the republic.

In an earlier statement the deputy governor of Bank Indonesia, Halim Alamsyah, also urged Islamic banks in the country to create more business cooperation with Islamic microfinance institutions or linkage programs. He confirmed that the government appreciates the importance of microfinance institutions to provide financial access to micro businesses, and highlighted the opportunity for Islamic banks to expand their market share through this avenue.

The potential market for micro and small businesses in Indonesia is large, with around two-thirds of the population estimated to earn less than US$2,000 per year. Micro, small and medium-sized businesses affect more than 150 million citizens, over half of Indonesia’s population of 240 million people. At the moment, the potential in the micro finance segment is mainly captured by conventional banks such as Bank Rakyat Indonesia, Bank Danamon, Bank Mandiri, and Bank Tabungan Pensiunan Nasional; all of which are among the most aggressive players in the industry.

The stated views of the financial authorities as noted above seem clearly to reflect the need for Islamic banks in the country to make more of an impact not only on the bottom line, but also to work towards a more positive impact in the society, as embedded in the spirit of Islamic finance.

Farouk Abdallah Alwyni is the CEO of Alwyni International Capital and the chairman of the Center for Islamic Studies in Finance, Economics, and Development. He can be reached at faalwyni@alwynicapital.co.id.

Islamic finance instruments supporting Turkish real estate industry

TURKEY
By Ali Ceylan

Real estate and Islamic finance instruments

The Turkish real estate sector is offering great opportunities for investors from all around the world. The sector has come to prominence in the last few years, and it is attracting a considerable number of investors around the globe, especially from the Gulf region.

Although there is a decrease in demand and house prices in Eurozone real estate market, Turkey is still promising. Construction activities have also significantly declined in both residential and non-residential buildings in Europe last year. This negative performance of the construction sector has had a notably adverse effect on the real estate sector.

Despite the situation in Europe, Turkey is now using Islamic finance instruments to boost its real estate sector. Furthermore it is not only Turkish finance institutions or the Turkish government who are making an effort to develop real estate projects. Foreign finance institutions such as Kuwait Finance House (KFH) are also entering the sector. Chief banking officer at KFH, Mohammad Al Fouzan, recently announced that a new, innovative Turkish real estate service has been launched by KFH.

He stated that the service will support KFH customers searching for properties in Turkey, providing assistance on negotiation of an acquisition price along with competitive Islamic real estate financing, and offering post-sales services, should investors need Kuveyt Turk to manage the properties in their absence.

In addition to supporting investors in the acquisition of property in Turkey, Islamic finance instruments such as Sukuk are being used for financing real estate projects. Sukuk Mudarabah were issued for the first time by both Aktif Bank and the Agaoglu Group of Companies to finance the Istanbul International Finance Center Project. This issuance carries a one-year maturity tenor and TRY100 million (US$50.34 million) nominal value. The issuance received an overwhelming demand, being oversubscribed to TRY300 million (US$151.03 million).

Second Sukuk issuance by the Turkish treasury

The Turkish treasury carried out its second Sukuk issuance on the 21st August 2013. It is announced that the demand for this issuance was TRY1.81 billion (US$911.24 million) and this demand has met expectations.

The treasury stated that the direct sale to banks method was used for the issuance. The lease certificates have a two-year maturity period and they will be due on the 19th August 2015. The lease certificate amount and the final lease payment will be made on the due date. The lease certificates have a 4.5% lease income to be paid every six months. Additionally, the lease certificates will be traded on the Borsa Istanbul Debt Securities Market.

Ali Ceylan is a partner at Baspinar & Partners Law Firm. He can be contacted at ali.ceylan@baspinar.av.tr.
PRIVATE EQUITY AND VENTURE CAPITAL

By Arshad Ahmed

If there is a sense that ‘developed markets’ such as the US and Europe have been risky and that emerging markets are relatively risk-free, that sentiment could not be more false than in private equity and venture capital. Market segments where enterprises enjoyed real growth were, and continue to be, relatively risky: whether in developed, emerging or frontier markets. The search for alpha is focused on the right strategy and thesis, not on simply being invested in the right market, geographically speaking.

Economists surmised that the US Federal Reserve (Fed)’s multi-year release of money supply — via an asset acquisition program known as quantitative easing — fostered the rise of relatively easy credit, resulting in cross-border debt arbitrage, not to mention higher public securities prices. When news of the Fed’s tamping down of its quantitative easing program became widespread a few months ago, it inevitably led to global investors’ reappraisal of their portfolio allocations toward emerging markets. The Fed’s reversal now is having a shrinking effect on simply being invested in the right market, geographically speaking.

Valuations artificially inflated by capital inflows occurred largely in public markets, as well as limited segments of private markets such as leveraged real estate. But private equity/venture capital (PE/VC) activity derives from a long-term orientation. This difference between liquid public markets and illiquid PE/VC markets is critical.

Though corporate Sukuk issuances have declined year-on-year, sovereign and quasi-sovereign Sukuk plans have been on the rise recently. Without doubt, investors realize that the fundamental economic factors underlying Muslim emerging markets such as Indonesia, Malaysia, Turkey and Saudi Arabia will not be heavily affected by this week (or this month)’s retreat of capital.

Demand in these Muslim emerging markets is growing organically, and granted that demand and investment may have enjoyed an unnatural boost these last few years, a greater shock than an incremental dampening will be needed to stymie the populace’s appetite for fueling growth of their respective SME sectors.

Arshad Ahmed co-founded Elixir Capital. He can be contacted at arshad.ahmed@elixiricap.com.

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IFN Sector Correspondents

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Potential market of the banking sector in Senegal

By Mansour Ndiaye

Senegal is divided into administrative regions; each is composed of three or four departments. The Dakar region has the largest number of departments and most of the companies are concentrated here. It is also home to 25% of the country’s total population. Its capital is the second-largest city with 15% of the population. According to estimates, 75% of the country’s economic activities are concentrated in Dakar and its neighboring region concentrate 80% of the country’s economic activities. The other regions account for a majority of small companies specializing in agricultural activities such as farming, fisheries, livestock and crafts.

A survey (2010) of the SME and micro-companies market divides these companies into four categories. The analysis reveals the following configuration of the fabric of SMEs. 20% of them are small private companies, 35% are small craft companies, 25% are emerging small companies and 20% are structured SMEs.

Among the global population of 9,107 SMEs and micro companies, 1821 SMEs are liable to get a loan from banks. The microfinance customers are estimated at 5,008 small private and craft companies, or 55%. Banks are competing with decentralized financial systems to provide services for the 2,277 emerging small companies.

According to investigations on the availability of funding, loans provided to companies are relatively homogeneous in financial institutions. As regards the banks, they are structured as follows: short-term loans, discount, advances on contracts, cash facilities, medium and long-term credits and other credits.

This trend is observed among microfinance institutions with a credit structure similar to the banks. As regards special funds like credit-leasing, only 16% of the banks offer them. Other financing instruments like venture-capital, factoring, treasury bills are virtually nonexistent. However, they are relatively common in other countries and are more suitable to financing SMEs, which reveals the shortcomings of financial institutions. In addition leasing, which is a very suitable tool to finance SMEs, is not yet well developed.

The survey shows that 70% of SMEs have never requested credit because they were skeptical about the outcome. Out of the 30% of SMEs which have made a request from financial institutions, only 20.53% have been successful. Overall, only 6.4% of SMEs have access to bank financing and more than 200 of them failed this year.

Mansour Ndiaye is the director of microfinance of Assistance and Consulting for Development. He can be contacted at mansour.ndiaye@gmail.com.
Meeting investors in Kuwait this week got me thinking again about the fundamentals that are driving the seemingly never-ending affinity that Islamic investors have with UK real estate.

To the casual observer it may look like it’s driven by ego, with a race to acquire the most trophies, whether the highest tower or the most famous department store. However, whilst the Qataris get significant publicity for their bold gestures with The Shard and Harrods, I still believe that it is a return on equity rather than a ‘return on ego’ that they are pursuing — it’s just that they have a 100-year business plan.

Real estate provides something tangible – and not just as somewhere to park your Lamborghini during London’s summer season. Property is viewed as a store of wealth that will always be there, and whilst such quantum of wealth will ebb and flow, with relatively low barriers to entry it has been a preferred choice for numerous wealthy individuals from across the world and across multiple faiths.

Because real estate is tangible and has a basic function as a building where people either live, work or play, it is easy to relate to. It feels familiar. It is this familiarity that continues to swell investment by Middle East investors across the UK. With so many investors having been educated in universities across the UK and perhaps in some small part thanks to Premiership football’s popularity, investors are increasingly aware of a world outside London and with this familiarity brings comfort in investing in perhaps less obvious sectors: whether this be Tadhamon Capital buying a special needs school in Hampshire, Gatehouse Bank advising clients on an Aberdeen office investment or 90 North acquiring student accommodation in Bradford.

However, familiarity only gets you so far. Let’s not forget a Land Registry that guarantees your legal title and a legal system that protects both landlords and investors. These might be boring items, but they provide essential differentiators from more exotic markets.

Such boring items also allow banks to be comfortable in extending finance for Shariah compliant transactions. While the credit crunch inevitably led to some names withdrawing from the Shariah market, I continue to be encouraged by new banks seeing the immense business opportunity that our Islamic finance industry offers. Whilst sourcing leverage can still not be described as being easy, it has returned to the traditional values of recognizing and building relationships, with a good range of Middle East, Malaysian, UK and German banks willing and able to assist.

**With so many investors having been educated in universities across the UK and perhaps in some small part thanks to Premiership football’s popularity, investors are increasingly aware of a world outside London**

Meanwhile, one certainty in UK life remains tax. The UK government has gone to great lengths to create a level playing field for Islamic investors, enjoying the rewards that such additional inward investment brings.

With these basic building blocks you need the professionals to cement them together, and this is where the Islamic finance business has blossomed over the last decade or so in the UK. There are now sufficient lawyers, accountants, surveyors and tax advisers familiar with the requirements and structures that this no longer need be an impediment to entry.

What is still in relatively short supply are the practitioners able to bring this all together and offer attractive, fully due-diligenced and structured investment opportunities. This is inevitable in a new industry, but is slowly being addressed thanks to education and growing awareness of the opportunities available.

One component that has been missing is a Takaful provider of suitable scale to insure the properties that are accumulating. I join the industry in wishing Cobalt Underwriting every success with its new business, providing relief to Shariah Boards and investors alike that this tough nut has now been cracked.

Whilst on the topic of pleasing Shariah Boards, it’s worth discussing the sometimes contentious and continued use of commodity Murabahah in real estate financing. With the Ijarah lease structure having been killed in the UK through the introduction of transfer tax on leases, it is tax that is also preventing moves towards a true property Murabahah. I came so close a few years ago to making this work, finding a bank willing to acquire the property in the first instance, but UK Value Added Tax killed it. So, whilst for the moment the commodity Murabahah remains the pragmatic solution, I sincerely hope that as an industry we can improve this in the future.

Having come so far so quickly, I’m sure that innovation will drive our industry forward, allowing more Islamic investors from across the globe to recognize what our island has to offer.

Philip Churchill is the founder partner at 90 North Real Estate Partners. He can be contacted at pchurchill@90northrep.com
New qualified investor exemption: An evolving UAE investment funds regime

In reaction to the ongoing Eurozone crisis there has been a significant increase in interest from foreign investment fund managers in targeting Middle East investors. A number of foreign promoters are now considering Shariah compliant funds in order to reach as wide an investor base as possible — and the UAE is often their entry point into the region. MUNEER KHAN and AHMED BUTT discuss the changes in the UAE investment funds regime that have accompanied this increased interest.

Most recently, the UAE Securities and Commodities Authority (SCA) introduced amendments to the UAE investment funds regulations which include a new exemption for certain qualified investors. Previously, the regulations applied to all promotion of foreign investment funds, irrespective of the sophistication of the targeted investor. The amendments came into effect on the 1st May 2013.

Qualified investor exemption
Under the new exemption, the private promotion of foreign investment funds to three categories of ‘Qualified Investors’ no longer requires the prior authorization of the SCA:

- Investment funds owned by federal or local government entities in the UAE;
- Entities with an objective or purpose to invest in securities, where the investment in the promoted foreign fund is made for their own account, not that of their clients; and
- Investment managers licensed by the SCA or the UAE central bank to manage investments, who are authorized to make and execute investment decisions.

The promoter must verify that the investor falls into a Qualified Investor category.

Reverse solicitation
Whilst the Qualified Investor exemption is the only formal exemption to the regulations, the SCA has also clarified in its declaration issued on the 18th April 2013 that the regulations do not apply in the case of reverse solicitation. This is where the sale of units in a foreign fund to an investor follows an unsolicited reverse enquiry by the investor to the relevant fund, its promoter or distributor outside the UAE for the purpose of investing in the fund. Such enquiries must be specific and relate to an individual fund. Evidence of enquiries should be retained by the promoter. Investors will be considered solely responsible for the risks of the investment following substantiation by the SCA that there was a reverse enquiry.

The introduction of the Qualified Investor exemption and the clarification in relation to reverse solicitation will no doubt facilitate the growth of the Shariah compliant funds industry in the UAE

Investment funds regulations
The current regulations relating to the promotion of investment funds in the UAE came into effect on the 27th August 2012, with the objective of protecting investors. In addition to regulating domestic investment funds, the regulations apply to the promotion of foreign investment funds in the UAE. Any promotion of investment funds in the UAE now requires prior authorization from the SCA unless it falls under the Qualified Investor exemption or follows an unsolicited reverse enquiry.

To promote a foreign investment fund to the public, the fund must be incorporated in a foreign country and regulated by an ‘equivalent authority’. The promoter must be licensed in its own country to promote public offerings. A list of equivalent authorities is to be published on the SCA website.

The regulations allow for the private placement of foreign investment funds upon prior authorization of the SCA. Private placement of foreign investment funds may be done through either:

- A local representative office of a foreign company provided that the fund, its representative or an entity licensed by the SCA to promote securities approves the promotion (in such case, the promotion is restricted to institutional investors and minimum subscription amounts of AED10 million (US$2.72 million) per investor); or
- A local placement agent licensed by the SCA (in such case promotion is restricted to direct contact with investors identified in advance and minimum subscription amounts of AED500,000 (US$136,094) per investor (or AED1 million (US$272,189) for funds incorporated in free zones outside the UAE).

The regulations were introduced as part of a long-awaited hand over of regulatory authority by the central bank to the SCA. The SCA also confirmed that it would not be inheriting the central bank’s ‘tolerated practice’ regime. In tandem with its counterparts in the region, the central bank had previously tolerated the discrete private offering of funds to a limited number of sophisticated investors continued...
in the UAE on a cross-border basis. All private placements now require approval by the SCA and the tolerated practice regime is defunct.

Promoters wishing to promote funds in the UAE can obtain application forms from the SCA website. The form must be completed in Arabic, but the fund’s offering documents may be in English and do not require translations. A number of documents must be submitted with the form, including a standard undertaking signed by the local representative office or the local placement agent.

**Investment management services**

Notably, the current regulations do not apply to investment management services. New investment management regulations are expected in late 2013 and draft regulations issued indicate that they will apply to those promoting investment management services (which could be undertaken outside the UAE) within the UAE. Foreign investment managers seeking to promote their investment management services within the UAE, in theory, need a licence from the SCA, necessitating application through a local branch and a bank guarantee in favor of the SCA. However, it is anticipated that a similar Qualified Investors exemption will apply to investment management services.

The introduction of the Qualified Investor exemption and the clarification in relation to reverse solicitation will no doubt facilitate the growth of the Shariah compliant funds industry in the UAE. From a foreign promoters’ perspective, the Qualified Investor exemption represents a welcome evolution in the regulatory regime. However, foreign promoters should take note that the burden to prove that a potential investor is a Qualified Investor rests with the promoter.

Muneer Khan is a partner, the Middle East head of financial markets and international head of Islamic finance while Ahmed Butt is Of Counsel at international law firm Simmons & Simmons. They can be contacted at muneer.khan@simmons-simmons.com and ahmed.butt@simmons-simmons.com, respectively.

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The growth figures for Asia are staggering, and nothing less than impressive. With economic recovery underway across the region, GDP growth is expected to average 6% annually across the ASEAN countries over the 2011-2015 period, and is expected to remain buoyant, despite the cacophony in the global financial markets. However, Asia’s position as an emerging market also places it in a Catch-22 situation; while growth is hard to be ignored, risk is equally high, and an unfamiliarity among the global financial community with the business dealings within Asia and a perceived disparity in business cultures and norms has somewhat created trepidation among investors looking to park their money in what seems to be the world’s most bustling region in terms of growth and issuer activity.

In terms of Islamic finance, market players are confident of key areas within Asia such as Takaful, capital market issuances, project and infrastructure financing, development of soft sectors such as IT and healthcare, and wealth management to name a few. And many are restless for the Islamic finance community to focus on this emerging market and tap the existing growth opportunities to further boost the industry’s position. Should Islamic finance successfully work in tandem with Asia’s growth story, there is no doubt that the market will eventually achieve what it has always sought - the elusive question of critical mass and secondary market deepening.

This event is open to all those who have an active interest in Islamic finance. Registration is FREE and successful registrants will receive a confirmation via email.

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### DEAL TRACKER

**ISSUER** | **SIZE** | **DATE ANNOUNCED**
--- | --- | ---
Kumpulan Wang Persaraan | US$100 million | 2nd September 2013
Malaysian Treasury | RM2.5 billion | 30th August 2013
Emirates Airline | US$4.5 billion | 29th August 2013
Societe Generale | RM1 billion | 26th August 2013
Malaysia Airports Holdings | RM2.5 billion | 16th August 2013
Dar Al Arkan | US$450 million | 14th August 2013
OCK Group | RM150 million | 12th August 2013
International Islamic Liquidity Management | US$490 million | 2nd August 2013
Government of Indonesia | IDR1.5 trillion | 1st August 2013
Genting Plantations | TRY1 billion | 16th July 2013
Syarikat Prasarana Negara | NGN10 billion | 22nd July 2013
Tenaga Nasional | IDR2.5 trillion | 18th June 2013
Sumatec | US$100 million | 24th June 2013
Al Baraka Bank Turkey | US$450 million | 21st June 2013
Perusahaan Listrik Negara | IDR2.5 trillion | 18th June 2013
General Authority for Civil Aviation | US$4 billion | 12th June 2013
Qatar Islamic Bank | US$100 million | 10th June 2013
Zain Saudi | SAR2.25 billion | 7th June 2013
EXIM Bank | US$1 billion | 3rd June 2013
Al Baraka Bank Islamic Bank | US$200 million | 20th May 2013
MMC Corporation | RM470 million | 15th May 2013
Puncak Niaga Holdings | RM165 million | 13th May 2013
Dubai Investments Company | US$300 million | 11th May 2013
Barwa Bank | TBA | 16th April 2013
International Islamic Liquidity Management Corporation | US$2 billion | 15th April 2013
National Shipping Company of Saudi Arabia | TBA | 12th April 2013
Dubai Investments | US$300 million | 11th April 2013

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**SEPTEMBER**

**Sukuk Instruments: Screening, Structuring and Shariah Issues**
- 5 September, CAIRO

**Advanced Sukuk and Islamic Securitization**
- 8-10 September, DUBAI

**Issues and Practices in Retakaful**
- 18 September, KUALA LUMPUR

**OCTOBER**

**Structuring Islamic SME Banking Solutions**
- 1-3 October, DUBAI

**Structuring Essentials for Islamic Infrastructure and Project Financing**
- 2-4 October, KUALA LUMPUR

**Islamic Treasury and Risk Management Products**
- 7-9 October, KUALA LUMPUR

**Islamic Fund and Asset Management**
- 10-11 October, KUALA LUMPUR

**Accounting & Financial Reporting for Islamic Hedging Products**
- 28-30 October, KUALA LUMPUR

**Shariah Audit and Compliance in Islamic Banking**
- 31 October-01 November, KUALA LUMPUR

**NOVEMBER**

**MIFT: Islamic Trade Finance**
13-14 November, KUALA LUMPUR

**IFB: Sukuk Instruments: Screening, Structuring and Shariah Issues**
18 November, RIYADH

**MIFT: Islamic Finance Qualification**
19-21 November, KUALA LUMPUR

**IFT: Islamic Project and Infrastructure Finance Structures**
23-25 November, KUALA LUMPUR

**MIFT: Shariah Audit and Compliance for Islamic Banking**
26-28 November, DUBAI

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**REDmoney Global Shariah Index Series (Large Cap) 6 Months**

**REDmoney Global Shariah Index Series (Medium Cap) 6 Months**

**REDmoney Global Shariah Index Series (Small Cap) 6 Months**

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**REDmoney Global Shariah**

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Once the index eligible universe is determined the underlying constituents are screened using a set of business and financial Shariah guidelines.

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**REDmoney Global Shariah Index Series**

For further information regarding REDmoney Indexes contact:

Andrew Morgan
Managing Director, REDmoney Group
Email: Andrew.Morgan@REDmoneygroup.com
Tel +603 2162 7800
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, global investing (which would focus on funds investing with global mandate instead of a specific country or geographical region), fund of funds, real estate as well as the Sortino ratio. Each table covering the duration, region, asset class and ratio will be featured on a five week rotational basis.

**Eurekahedge Islamic Fund Equity Index over the last 5 years**

![Chart showing index values from August 2008 to July 2013](chart.png)

### Top 10 Monthly Returns for Global Islamic Funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Manager</th>
<th>Performance Measure</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. AmPrecious Metals</td>
<td>AmlInvestment Management</td>
<td>22.16</td>
<td>Malaysia</td>
</tr>
<tr>
<td>2. DWS Noor Precious Metals - Class A</td>
<td>DWS Noor Islamic Funds</td>
<td>19.63</td>
<td>Ireland</td>
</tr>
<tr>
<td>3. ETFS Physical Palladium</td>
<td>ETFS Metal Securities</td>
<td>13.95</td>
<td>Jersey</td>
</tr>
<tr>
<td>4. ETFS Physical Gold</td>
<td>ETFS Metal Securities</td>
<td>10.24</td>
<td>Jersey</td>
</tr>
<tr>
<td>5. ETFS Physical PM Basket</td>
<td>ETFS Metal Securities</td>
<td>9.46</td>
<td>Jersey</td>
</tr>
<tr>
<td>6. ETFS Physical Platinum</td>
<td>ETFS Metal Securities</td>
<td>8.76</td>
<td>Jersey</td>
</tr>
<tr>
<td>7. AlAhli Small Cap Trading Equity</td>
<td>The National Commercial Bank</td>
<td>8.26</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>8. CIMB Islamic Greater China Equity</td>
<td>CIMB-Principal Asset Management</td>
<td>6.78</td>
<td>Malaysia</td>
</tr>
<tr>
<td>9. CIMB Islamic Global Equity</td>
<td>CIMB-Principal Asset Management</td>
<td>6.48</td>
<td>Malaysia</td>
</tr>
<tr>
<td>10. AmOasis Global Islamic Equity</td>
<td>AmlInvestment Management</td>
<td>6.04</td>
<td>Malaysia</td>
</tr>
</tbody>
</table>

**Eurekahedge Global Islamic Fund Index**

| Eurekahedge Global Islamic Fund Index | 4.18 |

**Based on 100% of funds which have reported July 2013 returns as at the 2nd September 2013**

### Top 10 Monthly Returns for All Regions Funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Manager</th>
<th>Performance Measure</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Al Dar Money Market</td>
<td>ADAM</td>
<td>49.07</td>
<td>Kuwait</td>
</tr>
<tr>
<td>2. AmPrecious Metals</td>
<td>AmlInvestment Management</td>
<td>22.16</td>
<td>Malaysia</td>
</tr>
<tr>
<td>3. Aman - CIB &amp; Faisal Islamic Bank Mutual</td>
<td>Commercial International Asset Management</td>
<td>21.55</td>
<td>Egypt</td>
</tr>
<tr>
<td>4. DWS Noor Precious Metals - Class A</td>
<td>DWS Noor Islamic Funds</td>
<td>19.63</td>
<td>Egypt</td>
</tr>
<tr>
<td>5. ETFS Physical Palladium</td>
<td>ETFS Metal Securities</td>
<td>13.95</td>
<td>Singapore</td>
</tr>
<tr>
<td>6. Faisal Islamic Bank of Egypt Mutual</td>
<td>Hermes Fund Management</td>
<td>12.84</td>
<td>Pakistan</td>
</tr>
<tr>
<td>7. UBL Shariah Stock</td>
<td>UBL Fund Managers</td>
<td>12.52</td>
<td>Pakistan</td>
</tr>
<tr>
<td>8. Al Baraka</td>
<td>Hermes Fund Management</td>
<td>11.96</td>
<td>Egypt</td>
</tr>
<tr>
<td>9. Sanabel</td>
<td>HC Securities &amp; Investment</td>
<td>10.50</td>
<td>Egypt</td>
</tr>
<tr>
<td>10. Al-Saffa Saudi Equity Trading</td>
<td>Banque Saudi Fransi</td>
<td>10.38</td>
<td>Saudi Arabia</td>
</tr>
</tbody>
</table>

**Eurekahedge ALL Region Islamic Fund Index**

| Eurekahedge ALL Region Islamic Fund Index | 2.32 |

**Based on 97.23% of funds which have reported July 2013 returns as at the 2nd September 2013**
Based on 100.00% of funds which have reported July 2013 returns as at the 2nd September 2013

Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com Tel: +65 6212 0900

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Based on 96.88% of funds which have reported July 2013 returns as at the 2nd September 2013

Eurekahedge Islamic Money Market Fund Index

Top 10 Islamic Fund Equity by 3 Month Returns

<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>Manager Name</th>
<th>Performance Measure</th>
<th>Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CIMB Islamic Small Cap</td>
<td>CIMB-Principal Asset Management</td>
<td>26.43</td>
<td>Malaysia</td>
</tr>
<tr>
<td>2</td>
<td>Atlas Pension Islamic - Equity Sub</td>
<td>Atlas Asset Management</td>
<td>24.24</td>
<td>Pakistan</td>
</tr>
<tr>
<td>3</td>
<td>Meezan Tahaffuz Pension - Equity Sub</td>
<td>Al Meezan Investment Management</td>
<td>22.20</td>
<td>Pakistan</td>
</tr>
<tr>
<td>4</td>
<td>Al-Saffa Saudi Equity Trading</td>
<td>Banque Saudi Fransi</td>
<td>16.11</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>5</td>
<td>JS Islamic</td>
<td>JS Investments</td>
<td>16.06</td>
<td>Pakistan</td>
</tr>
<tr>
<td>6</td>
<td>Amanah Saudi Equity</td>
<td>SABB</td>
<td>14.45</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>7</td>
<td>Amanah GCC Equity</td>
<td>SABB</td>
<td>13.98</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>8</td>
<td>Public Islamic Opportunities</td>
<td>Public Mutual</td>
<td>13.80</td>
<td>Malaysia</td>
</tr>
<tr>
<td>9</td>
<td>Jadwa Saudi Equity</td>
<td>Jadwa Investment</td>
<td>13.37</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>10</td>
<td>Libra Amanah Saham Wanita (ASNITA)</td>
<td>Libra Invest</td>
<td>13.16</td>
<td>Malaysia</td>
</tr>
</tbody>
</table>

Eurekahedge Islamic Global Fund Index over the last 5 Years

Top 10 Islamic Globally Investing Funds by 3 Month Returns

<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>Manager Name</th>
<th>Performance Measure</th>
<th>Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Al Shamekh Islamic Portfolio</td>
<td>Riyad Bank</td>
<td>7.69</td>
<td>Saudi Arabia</td>
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<tr>
<td>2</td>
<td>Oasis Crescent Global Property Equity</td>
<td>Oasis Global Management Company</td>
<td>6.13</td>
<td>Ireland</td>
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<tr>
<td>3</td>
<td>Al Shuja’a Islamic Portfolio</td>
<td>Riyad Bank</td>
<td>5.86</td>
<td>Saudi Arabia</td>
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<tr>
<td>4</td>
<td>Oasis Crescent Global Equity</td>
<td>Oasis Global Management Company</td>
<td>5.25</td>
<td>Ireland</td>
</tr>
<tr>
<td>5</td>
<td>Global Equity - Musharakah</td>
<td>Riyad Bank</td>
<td>5.21</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>6</td>
<td>CIMB Islamic Greater China Equity</td>
<td>CIMB-Principal Asset Management</td>
<td>5.01</td>
<td>Malaysia</td>
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<tr>
<td>7</td>
<td>EasyETF DJ Islamic Market Titans 100</td>
<td>BNP Paribas Investment Partners</td>
<td>4.99</td>
<td>France</td>
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<tr>
<td>8</td>
<td>AlAhli Global Real Estate</td>
<td>The National Commercial Bank</td>
<td>4.91</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>9</td>
<td>Reliance Global Shariah Growth - USD I</td>
<td>Reliance Asset Management (Malaysia)</td>
<td>4.72</td>
<td>Guernsey</td>
</tr>
<tr>
<td>10</td>
<td>JPM Islamic Global Dynamic Equity (USD) A (acc)</td>
<td>JPMorgan International Bank</td>
<td>4.51</td>
<td>Luxembourg</td>
</tr>
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</table>

Eurekahedge Islamic Fund Index

4.18

Based on 100.00% of funds which have reported July 2013 returns as at the 2nd September 2013
### Most Recent Global Sukuk

<table>
<thead>
<tr>
<th>Priced</th>
<th>Issuer</th>
<th>Nationality</th>
<th>Instrument</th>
<th>Market</th>
<th>US$ (mln)</th>
<th>Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>26th Aug 2013</td>
<td>Malaysia Airports Holdings</td>
<td>Malaysia</td>
<td>Sukuk Murabahah</td>
<td>Domestic market public issue</td>
<td>151</td>
<td>HSBC, CIMB Group, Citigroup, Maybank Investment Bank</td>
</tr>
<tr>
<td>20th Aug 2013</td>
<td>Syarikat Prasarana Negara</td>
<td>Malaysia</td>
<td>Sukuk Ijarah</td>
<td>Domestic market public issue</td>
<td>305</td>
<td>HSBC, RHB Capital, CIMB Group, AmlInvestment Bank</td>
</tr>
<tr>
<td>5th Aug 2013</td>
<td>Sarawak Hidro</td>
<td>Malaysia</td>
<td>Sukuk Ijarah</td>
<td>Domestic market public issue</td>
<td>154</td>
<td>CIMB Group, Maybank Investment Bank</td>
</tr>
<tr>
<td>30th Jul 2013</td>
<td>Swiber Capital</td>
<td>Singapore</td>
<td>Sukuk Wakalah</td>
<td>Domestic market public issue</td>
<td>119</td>
<td>DBS, Maybank Investment Bank</td>
</tr>
<tr>
<td>26th Jul 2013</td>
<td>Golden Assets International Finance</td>
<td>Singapore</td>
<td>Sukuk Murabahah</td>
<td>Domestic market public issue</td>
<td>156</td>
<td>RHB Capital Blvd</td>
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<tr>
<td>15th Jul 2013</td>
<td>National Higher Education Fund</td>
<td>Malaysia</td>
<td>Sukuk Murabahah</td>
<td>Domestic market public issue</td>
<td>189</td>
<td>RHB Capital, AmlInvestment Bank</td>
</tr>
<tr>
<td>28th Jun 2013</td>
<td>Kapor Energy Ventures</td>
<td>Malaysia</td>
<td>Sukuk Ijarah</td>
<td>Domestic market public issue</td>
<td>628</td>
<td>AmlInvestment Bank</td>
</tr>
<tr>
<td>25th Jun 2013</td>
<td>Pengurusan Air SPV</td>
<td>Malaysia</td>
<td>Sukuk Ijarah</td>
<td>Domestic market private placement</td>
<td>109</td>
<td>CIMB Group</td>
</tr>
<tr>
<td>21st Jun 2013</td>
<td>Tanjung Bin O&amp;M</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Domestic market private placement</td>
<td>147</td>
<td>CIMB Group, Maybank Investment Bank</td>
</tr>
<tr>
<td>3rd Jun 2013</td>
<td>Pelabuhan Tanjung Pelepas</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Domestic market public issue</td>
<td>129</td>
<td>RHB Capital, Maybank Investment Bank</td>
</tr>
<tr>
<td>30th May 2013</td>
<td>Bantu Kawan</td>
<td>Malaysia</td>
<td>Sukuk Musharakah</td>
<td>Domestic market private placement</td>
<td>163</td>
<td>CIMB Group, Maybank Investment Bank</td>
</tr>
<tr>
<td>29th May 2013</td>
<td>IDB Trust Services</td>
<td>Saudi Arabia</td>
<td>Sukuk Wakalah</td>
<td>Euro market public issue</td>
<td>1,000</td>
<td>Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole CIB, Barwa Bank</td>
</tr>
<tr>
<td>28th May 2013</td>
<td>Power &amp; Water Utility Co for Jubail &amp; Yalbu - Marafiq First Resources (Indonesia)</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Domestic market private placement</td>
<td>667</td>
<td>HSBC</td>
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<tr>
<td>23rd May 2013</td>
<td>Cagamas</td>
<td>Malaysia</td>
<td>Sukuk Murabahah</td>
<td>Domestic market public issue</td>
<td>199</td>
<td>RHB Capital</td>
</tr>
<tr>
<td>22nd May 2013</td>
<td>Dar Al-Arkan International Sukuk</td>
<td>Saudi Arabia</td>
<td>Sukuk Wakalah</td>
<td>Euro market public issue</td>
<td>450</td>
<td>Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, QnInvest, Bank Alkhair</td>
</tr>
<tr>
<td>14th May 2013</td>
<td>TNB Northern Energy</td>
<td>Malaysia</td>
<td>Sukuk Ijarah and Sukuk Wakalah</td>
<td>Domestic market public issue</td>
<td>543</td>
<td>HSBC, KAF Investment Bank</td>
</tr>
<tr>
<td>29th Apr 2013</td>
<td>Albaraka Turk Katlim Bankasi</td>
<td>Saudi Arabia</td>
<td>Sukuk Murabahah</td>
<td>Euro market public issue</td>
<td>200</td>
<td>BNP Paribas, Nomura, Emirates NBD, Al Hilal Bank, Barwa Bank</td>
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<tr>
<td>29th Apr 2013</td>
<td>Al-Aqar Capital</td>
<td>Malaysia</td>
<td>Sukuk Ijarah</td>
<td>Domestic market private placement</td>
<td>124</td>
<td>KFH, AmlInvestment Bank, Maybank Investment Bank</td>
</tr>
<tr>
<td>26th Apr 2013</td>
<td>Telekom Malaysia</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Domestic market public issue</td>
<td>132</td>
<td>AmlInvestment Bank</td>
</tr>
</tbody>
</table>

### Global Sukuk Volume by Month

![Global Sukuk Volume by Month](image)

### Global Sukuk Volume by Quarter

![Global Sukuk Volume by Quarter](image)
<table>
<thead>
<tr>
<th>Issuer</th>
<th>Nationality</th>
<th>Instrument</th>
<th>Market</th>
<th>US$ (mln)</th>
<th>Iss Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Electricity Global Sukuk Company 2</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>2,000</td>
<td>Deutsche Bank, HSBC</td>
</tr>
<tr>
<td>Sadara Chemical Company</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Domestic market public issue</td>
<td>2,000</td>
<td>Deutsche Bank, Riyad Bank, Al-Bilad Bank, Alinma Bank</td>
</tr>
<tr>
<td>Turus Pesawat</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Domestic market public issue</td>
<td>1,734</td>
<td>Lembaga Tahung Haji, RHB Capital, CIMB Group, Amelia Bank, Maybank Investment Bank</td>
</tr>
<tr>
<td>Republic of Turkey</td>
<td>Turkey</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>1,500</td>
<td>HSBC, Kuwait Finance House, Citigroup</td>
</tr>
<tr>
<td>National Higher Education Fund</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Domestic market public issue</td>
<td>1,127</td>
<td>CIMB Group, Maybank Investment Bank</td>
</tr>
<tr>
<td>Perusahaan Penerbit SBSN Indonesia III</td>
<td>Indonesia</td>
<td>Sukuk Ijarah</td>
<td>Euro market public issue</td>
<td>1,000</td>
<td>Standard Chartered Bank, Deutsche Bank, HSBC</td>
</tr>
<tr>
<td>IDB Trust Services</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>1,000</td>
<td>Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank</td>
</tr>
<tr>
<td>Dubai Electricity &amp; Water Authority</td>
<td>UAE</td>
<td>Sukuk Ijarah</td>
<td>Euro market public issue</td>
<td>1,000</td>
<td>Standard Chartered Bank, RBS, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Maybank Investment Bank</td>
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<tr>
<td>DIB Tier 1 Sukuk</td>
<td>UAE</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>1,000</td>
<td>Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Emirates NBD</td>
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<tr>
<td>Abu Dhabi Islamic Bank</td>
<td>UAE</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>1,000</td>
<td>Standard Chartered Bank, Morgan Stanley, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank</td>
</tr>
<tr>
<td>Medjool</td>
<td>UAE</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>993</td>
<td>Standard Chartered Bank, Abu Dhabi Commercial Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD</td>
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<tr>
<td>Sime Darby Global</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>800</td>
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<tr>
<td>Qatar Islamic Bank</td>
<td>Qatar</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>750</td>
<td>Standard Chartered Bank, Deutsche Bank, HSBC, Qninvest</td>
</tr>
<tr>
<td>Dubai DOF Sukuk</td>
<td>UAE</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>750</td>
<td>Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Emirates NBD</td>
</tr>
<tr>
<td>Golden Assets International Finance</td>
<td>Singapore</td>
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<td>Domestic market public issue</td>
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<td>RHB Capital</td>
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<td>Qatar International Islamic Bank</td>
<td>Qatar</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
<td>700</td>
<td>Standard Chartered Bank, HSBC, Qatar National Bank</td>
</tr>
<tr>
<td>Khazanah Nasional</td>
<td>Malaysia</td>
<td>Sukuk Muscharakah</td>
<td>Domestic market private placement</td>
<td>687</td>
<td>CIMB Group, AmlInvestment Bank</td>
</tr>
<tr>
<td>Power &amp; Water Utility Co for Jubail &amp; Yalbu - Marafiq</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Domestic market private placement</td>
<td>667</td>
<td>HSBC</td>
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<tr>
<td>Kapar Energy Ventures</td>
<td>Malaysia</td>
<td>Sukuk Ijarah</td>
<td>Domestic market public issue</td>
<td>581</td>
<td>AmlInvestment Bank</td>
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<tr>
<td>TNB Northern Energy</td>
<td>Malaysia</td>
<td>Sukuk Ijarah and Sukuk Wakalah</td>
<td>Domestic market public issue</td>
<td>543</td>
<td>HSBC, KAF Investment Bank</td>
</tr>
<tr>
<td>Turkije Finans Katilim Bankasi</td>
<td>Turkey</td>
<td>Sukuk</td>
<td>Euro market public issue</td>
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<td>Saudi National Commercial Bank, HSBC, Citigroup, Noor Islamic Bank</td>
</tr>
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<td>SIB Sukuk Co III</td>
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<td>Standard Chartered Bank, HSBC, Kuwait Finance House, Al Hilal Bank</td>
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<td>DanalInfra Nasional</td>
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<td>Sukuk Murabahah</td>
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<td>490</td>
<td>RHB Capital, CIMB Group, AmlInvestment Bank, Maybank Investment Bank, Hong Leong Financial Group</td>
</tr>
<tr>
<td>Dar Al-Arkan International Sukuk</td>
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<td>Sukuk</td>
<td>Euro market public issue</td>
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<td>Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, Qnvest, Bank Alkhair</td>
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<td>Cagamas</td>
<td>Malaysia</td>
<td>Sukuk</td>
<td>Domestic market public issue</td>
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<td>RHB Capital, CIMB Group, AmlInvestment Bank</td>
</tr>
<tr>
<td>Savola Group</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Domestic market private placement</td>
<td>400</td>
<td>HSBC</td>
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<td>Saudi Hollandi Bank</td>
<td>Saudi Arabia</td>
<td>Sukuk</td>
<td>Domestic market private placement</td>
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<td>HSBC, Saudi Hollandi Bank</td>
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<tr>
<td>First Resources (Indonesia)</td>
<td>Indonesia</td>
<td>Sukuk</td>
<td>Foreign market public issue</td>
<td>330</td>
<td>RHB Capital</td>
</tr>
<tr>
<td>Imtiay Sukuk</td>
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<td>Sukuk Muscharakah</td>
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<td>Malaysia</td>
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<td>Domestic market private placement</td>
<td>309</td>
<td>CIMB Group, Maybank Investment Bank, AmlInvestment Bank</td>
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</table>

31,580 100
### Top Managers of Sukuk - 12 Months

<table>
<thead>
<tr>
<th>Manager</th>
<th>US$ (mln)</th>
<th>Iss %</th>
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<tbody>
<tr>
<td>HSBC</td>
<td>5,435</td>
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<tr>
<td>CIMB Group</td>
<td>3,452</td>
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<td>AmlInvestment Bank</td>
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<tr>
<td>RHB Capital</td>
<td>2,532</td>
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<tr>
<td>Standard Chartered Bank</td>
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<tr>
<td>Maybank Investment Bank Bhd</td>
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<tr>
<td>Deutsche Bank</td>
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<td>Citigroup</td>
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<td>Emirates NBD</td>
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<tr>
<td>National Bank of Abu Dhabi</td>
<td>797</td>
<td>7</td>
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<tr>
<td>Kuwait Finance House</td>
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<tr>
<td>Dubai Islamic Bank</td>
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<tr>
<td>Abu Dhabi Islamic Bank</td>
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</tr>
<tr>
<td>Riyad Bank</td>
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<tr>
<td>Alinma Bank</td>
<td>500</td>
<td>1</td>
</tr>
<tr>
<td>Al-Bilad Bank</td>
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</tr>
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<td>Hong Leong Financial Group</td>
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<tr>
<td>RBS</td>
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<td>Lembaga Tabung Haji</td>
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<tr>
<td>KAF Investment Bank</td>
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<tr>
<td>Qlaveest</td>
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<tr>
<td>Qatar National Bank</td>
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<tr>
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<td>200</td>
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<tr>
<td>Saudi Hollandi Bank</td>
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<tr>
<td>Affin Investment Bank</td>
<td>186</td>
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<tr>
<td>Al Hilal Bank</td>
<td>181</td>
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<tr>
<td>Abu Dhabi Commercial Bank</td>
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<td>Barwa Bank</td>
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<td>Noor Islamic Bank</td>
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<tr>
<td>National Consumer Cooperative Bank</td>
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Total: 31,580 121 100

### Sukuk Volume by Currency US$ (billion) - 12 Months

- US dollar: 14.4
- Malaysian ringgit: 13.4
- Saudi riyal: 3.4
- Singapore dollar: 0.2

### Sukuk Volume by Issuer Nation US$ (billion) - 12 Months

- Malaysia: 12.3
- Saudi Arabia: 5.4
- Turkey: 2.3
- UAE: 1.5
- Indonesia: 1.4
- Singapore: 1.0

### Global Sukuk Volume by Sector - 12 Months

- Finance: 34%
- Utility & Energy: 17%
- Transportation: 16%
- Government: 13%
- Chemicals: 12%
- Other: 12%

### Global Sukuk Volume - US$ Analysis

#### Top Islamic Finance Related Project Finance Mandated Lead Arrangers - 12 Months

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<td>Union National Bank</td>
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Total: 31,580 121 100

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### Top Islamic Finance Related Loans Mandated Lead Arrangers
#### 12 Months

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<th>Rank</th>
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### Top Islamic Finance Related Loans Bookrunners
#### 12 Months

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### Top Islamic Finance Related Loans by Country
#### 12 Months

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### Top Islamic Finance Related Loans by Sector
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### Global Islamic Loans - Years to Maturity (YTD Comparison)

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Email: mandy.leung@dealogic.com

Tel: +852 2804 1223
### EVENTS DIARY

#### SEPTEMBER 2013

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<td>22nd – 23rd</td>
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<td>Kuala Lumpur, Malaysia</td>
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**Islamic Finance news**

**Editor**
Naazneen Halim
Naazneen.Halim@REDmoneyGroup.com

**Contributions Editor**
Sasikala Thiagaraja
Sasikala@REDmoneyGroup.com

**Managing Editor**
Lauren Mcaughtry
Lauren.Mcaughtry@REDmoneyGroup.com

**Journalist**
Nabilah Annuar
Nabilah.Annuar@REDmoneyGroup.com

**Editorial Executive**
Vinoeta Tan
Vinoeta.Tan@REDmoneyGroup.com

**Contributing Editor**
Ellina Badri
Ellina.Badri@REDmoneyGroup.com

**Global Markets Analyst**
Syed Siddiq Ahmed
syed.siddiq@redmoneygroup.com

**Correspondents**
Kamal Baisam; Shabbi Kamzi; Shirene Shah

**Forum Editor**
Christina Morgan
Christina.Morgan@REDmoneyGroup.com

**Production Manager**
Hasnani Aspari
Hasnani.Aspari@REDmoneyGroup.com

**Production Editor**
Norzabdi Abdullah
Norzabdi.Abdullah@REDmoneyGroup.com

**Graphic Designer**
Eumir Shazwan Kamal Bahrin
Eumir.Shazwan@REDmoneyGroup.com

**Senior Production Designer**
Rozman.Bosiri@REDmoneyGroup.com

**Business Development Manager**
Steve Stubbs
Steve.Stubbs@REDmoneyGroup.com
Tel: +603 2162 7800 x 55

**Subscriptions Director**
Musafarzul Mustafa
Musafarzul.Mustafa@REDmoneyGroup.com
Tel: +603 2162 7800 x 24

**Subscriptions Manager**
Itfaran Tarmizi
Itfaran.Tarmizi@REDmoneyGroup.com
Tel: +603 2162 7800 x 63

---

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