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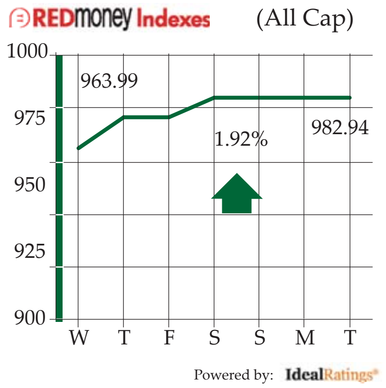

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GDP-linked Sukuk: The solution to government debt?

Islamic finance still accounts for only a tiny fraction of the global financial sector despite Muslims accounting for almost a quarter of the global population. While a number of factors are involved, it has been suggested that the poverty levels and high levels of debt in many Muslim countries are inhibiting growth not only of their economies but of Islamic finance. This week, we take a look at the possibilities inherent in GDP-linked Sukuk: a ground-breaking concept in state financing that some believe could be the savior of the situation.

Muslims make up a majority in 49 of the world's 196 countries – in other words, they dominate 25% of the globe. Islam is the second-biggest religion in the world after Christianity and the current 1.6 billion Muslims (23% of the global population) are expected to swell by 35% to 2.2 billion by 2030 according to new population projections from Pew Research – double the growth-rate of non-Muslims.

A state of debt

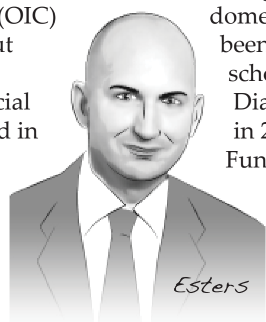
Yet this strength in numbers has not yet translated to equivalent economic influence; and one of the reasons put forward for this is the substantial indebtedness of Muslim nations. A study from the IMF in 2010 found that 19 of its 39 classified 'Heavily Indebted Poor Countries (HPIC)' are Organization of Islamic Conference (OIC) member countries. In comparison out of all 57 OIC members only six were identified as prepared to meet financial shocks – and all of these were located in the GCC.

A recent research paper entitled 'Indexing Government Debt to GDP: A Risk Sharing Mechanism for Government Financing in Muslim Countries' highlighted that the remaining 51 Muslim countries are heavily reliant on borrowing from the international market to pay off their considerable debts. Authors Syed Aun Rizvi and Shaista Arshad also noted that: "Additionally, these countries are dependent on western financial intermediaries with high interest rates to meet their debt requirements, transacting mainly in dollars. During times of economic instability, liability dollarization and relying heavily on high interest borrowings can backfire for these countries, as they are more likely to have long-term shocks on the economy leading to higher cost of borrowings."

In addition, the ratio of sovereign debt to GDP has already been identified as a key indicator of the health of an economy – and has been used to presage impending economic crises. For example, in a 2001 study it was demonstrated that an increase of 10% in the debt-GDP ratio resulted in a 20% increase in the probability of some form of financial crisis.

GDP-linking

A way of avoiding this could be to instead index government debt against the real economy: a concept initially suggested as far back as 1983 by economist Martin Bailey who raised the idea of translating sovereign debt into claims on domestic exports. It has also been raised in Islamic circles, by scholars including Dr Abdou Diaw, who published a paper in 2012 entitled 'Public Sector Funding and Debt Management: A Case for GDP-Linked Sukuk' in which he urged that: "Debt indexation to



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Bank of London and The Middle East successfully lists on **NASDAQ**

The **IDB** looks to issue Sukuk in Dubai

Redemption on **Puncak Niaga**'s Islamic facility to be payable on the 25th October

Turkey issues US$1.25 billion Sukuk Ijarah

EXIM Bank to debut inaugural US dollar-denominated Sukuk

Central Bank of Bahrain's monthly Sukuk Ijarah offering oversubscribed by 276%

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National Commercial Bank to issue US$1.07 billion Sukuk by early 2014

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IMF upgrades growth forecast on the UAE to 4%

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Bahrain's economy to grow by 5.3% this year

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Emirates Islamic Bank rolls out Shariah compliant card for online shopping

A healthy financial projection for UAE Islamic banks in the third quarter as banking sector makes recovery

Bank Dhofar posts 70.8% growth in net profit for the first nine months

Arab National Bank's third quarter net profit sees 2.85% increase

Al Salam Bank Bahrain signs off merger with **BMI Bank**

Alinma Bank sees net profit hike of 33.67% in third quarter

Samba Financial Group sees marginal increase in third quarter net profit

Al Rajhi Bank's net profit drops by 8.13% in the third quarter

Al Salam Bank registers lower operating income in the third quarter

Saudi British Bank's third quarter net profit up by 28.96%

Bank AlJazira's net profit leaps by 45.38% in the third quarter

National Commercial Bank registers 17.1% growth in net profits for the third quarter

ASSET MANAGEMENT

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Syarikat Takaful Malaysia expects Family Takaful operations to boost income earnings

Amãna Takaful inks partnership with e-commerce platform

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RAM elevates rating on **Mukah Power Generation**'s senior Sukuk Mudarabah

Outlook on Saudi Arabia's banking system is stable, says **Moody's**

Islamic International Rating Agency elevates **Kuveyt Turk Participation Bank**'s national scale ratings

Cut in US military aid to Egypt will not affect the Arab republic's credit profile, says **Fitch**

RAM maintains **First Resources**' US$624.52 million Sukuk Musharakah at 'AA2/Stable'

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some indicators from the real economy (like GDP or commodity price) has been identified as an effective means for the reduction of sovereign default. Such an idea has the property of strengthening the linkage between the real and the financial sectors of the economy and allows risk sharing between the parties involved in the transaction."

Developing Muslim nations have a high demand for infrastructure projects, for example: as seen in the massive construction ongoing in nations such as Qatar which has driven both high government spending and a concurrent boom in Islamic financing. In many cases, governments who do not have the wealth of oil-producing countries like Qatar, do not have sufficient revenues or resources to fund the projects they need to create sustainable development. Structures such as the Build-Operate-Transfer (BOT) model and GDP-linked Sukuk structures should instead therefore be utilized as an alternative to conventional borrowing.

Christian Esters, a senior director for sovereign ratings at S&P, explained to Islamic Finance *news* that: "From a public policy perspective, the key argument for such bonds is that they provide an automatic fiscal stabilizer and mitigate the fiscal impact of GDP variations. In times of low GDP growth, when fiscal revenues tend to be lower and spending – e.g. on social welfare – tends to be higher, GDP-linked bonds would imply less debt service payments for government

Economic advantages

Sukuk financing based on real assets would enhance the stability of the overall market and its individual institutions, as well as creating a stronger connection between the financial sector and the real economy that would cement the bond between them and inhibit the kind of speculative activities (such as mortgage-backed securities) which were so instrumental in the last global financial crisis.

In addition, financing government expenditure through Islamic structures would also impose a tight but much-needed limit on public expenditure, as financing without the backing of a real asset would be unavailable, thus restricting inflationary spending and excessively ambitious projects.

Counter-cyclical

GDP-linked Sukuk would, in the words of Syed and Shaista: "Provide breathing room to economies when they go into recession and on the other side provide an automatic slowing mechanism when the economy goes into high growth zones and overheats."

Because the payment of profit on a GDP-linked Sukuk would be directly linked to the actual growth of the economy, the structure would also have the highly attractive feature of reducing the debt burden in times of crisis, as the payments to the Sukukholders would diminish as the economy slowed – compared to the standard conventional sovereign bonds or development agency debt in which the payments are usually fixed or interest rate-dependent and can thus impose an unachievable burden on a struggling economy.

Dr Diaw explains that: "GDP-linked bonds have been shown to improve debt sustainability for sovereigns in times of economic downturn as they allow countries to avoid pro-cyclical fiscal policies… This is because GDP-linked bonds match their payment obligations to economic performance." Basically government revenues, which are predominantly derived from tax income, thus are likely to increase with the performance of the economy. Therefore with GDP-linked paper, the economic risk is shared between the borrower (the government or sovereign) and its creditors – exactly the risk sharing sentiment that Islamic encourages. And despite sharing in the risk of the country, it must be remembered that the creditors (or Sukukholders) would also share in its profit – thus giving investors (both domestic and international) the opportunity to invest in economies.

GDP-linked Sukuk could also go some way towards extricating indebted Muslim countries from the never-ending cycle of loans and repayments. Countries such as Pakistan, Bangladesh or many African nations, for example, have for years been trapped in a debt cycle whereby when the economy slows and debt repayments become too high, they have to revert to bailouts from agencies such as the IMF which just add to their existing commitments and bring new conditions in terms of fiscal tightening, reforms and subsidy removals which can have a negative impact on economic growth. In comparison, GDP-linked paper could provide room for counter-cyclical policies to boost growth during tough times. Other studies have also shown that linking GDP with sovereign liabilities can assist in easing or maintaining tax rates and continuing with infrastructure development during economic squeezes, which would also work towards boosting and maintaining economic growth.

Ways and means

But how to go about this? One potential method of doing so could be through the use of forward Sukuk Ijarah, thus also enhancing the output of the economy through government expenditure. The use of real economic variable linked instruments, it has been argued, could stabilize government spending as well as reduce the impact of interest-based borrowings.

Another proposal could be a pure Musharakah-linked paper, as proposed by Syed and Shaista in their recent paper on 'Indexing Government Debt to GDP: A Risk Sharing Mechanism for Government Financing in Muslim Countries'. The central concept would be for a government to issue Musharakah paper and act as Wakil, using the economy as a whole as the underlying business asset. In a Musharakah structure the profit is paid based on the actual profit of the business: which in this case would be the GDP growth of the economy.

The Musharakah structure it is thought would be theoretically Shariah compliant, and allow for a GDP-linked issuance that was not based on indexation of debt: as it would instead represent essentially the issuance of equity shares in the country itself. The structure would however need rigorous scholarly debate and Shariah approval in order to make it acceptable to investors worldwide (there is little point issuing GDP-linked debt of one country, which investors in another are not able to invest in due to concerns over Shariah compliance).

GDP-linked bonds allocate the risk of low GDP growth and the opportunities of high growth to the investor rather than the sovereign. "While this appears to fit

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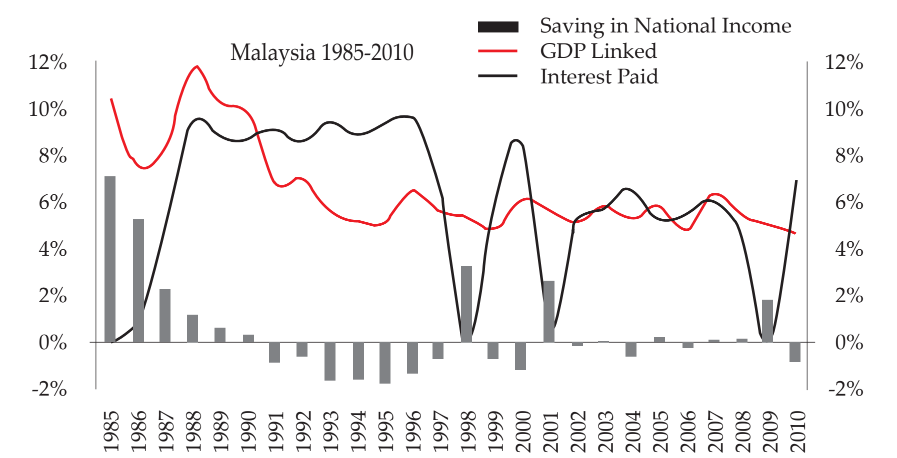
well into the concept of Islamic finance, which emphasizes the concept of risk sharing between debtor and creditor, it gives these bonds an equity component," explains Esters. "Although bondholders do not 'own' the issuer's GDP, their pay-out is linked to the economic performance of the issuer, which is a typical equity characteristic."

Promising results

In a case study based on Malaysia, Syed and Shaista demonstrated that the use of GDP-linked Sukuk would theoretically have provided significantly better performance. In Figure 1 it is shown that over a 25-year period the average profit payment on Malaysian conventional sovereign debt was 6.54%, compared to 5.99% for the average profit payment over the same period. By using GDP-linked paper instead of conventional interest-based paper, the government could have theoretically saved a further 14% based on research estimates. In addition, using GDP-linked Sukuk would reduce volatility in the debt-GDP ratio, translating into possible savings of billions of dollars.

Figure 1: Interest savings over the economic cycle



Source: 'Indexing Government Debt to GDP: A Risk Sharing Mechanism for Government Financing in Muslim Countries' by Syed Aun Rizvi and Shaista Arshad

Challenges ahead

It must be remembered that even traditional sovereign Sukuk issuance is still only a fraction of global conventional bond issuance by sovereigns; and so are GDP-linked bonds, which have up until now primarily been issued as part of a sovereign debt restructuring. "Arguably, GDP-linked Sukuk means to create a security that combines the features of two market segments, each of which is already very small on its own," explains Esters, which will inevitably take time. Another challenge could be to make clear in the bond documentation how GDP revisions would be handled. In particular in emerging markets for example, the quality of GDP statistics may still be weak, and GDP data can be revised retrospectively.

There are also concerns that GDP-linked Sukuk would present difficulties in terms of rating. "From a credit rating perspective, we do rate sovereign Sukuk based on our view on the government's ability and willingness to ensure that the Sukukholders get full and timely debt service on the Sukuk. However, it may not be possible to rate GDP-linked Sukuk, in particular if not only the periodic distribution payment but also the principal payment is linked or subject to the size or growth of a country's GDP." This is because, for example, under a scenario of a severe economic crisis, a GDP-linked Sukuk may technically not be in 'default' according to the contractual terms, but the investor would still receive low or even no debt service payments.

"If debt service depends on GDP performance, then the line between credit risk– which is what S&P rating refer to – and economic performance risk becomes blurred," Esters points out. What is more, GDP data is typically collected and published by government authorities; so the debt service on GDP-linked bonds would be dependent on information that only the issuers themselves can provide: which could for example create an incentive for the issuer of a GDP-linked bond to under-report its GDP in order to reduce profit payments.

A promising start

Conventional GDP-linked bonds have been around since the 1990s, mostly as part of a sovereign debt restructuring, such as in the cases of Argentina and Greece. However, they have yet to hit the Islamic finance mainstream, and little research or interest appears to have been shown in exploring their potential. The question is: why not? Perhaps the biggest reason why is because in actual fact, the Muslim nations that are leading the way in Islamic finance are the least indebted, and therefore have little need of these structures.

According to the World Bank, Malaysia for example had a government debt to GDP ratio of just 53.5% in 2012, compared to 101.2% for the UK and 81.8% for the US, while Indonesia was even lower at 26.2%. Clearly, debt-GDP ratio is not the only indicator of economic performance. In fact, developed countries can be highly leveraged for very different reasons. Singapore, for example, had a ratio of over 110% in 2011.

However, what debt-GDP ratio can often indicate is the growth potential of an economy. The GDP growth of highly indebted developed nations is often relatively stagnant compared to emerging economies. For example, Singapore saw GDP growth of just 1.2% in 2012 – compared to 3.7% for Pakistan or 6.2% for Qatar.

Investors seeking high growth prospects yet with an ethical base and the potential for Shariah compliant support of developing Muslim economies would surely welcome such structures as means not only of diversifying their portfolios but of putting money where it is needed most – in the fundamental, realistic development of some of the poorest countries in the world. What could be a more noble goal? —*LM*

DEALS

BLME lists on NASDAQ

UAE: Islamic lender Bank of London and The Middle East (BLME) has completed its primary listing on NASDAQ Dubai with around 195.73 million shares priced at US$2.57 each, translating into a market capitalization of approximately US$503 million.

The stock listing, the first on the exchange in more than four years, was however not traded — reportedly due to the modest size of the share float in addition to investors being unfamiliar with the bank, according to Reuters.

Puncak Niaga to pay out

MALAYSIA: United Overseas Bank, as its facility agent, has announced that the redemption on investment holding company Puncak Niaga's RM1.02 billion (US$318.92 million) Al Bai Bithaman Ajil redeemable secured serial bonds will be due and payable on the 25th October.

Turkish Sukuk

TURKEY: The republic of Turkey issued a US$1.25 billion Sukuk Ijarah through Hazine Müstesarligi Varlik Kiralama Anonim Sirketi on the 10th October.

Carrying a profit rate of 4.56% per year, the Sukuk was rated 'Baa3' and 'BBB-' by Moody's and Fitch respectively and will mature on the 10th October 2018.

EXIM to debut dollar Sukuk

MALAYSIA: Export-Import Bank of Malaysia (EXIM)'s maiden US dollar-denominated Sukuk will come to market soon following a good response from investors across Asia, Europe and the Middle East last week, according to Adissadikin Ali, the bank's CEO.

The issuance is part of a multicurrency program rated 'A3' and 'A-' by Moody's Investors Services and Fitch Ratings, respectively.

CBB Sukuk oversubscribed

BAHRAIN: The Central Bank of Bahrain's 98th monthly issuance of its short-term BHD20 million (US$51.64 million) Sukuk Ijarah has been oversubscribed by 276% to BHD55.25 million (US$142.65 million). With a tenor of 182 days, the issuance carries an expected return of 1% and will mature on the 17th April 2014.

IDB plans Dubai Sukuk

UAE: The IDB has begun discussions on a possible Sukuk issuance in Dubai, likely based on a medium-term notes format, reported Reuters. It is hoped that the highly-rated Sukuk could encourage issuers outside the emirate to list in Dubai.

The issuance would be the Saudi-based bank's first in the Middle East. It currently has Sukuk programs listed on both the London and Malaysian exchanges.

Wapda Sukuk III flawed

PAKISTAN: It has been reported that Pakistan's mutual fund industry is unwilling to participate in the issuance of the PKR10 billion (US$93.38 million) Wapda Sukuk III offering due to concerns of possible fraud as the facility is said to have been issued without a Standard Operating Procedure regarding its security and transfer.

RAK Capital's launch of US$500 million Sukuk in Malaysia demonstrates confidence in UAE issuers

MALAYSIA: The government of Ras Al Khaimah (RAK) announced to Bank Negara Malaysia its intention to issue US$500 million in five-year Sukuk trust certificates in the country on the 21st October 2013.

The papers will be issued by RAK Capital on behalf of the Investment and Development Office of the emirate. The Ijarah structured Sukuk will carry a profit rate of 3.29% per annum, and a tight spread of 175bps over midswaps. They are due for maturity on the 21st October 2018.

Commenting on the transaction, an industry expert conveyed to Islamic Finance *news* that the UAE sees Malaysia as a conducive marketplace with established key laws and regulations that are favorable to Sukuk transactions.

The large Malaysian Islamic capital market possesses deep liquidity which enables issuers to obtain good prices for their certificates. He further elucidated that a steady stream of deals from international issuers are to be expected in the future.

Having conducted roadshows in Singapore, the UAE, London and Kuala Lumpur, the issuance reportedly received high investor demand due to its rarity value. The papers were assigned an expected senior unsecured rating of 'A(EXP)' by Fitch and are said to be part of the emirate's US$2 billion Sukuk program. Al Hilal Bank, Citigroup, Mashreqbank, National Bank of Abu Dhabi and Standard Chartered are the mandated arrangers for the deal.

NCB to issue Sukuk

SAUDI ARABIA: National Commercial Bank is considering the issuance of up to SAR4 billion (US$1.07 billion) in Sukuk by the end of this year or the beginning of 2014 to meet the requirements of Basel III and the Saudi central bank, said Mansour Al Maiman, the secretary general of Saudi Arabia's Public Investment Fund. The offering is expected to boost the bank's capital and capital adequacy.

DEAL TRACKER Full Deal Tracker on page 32

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Government of Ras Al Khaimah	US$	500 million	16th October 2013
National Commercial Bank	SAR	1.07 billion	11th October 2013
ACWA Power International	US$	800 million	4th October 2013
Islamic Development Bank	US$	10 billion	7th October 2013
Government of Yemen	YER	232.23 million	30th September 2013

AFRICA

GAB mobile banking platform

KENYA: Islamic lender Gulf African Bank has launched a new mobile banking service, GAB Pesa, in partnership with Safaricom. The bank is currently in talks with telecommunication company Airtel to have its service incorporated, according to a local daily.

ASIA

Overwhelming support for IFN Asia

MALAYSIA: The annual IFN Asia Forum, running from the 21st – 22nd October in Kuala Lumpur, has surpassed 2,000 delegate registrations for the first time in its eight-year history. Dr Mulya E Siregar, the assistant governor of Bank Indonesia, is the latest VIP to confirm his participation and will deliver a keynote address on Monday the 21st October.

Amãna Bank opens new branch

SRI LANKA: Islamic lender Amãna Bank has launched its 24th branch in the city of Ratnapura, bringing the total number of branches opened this year to 10.

Silver Bird loses Shariah compliance label

MALAYSIA: Diversified multimedia company Silver Bird Group will no longer be considered Shariah compliant as of next month, following its failure to adhere to new Shariah counter rules by the Securities Commission Malaysia. The new standards are also expected to affect additional Shariah compliant firms and funds.

Advantage for Indonesian Islamic banks

INDONESIA: In a bid to control escalating property prices, the central bank has implemented new mortgage rules including raising the minimum down payment required for all home loans to at least 30% as compared to the prior 20%. These rules however do not apply to two types of Shariah compliant mortgages — Musharakah Mutanaqisah and Ijarah Muntahiya Bittamlik — giving Shariah banks a key marketing advantage.

Malaysia to fund green projects Islamically

MALAYSIA: Malaysian green technology firms should increase the threshold value of projects to at least RM500 million (US$156.13 million) via collaborations to enable capital-raising through Sukuk, urged Ahmad Hadri Haris, CEO of Green Tech Malaysia.

Upcoming Turkish Islamic finance base

TURKEY: The Turkish Treasury and the World Bank have agreed to develop an Islamic finance center dubbed the World Bank Global Islamic Finance Development Center in Istanbul to boost the progress of the industry while serving as a physical conduit for the World Bank in Turkey's largest city.

Senegal joins the ranks of West African countries issuing Sukuk

SENEGAL: West Africa seems to be picking up pace in terms of Sukuk, as Senegal becomes the latest country after Nigeria to announce plans to diversify its financing resources through a Shariah compliant facility. The US$200 million local currency-denominated Sukuk was initially announced in August this year, but plans ground to a halt as the West African country was said to be grappling with technical issues arising from a lack of expertise. The original plans were also shelved due to timing concerns, which were said to be less than ideal due to the country's pre-election campaign at the time.

In light of this, the Islamic Corporation for the Development of the Private Sector (ICD) has given a boost to the sovereign issuance by the Senegalese government issuance by offering its technical assistance to the issuance which is now due next year. Amadou Ba, Senegal's minister of economy and finance, has reaffirmed the government's interest in issuing Sukuk, which he expects will lead to more Shariah compliant issuances; especially for infrastructure and energy projects in the country.

The project is said to be the first of its kind for the West African Economic and Monetary Union (WAEMU), and aims to promote Islamic finance as an alternative instrument to finance the economies of the member states of the union.

Commenting on the issuance Khalid Al Aboodi, CEO of the ICD, said that the Senegalese Sukuk would be the first of a series of regional programs that would be offered to West African states. He also added that the Sukuk, which will be arranged by Citigroup, has been accepted in-principle by the Central Bank of West African States to be used in its repurchase operations, and is expected to spark interest among banks involved in the local money market as an attractive investment option.

EUROPE

London to lead

UK: Market experts suggest that despite competition from European counterparts, the UK is still well-positioned to be Europe's key Islamic finance center due to its strong head start and existing infrastructure. London is currently home to 20 international banks which offer Shariah compliant financial services: with six of these operating as fully-fledged Islamic institutions.

GLOBAL

iSfin chooses Italy rep

GLOBAL: Global Islamic finance legal network iSfin has partnered with NCTM Studio Legale Associato, making the latter its exclusive representative for Italy.

Markaz optimistic

GLOBAL: Kuwait Financial Center (Markaz) in a recent report projected that the global Takaful market could reach US$25 billion by the end of 2015. It also noted that Islamic assets under management have been growing at a compound annual rate of 24.8% per year between 2008-12 to stand at US$1.76 trillion and that global Sukuk offerings have marked a 64% increase since 2011.

Call for microfinance support

GLOBAL: Governments worldwide should regulate and support Islamic microfinance institutions in their respective jurisdictions in a bid to alleviate poverty, urged Dr Fatima Al Blooshi, the minister of social development in Bahrain.

Perpetual Sukuk appeal

GLOBAL: The emerging trend of issuing perpetual Sukuk is deemed as a positive development for the Islamic finance industry as it highlights the diversification in Shariah compliant instruments taking place within the industry, said Ijlal Ahmed Alvi, CEO of International Islamic Financial Market.

Shariah scholar Sheikh Nizam Yaquby has also said that in light of the impending implementation of Basel III, Islamic financial institutions should consider issuing perpetual Sukuk due to their attractive features, reported a Gulf daily.

Malaysia-UAE pact signed

GLOBAL: The central banks of Malaysia and the UAE have signed an MoU to foster bilateral economic relations including boosting cooperation in Islamic finance.

MIDDLE EAST

IMF positive on the UAE

UAE: The International Monetary Fund (IMF) has upped its growth forecast on the UAE to 4% this year, making it the only GCC country to have an upgraded outlook. The forecast is based on increased oil production, a growing property sector and robust output in trade, retail activity and tourism.

QInvest reorganizes

QATAR: Following disapproval from Egyptian regulators for a merger with EFG-Hermes five months ago, Doha-based Shariah compliant investment

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S&P Dow Jones Indices debuts new Shariah compliant index focusing on the MENA region

GLOBAL: S&P Dow Jones Indices launched its new MENA Bond and Sukuk Indices on the 10th October, comprising the S&P MENA Sukuk Index and the S&P MENA Bond Index. The indices assess companies domiciled in 18 countries: Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, the UAE and Yemen.

The Islamic indices are screened for Shariah compliance through an international certification by a recognized Shariah supervisory board. The Sukuk and underlying assets involved will also be warranted as to their compliance with AAOIFI standards for tradable Sukuk and relevant Shariah principles similar to those established by the Dow Jones Islamic Market Indices. Charbel Azzi, the head of the Middle East and Africa for S&P Dow Jones Indices, explained that the new lists seek to provide investors with an "appropriate and timely measure of performance and trends in the Sukuk sector".

The S&P MENA Sukuk Index and its sub-indices are market-value-weighted and the securities incorporated therein are required to be US dollar-denominated bonds carrying a maturity of at least one year from the rebalancing date. In terms of the coupon rate, both fixed and floating rate coupon instruments are said to be eligible. The minimum credit ratings allowed for inclusion in the investment grade indices are 'BBB-'/ 'Baa3' / 'BBB' by S&P, Moody's and Fitch, respectively.

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bank QInvest will be restructuring its operations to focus on three key areas: investment banking, principal investments and asset management.

Qatar to adopt IBAN

QATAR: Starting from next year, the international bank account number system (IBAN) will be applied to all bank accounts in Qatar as a means of identifying and numbering bank accounts in the sultanate, said Sheikh Abdullah Saoud Al Thani, the central bank governor.

NBAD expands into Asia

UAE: National Bank of Abu Dhabi, the parent company of Abu Dhabi National Islamic Finance and the biggest lender in the UAE by market capitalization, is looking to expand its debt capital markets operations into Asia through Singapore in order to assist its Asia-based customers to tap MENA liquidity.

DIBF makes donation

UAE: As part of its 'Help' campaign, Dubai Islamic Bank Foundation (DIBF) has made a contribution of AED300,000 (US$81,669.5) to aid patients in Fujairah who are suffering from the blood disorder, Thalassemia.

Bank Alkhair wins legal dispute

BAHRAIN: Following last month's verdict by the Supreme Criminal Appeals Court sentencing the former CEO of Bank Alkhair, Majed Al Refai, to one year in prison for forging the Islamic investment bank's articles of association, the Bahrain Chamber of Dispute Resolution has issued a verdict in favor of the bank. The ruling orders Majed to settle a US$2 million financing he procured as CEO and to compensate the bank for all legal expenditure incurred.

Post-Arab Spring opportunities

EGYPT: Sixty nine percent of respondents in a Deloitte Corporate Finance survey have indicated that they will raise a new fund in the MENA region within the next 12 months to capitalize on increased investment activity in the region.

The Arab Spring has brought about attractive investment opportunities in the MENA region for private equity firms – particularly in tumultuous Egypt due primarily to its growing and affluent middle class, which reportedly exceeds that of both Saudi Arabia and the UAE combined.

Strong growth for Bahrain

BAHRAIN: Bahrain's economy is looking at a 5.3% growth this year. However, GDP growth is subsequently projected to ease to 4.2% in 2014 and 4% in 2015, according to the central bank.

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Islamic banks tap into the petrochemical industry as they partake in a US$1.06 billion Murabahah facility with TASNEE

SAUDI ARABIA: One of the kingdom's major petrochemical firms, the National Industrialization Company (TASNEE), is reported to have successfully procured a SAR4 billion (US$1.06 billion) Murabahah financing facility from several Islamic banks in the region. According to Mubarak Abdallah Al Khafra, the chairman of the company, the proceeds from the deal will enable TASNEE to fund future ventures and refinance existing debt.

The Murabahah facility was provided by a consortium of banks: namely Riyad Bank, Al Rajhi Bank, Bank Albilad, Emirates NBD, Saudi British Bank, Samba Financial Group, Banque Saudi Fransi, and Saudi Investment Bank. Mubarak further stated that the deal reflects the strength of the Saudi economy and the capacity of the banking sector in funding major projects in the kingdom. Under the terms of the contract, repayment is to be completed within a period of eight years and made on semi-annual equal installment basis. TASNEE is also granted an additional year which serves as a grace period thereto.

Incorporated in 1985, TASNEE is presently the second-largest producer of titanium dioxide in the world. As of the 30th June 2013, the company recorded a 40.38% decrease in net profits to SAR658.5 million (US$175.57 million) from SAR1.1 billion (US$293.29 million) in the corresponding period last year. The decline was attributed to the profit margin reduction in the titanium dioxide sector which was in turn due to a drop in selling prices. TASNEE last entered the market with a SAR2 billion (US$533.25 million) privately placed seven-year Sukuk issuance in May last year.

continued...

New Al Baraka campaign

BAHRAIN: Al Baraka Islamic Bank has launched a new mortgage and vehicle finance scheme, which will be in effect until the 31st December. The new scheme includes lower profit rates and greater repayment flexibility.

Qatar inflation hike

QATAR: Inflation in Qatar could reach 3.5% next year, according to Standard Chartered. This is due to a surge in government spending brought about by massive infrastructure projects which are expected to drive rental yields.

EIB's new retail product

UAE: Emirates Islamic Bank has launched a Shariah compliant supplementary card specifically for online shopping: dubbed the eShopper Card.

DIB and ADIB looking good

UAE: Dubai Islamic Bank is expected to register a 40.8% rise in quarterly profit to AED420 million (US$114.33 million); while Abu Dhabi Islamic Bank is projected to record a 14.9% increase to AED377 million (US$102.63 million) from the year before, according to National Bank of Abu Dhabi.

The expected growth is based on lower interbank offered rates, robust credit activity and bigger customer deposits as well as the emirate's improved quality in assets — all indicators of a recovering banking sector.

ASSET MANAGEMENT

Threadneedle opens in Malaysia

GLOBAL: UK-based Threadneedle Investments, the international investment management arm of US-based Ameriprise Financial, is planning to launch a suite of Shariah compliant funds in Malaysia targeting pension funds, insurance operators and government-linked companies.

Threadneedle currently manages around US$126.6 billion in assets and hopes to make its Malaysia office "a center of excellence for Islamic finance" according to Asia Pacific chairman Raymundo Yu.

RESULTS

Bank Dhofar

OMAN: Bank Dhofar, which operates an Islamic banking window, has registered a net profit of OMR49.06 million (US$127.06 million) for the nine months ended the 30th September, marking a year-on-year growth of 70.8%. Against the corresponding quarter in 2012 however, the bank posted a 10.9% drop in third quarter net profit to OMR8.3 million (US$21.5 million).

Arab National Bank

SAUDI ARABIA: Arab National Bank registered a 17.97% decline in net profit to SAR589 million (US$157.04 million) in the third quarter against the previous quarter.

However the figure represents a slight increase of 2.85% from the corresponding period in 2012. Total assets stood at SAR137.89 billion (US$36.76 billion) as of the 30th September, marking a 10% growth from the same period last year.

Alinma Bank

SAUDI ARABIA: Alinma Bank posted a net profit of SAR262 million (US$69.86 million) and total assets of SAR59.15 billion (US$15.77 billion) in the third quarter of 2013, marking an increase of 33.67% and 18.64% respectively from the corresponding period last year.

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Al Salam confirms BMI merger

BAHRAIN: After a year of ongoing discussions, Al Salam Bank Bahrain's shareholders have finally approved the acquisition of BMI Bank. The announcement was made in a bourse filing to both the Dubai Financial Market and the Bahrain Bourse on the 9th October. The extraordinary general assembly approved the recommendation to merge with BMI through an exchange of Al Salam Bank's shares.

The tie-up is in line with Al Salam's objective to position itself as the largest domestic Shariah compliant bank in Bahrain, and also fits with the Central Bank of Bahrain's strategy to drive consolidation within the banking sector as a means of creating a healthy competitive environment. In an agreement early last month, both banks consented to the exchange of 11 Al Salam Bank shares for each BMI share. Under the terms of the new resolution, Al Salam Bank will acquire 58.5 million shares from BMI at BHD1 (US$2.63) per share and subsequently will issue 644 million shares at 100 Bahraini fils (US$0.26) each.

Shaikha Hessa Khalifa Al Khalifa, the chairperson of Al Salam Bank's board, stated that the transaction is expected to result in improved earnings sustainability for the group. Following the merger, the entity will have approximately BHD1.8 billion (US$4.74 billion) in assets, financing facilities worth BHD1.2 billion (US$3.16 billion), equities exceeding BHD285 million (US$751.82 million) and total customer deposits of over BD1.2 billion (US$3.16 billion). The deal is expected to establish the merged group as the fourth-largest financial institution in Bahrain. BMI Bank recently reported a net profit of US$1.4 million for the first half of the year, an increase of 100% from US$700,000 in the corresponding period last year. Al Salam Bank on the other hand, recorded a net profit of US$15.88 million, indicating an improvement from the US$2.14 million loss it made in the same period in 2012.

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Samba Financial Group

SAUDI ARABIA: Islamic banking firm Samba Financial Group reported a net profit of SAR1.17 billion (US$311.95 million) in the third quarter, marking a marginal increase of 3% from the SAR1.16 billion (US$309.29 million) registered in the same period last year.

Al Rajhi Bank

SAUDI ARABIA: Islamic lender Al Rajhi Bank has posted a net profit of SAR1.72 billion (US$458.58 million) in the third quarter, marking an 8.13% decline from the same period last year. Total assets grew by 10% to stand at SAR272.98 billion (US$72.78 billion) as at the 30th September.

Al Salam Bank

BAHRAIN: Shariah compliant Al Salam Bank reported a lower total operating income of BHD6.1 million (US$16.1 million) in the third quarter as compared to the BHD9.54 million (US$25.78 million) recorded in the corresponding period last year; while total assets accrued to BHD1.05 billion (US$2.77 billion) from BHD942.22 million (US$2.5 billion).

Saudi British Bank

SAUDI ARABIA: Saudi British Bank recorded a 28.96% increase in net profit to SAR846 million (US$225.57 million) in the third quarter of this year against the same period in 2012, while total assets grew by 6.43% to SAR166.28 billion (US$44.34 billion).

Bank AlJazira

SAUDI ARABIA: Bank AlJazira posted a net profit of SAR189 million (US$50.39 million) in the third quarter, marking a 45.38% increase from the same period last year. Total assets grew 16.07% to SAR55.53 billion (US$14.81 billion).

National Commercial Bank

SAUDI ARABIA: National Commercial Bank announced a 17.1% increase in third quarter net income to SAR1.73 billion (US$461.25 million) as compared to the same period last year; while total assets for the first nine months of 2013 grew by 14.4% to stand at SAR367 billion (US$97.85 billion).

TAKAFUL

CBB revises Takaful framework

BAHRAIN: Abdulrahman Al Baker, the executive director of financial institutions at the Central Bank of Bahrain (CBB), has said that the central bank is working towards revising the current Takaful model in order to promote further growth in the industry.

The Takaful sector in Bahrain registered a 25% growth in 2012 reaching BHD49.8 million (US$131.46 million) as compared to the year before, making it the fastest-growing segment of the overall insurance industry in the kingdom.

Takaful Malaysia projections

MALAYSIA: Syarikat Takaful Malaysia expects a majority of its projected RM1.4 billion (US$439.68 million) in new business for the fiscal year ending the 31st December 2013 to come from its Family Takaful operations.

The operator is targeting a 40% share in the Family Takaful market and 20% of combined local Family and General Takaful business in the country.

Added convenience for Amãna Takaful

SRI LANKA: Amãna Takaful has signed into an agreement with local e-commerce platform wow.lk (formerly Anything.lk) enabling potential customers to access and purchase policies via the wow.lk website with added promotions and special deals.

RATINGS

Mukah Power Generation upgraded

MALAYSIA: Energy company Mukah Power Generation's 'AA3/stable/-' rating of its RM665 million (US$207.95 million) senior Sukuk Mudarabah program has been upgraded by RAM to 'AA2(s)/stable'. The firm is a subsidiary of Sarawak Energy.

Saudi Arabia stable

SAUDI ARABIA: Moody's has reaffirmed the Saudi Arabian banking system as stable. The outlook extends to the 10 Moody's-rated Saudi-based banks and the kingdom's 'Aa3' sovereign rating. However the rating agency warned of competitive pressures including corporate sector weakness.

Kuveyt Turk rated

TURKEY: Kuveyt Turk Participation Bank's short and long-term national scale ratings have been upgraded to 'AA-/A-1+' from 'A+/A-1' by the Islamic International Rating Agency. The bank's local currency ratings and foreign currency assessment were also reaffirmed at 'BBB/A-3'and 'BBB-/A-3', respectively, on an international scale.

Egypt unaffected

EGYPT: The US government's move to suspend a portion of its military aid to Egypt will not affect key indicators of the republic's creditworthiness, according to Fitch. Egypt is currently rated 'CCC+', 'CAA1' and 'B-' by S&P, Moody's and Fitch respectively.

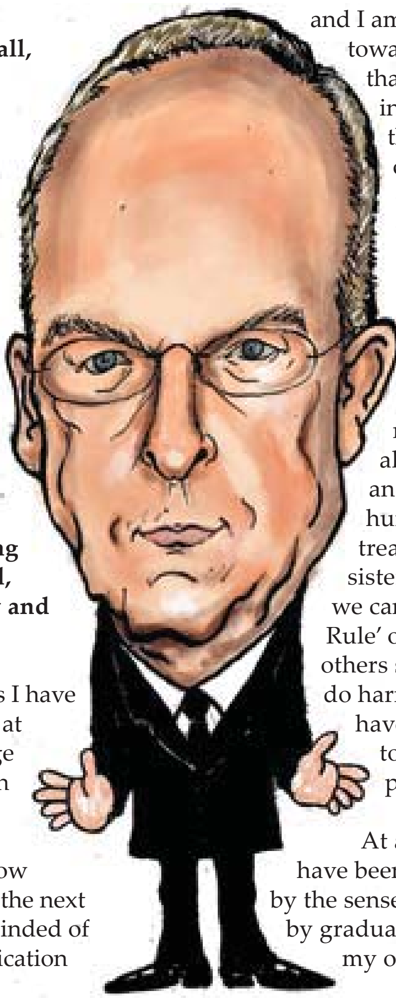
First Resources Sukuk reaffirmed

SINGAPORE: Palm oil producer First Resources' 'AA2' rating on its RM2 billion (US$624.52 million) Islamic medium-term notes program (2012/2022) has been reaffirmed by RAM with a stable outlook.

Daud speaks

By Daud Vicary Abdullah

Since I last wrote to you all, the last month has been quite intense. There has been travel to Turkey, the UK and Bangladesh, as well as a hive of activity around budgets and planning for the coming years as well as the annual highlight of a convocation. To be frank, it has also been a period of mixed emotions as a result of the sheer volume of work to be done. However, one abiding theme has surfaced during an extremely busy period, and that is one of 'family and communication'.



During the past few weeks I have had the privilege to speak at several conferences, engage with review committees on the future of the industry and discuss with learned experts and students on how we take Islamic finance to the next level. I am constantly reminded of the need to keep communication clear and simple (less is more), and I am also being drawn towards an argument that all humanity is in this together and that Islamic finance can allow us an opportunity to, not only share risk, but also to build a better society for the future.

So where does the family part come in? Well, at the macro level, we are all part of humanity and a reflection of our humanity is how we treat our brothers and sisters everywhere. If we can apply the 'Golden Rule' of not doing harm to others so that they will not do harm to you, then we will have taken a huge step towards solving the problems of the world.

At a micro level, I have been very impressed by the sense of family shown by graduating students from my own organization, INCEIF. With students and alumni from 80 countries around the world, there have been some remarkable displays of friendship and solidarity that can only augur well for the global development of our industry.

> ***"Islamic finance can allow us an opportunity to, not only share risk, but also build a better society for the future"***

Even in adversity and a challenging environment, many of the 'family' are expressing their views clearly and ensuring that a more accurate perception of our industry is being understood by the world at large! Theirs will be the shoulders upon which future generations will stand.

Never before has there been so much to do and with not a moment to lose.

SHARIAH PRONOUNCEMENT

DAR AL SHARIA
A subsidiary of Dubai Islamic Bank
www.daralsharia.com

Query:

The trade finance department of an Islamic bank is facing an unusual situation in an already executed Murabahah transaction with one of its customers.

The background of the transaction is that the customer approached the Islamic bank requesting for a Murabahah in order to finance the procurement of electrical goods from abroad from time to time on a documentary collection basis (i.e. without establishing the letter of credit).

Documentary collection is an international trade procedure in which a bank in the importer's country acts on behalf of an exporter for collecting and remitting payment for the shipment of an agreed consignment. The exporter presents the shipping and payment documents to its bank (in its own country) which sends them to its correspondent bank in the importer's country. The foreign bank (called the presenting bank) hands over shipping and title documents (required for taking delivery of the shipment) to the importer in exchange for cash payment.

The bank had already accepted the request by appointing the customer as its agent to negotiate and finalize the purchase of consignments from an identified set of suppliers up to a certain limit, and thereafter had started to receive the documentary collection documents in the name of the agent (customer).

In this particular instance, having found no discrepancy in the collection documents, the bank effected remittance of the total value of the consignment to the supplier's bank, and signed the Murabahah agreement with the customer, thereby delivering the shipping documents to the customer after appropriate endorsement, thus enabling the customer to get the goods released from port.

After a lapse of a week, the customer approached the Islamic bank with the information that due to a mistake at the supplier's end, the amount claimed by it in the invoice was less by about 15%, which needed now to be sent to the supplier. The bank also received a message from the supplier's bank to that effect along with the revised invoice.

Shariah guidance is sought to deal with this unusual situation in a Shariah compliant manner.

Pronouncement:

Shariah provides solutions to rectify any genuine errors and in this case the following procedure is required to be adopted:

a. The Islamic bank's staff should immediately visit the customer's warehouse in order to verify that the relevant consignment of the electrical goods has not been partly or fully disposed of by the customer. The available goods should be verified against the packing list received as part of the import documents;
b. Upon satisfactory inspection, the Islamic bank should obtain a fresh 'Promise to Purchase' from the customer. As explained in an earlier Fatwa, it is a unilateral undertaking only signed by the customer addressed to the bank;
c. The bank and the customer should sign the Murabahah termination/cancellation agreement which shall revert the title to the relevant consignment to the Islamic bank. The document shall also confirm that the goods are now in the customer's possession as the bank's trustee and not as the owner;
d. Having acquired the title and constructive possession, the bank shall enter into a new Murabahah agreement for the increased amount. The new Murabahah agreement's cost will be the revised purchase price, and the banks' profit will be calculated based on the same;
e. At the same time, the Islamic bank shall remit the extra 15% amount to the supplier's bank;
f. Since the bank paid the previous invoice amount to the supplier some time ago, it will be considered as an advance payment while ascertaining bank's profit calculation in order to reach to a fixed and known Murabahah sale price.

If the inspection of goods reveal that the customer has already utilized the consignment either partly or fully, the Islamic bank will not be able to finance the extra 15% by way of the new Murabahah and the customer will have to pay the same from its own pocket and the existing Murabahah shall continue without any change.

Dr Hussain Hamed Hassan
Chairman of the DIB Shariah Board
Managing director, Dar Al Sharia Legal & Financial Consultancy, Dubai, UAE

This Fatwa is brought to you exclusively by IFN in collaboration with Dar Al Sharia Legal & Financial Consultancy-Dubai. The Fatwa appearing in this space was obtained by Dar Al Sharia for issues faced by their clients and the documents stated in the Fatwa were developed at Dar Al Sharia. This Fatwa was compiled by Dr Muhiuddin Ghazi

The UK leads in Islamic finance education

Last month Cambridge Judge Business School, part of the prestigious University of Cambridge, announced the launch of a new Islamic finance program aimed at senior business executives. The course will provide a comprehensive overview of the industry along with insight into the competitive dynamics of the subject, over a series of two-day programs held in Cambridge, Dubai and London.

UK dominance

Cambridge is just the latest in a long line of global universities to offer Islamic finance courses. The UK leads the non-Muslim movement with at least 16 universities or business schools currently offering an Islamic-based MBA or similar qualification in 2013 compared to just nine in 2011.

> *How far are these programs actually helping to address the chronic shortage of qualified personnel in an industry crying out for new talent*

"On the positive side, the increased provision of Islamic finance programs brings more choice and greater competition," commented Dr Rodney Wilson, emeritus professor at Durham University in the UK and INCEIF in Malaysia, to Islamic Finance *news*. "However, too many rely on only one staff member with knowledge of Islamic finance, which can cause problems if the person is ill or otherwise unavailable."

Of all the UK institutions Durham has the longest and most illustrious history in the field; launching its original program over 25 years ago and now offering one of the largest PhD programs in the world.

Another of the UK's most prestigious institutions, Oxford, also covers the subject through the Oxford Center for Islamic Studies: a recognized independent center of the University of Oxford which was established in 1985 to encourage the scholarly study of Islam and the Islamic world. The Securities Commission Malaysia in collaboration with the center is in 2013 offering a Visiting Fellowship under a Scholar in Residence Program in Islamic Finance.

In addition, a wide number of professional associations in the UK also offer qualifications: including the Association of Business Practitioners, the Chartered Institute of Management Accountants and the Chartered Institute of Securities and Investments.

Harvard stands alone

Several other developed nations have also seen their leading educational institutions jump onboard; although none has yet reached the range and depth of the UK. Harvard University in the US founded its Islamic Finance Project in 1995 and in 2003 this became part of the Islamic Legal Studies Program and Harvard Law School — the only Ivy League institution to currently offer such a qualification. The project has since 2007 collaborated with the London School of Economics to offer two annual events on the subject: a specialized workshop on the methodological issues confronting the field of Islamic finance and a public lecture on Islamic finance. The Harvard University Forum on Islamic Finance was also introduced in 1997 in order to engage scholars, practitioners and regulators in productive dialogue. Previous forums have focused on recent economic and political developments in Muslim-majority societies; innovation and authenticity; the global recession and points of contact between Islamic finance and other types of ethical finance; while the 2013 forum was held in April of this year on Takaful and Alternative Cooperative Finance.

Other countries have also joined the ranks of serious contenders in the education space. In France, Reims Management School offers an Islamic finance course; while in 2011 the Instituto de Empressa Business School in Madrid, Spain (which has been offering Islamic finance courses since 2006) also partnered with Saudi Arabia's King Abdul Aziz University to launch the Saudi-Spanish Center for Islamic Economics and Finance. Strasbourg University's School of Management launched a degree in Islamic finance in 2009, while in Luxembourg the Institute for Training in Banking (IFBL) offers an Islamic finance graduate qualification. Universities in Canada (including McMaster University and the respected Rotman School of Management at the University of Toronto) and Australia (where La Trobe University was the first to offer MA and professional development programs in the subject) have also entered the education space.

The talent shortage

However, as yet another leading university jumps on the bandwagon we beg the question — how far are these programs actually helping to address the chronic shortage of qualified personnel in an industry crying out for new talent. In a lecture on Islamic finance last year Dr Raymond Madden, CEO of the Asian Institute of Finance, highlighted that: "The current shortage of qualified Islamic finance professionals is a challenge that poses a serious threat to the growth and development of the industry. If this issue is not addressed immediately, talent shortage may be an impediment to growth."

There is no doubt that the problem is real — but will these new programs help to address the issue or are they simply an opportunistic move from institutions keen to exploit the rapid growth of this burgeoning sector? While universities may be launching themselves into the industry with enthusiasm, many of these are shorter programs aimed at existing professionals as a stop-gap measure, rather than offering full degree programs that give a thorough understanding of the subject. "Academic programs are best provided at graduate level as Islamic finance is a specialization," explains Dr Wilson. "Professional courses can be useful for those in the industry or others who anticipate getting involved. Such programs are more practical, but lack the depth of academic programs."

The plethora of new programs may be a pragmatic move to raise the level of expertise and understanding in the industry — but will they ultimately fail to address the critical central issue of a long-term lack of qualified Islamic finance professionals? Only time will tell. — *LM*

Southeast Asian wealth market set to surge

A recent survey of 200 Asia Pacific asset managers commissioned by global investment management firm State Street has concluded that the wealth management market in the region is hovering on the edge of a critical turning point; and is set to explode into a tidal wave of growth over the next few years despite continued challenges of fragmentation and distribution.

The report, entitled 'Navigating for Growth', found that 28% of wealth managers across the Asia Pacific region are placing new market expansion as their top priority this year. The highly fragmented markets in the region have hitherto created challenges for the industry; with complexities over regional regulatory compliance, product innovation and efficient distribution systems inhibiting effective development. In addition, the widely varying local investor demands and legislative requirements across Asia require a tailored approach to each market that has presented significant cost challenges.

"The region is more fragmented than any other in the world in terms of size, geography, language, culture, regulation and tax harmonization," said Damien Barry, the senior vice–president of offshore funds services at State Street.

Consequent to this, the report found that product innovation remains the main concern, with 65% of respondents citing it as a serious challenge. Efficient distribution was the next biggest problem, with 60% of asset managers regarding cost-effective and flexible regional distribution as a core issue.

"The widely varying local investor demands and legislative requirements across Asia require a tailored approach to each market that has presented significant cost challenges"

Nevertheless, growth in the industry is expected to boom over the next few years as low returns and limited local markets push wealth managers to seek new pastures. And several key Muslim states are at the top of the list. Paul Khoury, the head of asset manager sector solutions in Asia Pacific for State Street Global Services, commented that: "Asset managers are looking to frontier markets with 54% of those preparing to enter a new market considering Malaysia, while 43% are considering expansion in Thailand" and a further 42% are also focusing on Indonesia.

Malaysia in particular has already cemented its focus on the sector, with the announcement by the Securities Commission (SC) last month of its goal to position the country as an Islamic wealth management hub. The announcement was made at a lecture organized by BNP Paribas and INCEIF in September entitled: 'Positioning Malaysia as an Islamic Wealth Management Marketplace — A Regulator's Perspective.'

According to Ranjit Ajit Singh, the chairman of the SC, the assets under management of Malaysia's Islamic funds are set to increase by over 300% to RM322 billion (US$101.13 billion) by 2020, from RM80 billion (US$25.12 billion) at the end of 2012.

Last week, our IFN report 'ASEAN Agreement to drive cross-border retail investment' (Volume 10 Issue 40) highlighted the importance of the new ASEAN fund management accord between Malaysia, Singapore and Thailand which is set to drive the industry forward and present greater access to Islamic funds for investors. This new report from State Street represents yet another illustration of an industry on the rise; and Islamic asset managers must be ready to grasp the coming opportunities in order to compete with an ever more eager pack of conventional competitors keen to leverage the wealth of Islamic investors. — *LM*

The meeting of two titans: The central banks of Malaysia and the UAE join forces

Bank Negara Malaysia and the Central Bank of the UAE have entered into an MoU to strengthen bilateral relations, particularly in the area of Islamic finance. Commenting on the signing the governor of Bank Negara Malaysia, Dr Zeti Akhtar Aziz, said: "I look forward to cooperation and collaboration with the Central Bank of the UAE in deepening our financial sector linkages."

The move is a good indication for the Islamic finance industry as a whole, as Dubai ramps up its efforts to become the focal point of a global Islamic economy, and Malaysia further cements itself as the poster child for Islamic banking the world over. When the Dubai government first announced its plans to create a working Islamic economy through the development of its education system to incorporate Islamic banking and finance at a tertiary level, developments in its financial system and on a regulatory level; many saw the move as positive, but worried that the emirate might have arrived slightly late in the game.

> *More importantly, it also signals that Malaysia and the UAE — currently the two biggest players in this industry — are working together*

The most significant proposition by the Dubai government so far in achieving its goal has been its announcement in March this year of the creation of a centralized legal framework to oversee Shariah compliant products and transactions within the region. Mobilized by the Islamic Economy Higher Committee of the Dubai government, the framework is expected to be completed by the end of this year.

Speaking to Islamic Finance *news*, a Malaysia-based banker said: "The cooperation between Malaysia in terms of expertise and as a center for talent in Islamic banking and finance, with Dubai's international appeal and talent, will definitely bode well for both economies as they look to position themselves on a global scale. More importantly, it also signals that Malaysia and the UAE — currently the two biggest players in this industry — are working together, and not in competition with each other."

The MoU provides the framework to further strengthen bilateral cooperation with the Central Bank of the UAE for the development of enhanced financial services linkages between the two countries, including in the area of Islamic finance, to support and facilitate greater financial and economic ties between the two. *—NH*

A Turkish Islamic megabank?

It has been reported recently that a mega Islamic bank will be launched in Turkey with up to US$1 billion in capital and that the bank is expected to be based upon the model of the European Bank for Reconstruction and Development (EBRD) with a focus on three areas: liquidity, infrastructure investments and capital investments.

With Turkey's ambitious infrastructure plans expected to be carried out within the next decade at a cost of up to US$350 billion, coupled with an escalating gravitation towards Islamic finance, this initiative seems to be the next logical step in Turkey's bid to become an Islamic finance hub. However, there are doubts on the ground as to whether a Shariah compliant 'megabank' established specifically for project financing is actually necessary when there are already four active participation banks in the republic.

With no official confirmation from the government, it is rumored that the new bank will be established through the existing participation banks pooling their resources together with each holding a stake in the new bank, alongside a government entity such as the Treasury. When asked if this new financial institution would hurt the existing banks as they would lose out in terms of project financing opportunities, a Turkish lawyer who deals with Islamic finance transactions shared with Islamic Finance *news* that: "Considering that the current banks may have stakes in this new bank, it would not be [much]against their interests. They are more focused on retail anyway. Besides the current ones cannot finance such big projects alone."

The source also added that the proposed bank — which some market experts have said is not dissimilar to the IDB but was compared to the EBRD to avoid possible debate — will serve as a conduit to tap into liquidity abroad, particularly from the Gulf region, and therefore should be welcomed as it would accelerate the growth of the Islamic finance industry in the republic.

An official with a market regulatory body however, who spoke to Islamic Finance *news* on the condition of anonymity, remains skeptical: "When Turkey announced its ambitions to make Istanbul a global financial center, it finally dawned upon policymakers that this project is not an easy one and extends far beyond merely constructing skyscrapers to mirror Dubai — hence the incorporation of Islamic finance. But with no 'real' information on this megabank, this could very well just be a PR stunt."

Despite the expressed skepticism, it is hard to deny that the Turkish government has made formidable strides in advancing Shariah compliant finance in the republic: with sovereign Sukuk issuances including the latest US$1.25 billion Sukuk Ijarah in Malaysia, advantageous tax reforms for Sukuk, the likely entry of two state-owned banks to the Islamic banking arena, and the recent partnership between the Treasury and the World Bank to establish an Islamic finance center in Istanbul, among others. It will be interesting to see what this new participative megabank will bring to the table when – or if – it is finally launched. *— VT*

Shariah compliance certification for IT banking solutions: How important is it?

In the past two months, two information technology solutions providers (Path Solutions and International Turnkey Systems) have lost their Shariah compliance certification granted by AAOIFI. Both companies are award-winning firms in the area of developing Islamic banking technology solutions and had, prior to the withdrawal of the certification, been guaranteed by the global standard-setting body for several years. So what went wrong?

A consultant with Path Solutions confirmed to Islamic Finance *news* that: "Yes, we're no longer certified by AAOIFI, but it does not mean that we are not Shariah compliant — we still adhere strictly to the guidelines set. It's just that recently, there has been a change in the process of certification involving a third-party company which is causing a slight delay and change in the process."

The consultant was referring to EY, which in February signed into an exclusive agreement with AAOIFI to conduct certification of financial software products for the Islamic banking and finance industry which involves a periodical review under the supervision of AAOIFI's board of Shariah scholars.

And while it has been reported that this joint initiative is to ensure that risks of Shariah non-compliance in financial institutions are mitigated and to assist IT providers in applying AAOIFI screening more effectively, the head of Islamic banking software solutions at another IT company has suggested that the introduction of a third-party firm is putting financial pressure on IT solution providers to attain AAOIFI endorsement.

"Frankly speaking, after reviewing the process and system of the certification, I am not surprised if the vendors decided to withdraw from being certified because it has become very expensive to obtain it," the source said.

"Personally, I feel like a new business has been created out of this at the expense of the vendors," added the IT professional in reference to the auditing process.

While it is not necessary for an IT firm offering Shariah compliant technology solutions to be endorsed by AAOIFI, or any international standard setting body for that matter (depending on regulations), vendors would nonetheless still need to comply to the criteria set by the central banks of respective jurisdictions, as well as gain the approval of the Shariah boards of their clients.

> ***"The introduction of a third-party firm is putting financial pressure on IT solution providers to attain AAOIFI endorsement"***

Asked if an AAOIFI (or IFSB) stamp of approval is important for its business, the Islamic banking technology solutions head concluded: "If and only when central banks make it mandatory for Islamic financial institutions to adopt an IT system that is certified by a global standard-setting body — which I've heard is being considered in Oman and Bahrain. Otherwise, tech firms go through a rigorous process in ensuring the Shariah compliance of their technology and they are used in many Islamic banks." — *VT*

Bank Indonesia sustains the stability of the country's financial system through real estate regulations

There has been talk that Indonesia may be facing inflation in real estate prices; with property shares on the Indonesian Stock Exchange rising rapidly. According to a report by Business Monitor International on Indonesia's property market in 2012, rents continue to soar across the majority of cities and commercial real estate sub-sectors.

According to Knight Frank's Prime Global Cities Index, Jakarta ranked top for the third consecutive quarter recording the largest rise in prime prices, with a growth of 27.2% per year.

With the republic's economy growing at an annual rate of 6%, Indonesia is clearly becoming a focus for new wealth in the wider Asia Pacific region.

In response to market concerns, Bank Indonesia has revised its 'Loan to Value' (LTV) and 'Financing to Value' (FTV) ratios for property credit and property-backed consumer loans. The amendment increases the minimum down-payment to 40% for a second home and 50% for a third home from the previous 30% required. However as an advantage for Islamic banks, these rules are not applicable to Shariah compliant structures such as Musharakah Mutanaqisah and Ijarah Muntahiya Bittamlik. Consequentially, it will be cheaper to procure Islamic mortgages as opposed to conventional ones.

Apart from maintaining financial stability, the policy also aims to boost banking resilience by prioritizing prudential principles when disbursing credit and slowing the concentration of credit risk in the property sector. Ancillary to these motives, the regulation seeks to afford low and middle-income earners the opportunity to acquire housing and enhance consumer protection in the real estate sector. Having applied a regressive LTV and FTV ratio, banks should be able to anticipate potential default risks attributable to weaker repayment capacity. — *NA*

Business as usual in Egypt

Amid fears of political instability it seems to be business as usual for the majority in Egypt. While inflation rose from 4.66% in December 2012 to 10.15% in September 2013 — an increase of 218% — there was a slight dip of 0.05% in August 2013 compared to the previous month which could also indicate a minor recovery in the domestic economy.

While Abu Dhabi Islamic Bank launched its Shariah compliant Cash Back Card last month in association with MasterCard International, Qatari financial institutions have also shown cautious optimism towards their investments; which include several large exposures in Egypt. However, Middle Eastern group Majid Al Futtaim Holding, owner of the hypermarket chain Carrefour, has stalled its entry into the Egyptian market until the situation improves.

The interim government's directive to remove all Islamic connotations from the Egyptian constitution might dampen the ambitions of Islamic finance and banking activities in the country. However, industry players remain optimistic. The general manager of relations and foreign investments at Faisal Islamic Bank Egypt, Mohamed Medhat M Yasseen, is confident about the strong economic outlook, commenting to Islamic Finance *news* that: "[The] future business environment from the view of our bank in Egypt is promising."

Earlier in September 2013 Ashraf Al Ghamrawy, CEO of Al Baraka Bank Egypt, said that the institution plans to grow its corporate financing portfolio in the country by 20% and its retail portfolio by 25-30% by next year. It is also planning to launch five new retail products and establish nine new branches in the country.

Following the ousting of President Morsi in July 2013, GCC countries such as Saudi Arabia, Kuwait, and the UAE have committed around US$14 billion in grants and interest-free deposits, of which around 50% have already been disbursed. Egypt's foreign exchange reserves have also increased from US$14 billion to US$19 billion.

Last week, Fitch Ratings indicated that the recent suspension of US aid to Egypt will have a limited impact on the country's external finances. — *SS*

Djibouti: Through the keyhole

This small country in the horn of Africa has quietly but substantially progressed in the Islamic finance arena. With four Islamic banks and a strategic geographical location it has much to offer not only to its own fledgling economy but to the larger masses of sub-Saharan Africa. SYED SIDDIQ AHMED explores.

Legal and regulatory: The Government of Djibouti established laws governing the Islamic financial transactions in January 2011. These laws govern both Islamic banking and Takaful operations. The president of Djibouti and the governor of the central bank have both voiced their support to strengthen the Islamic finance industry in the country; which has resulted in significant progress over the past six years.

Business environment: Djibouti's economy is largely concentrated in the service sector. Commercial activities revolve around the country's free trade policies and its position as a Red Sea transit point, and the country has a longstanding relationship with the Gulf which has firm foundations in Islamic finance. For example, in 2000 Dubai Ports World (DP World) signed a 20-year agreement with the Djibouti government to operate the Port of Djibouti. In 2008 this resulted in an innovative and award-winning US$427 million Shariah compliant financing transaction to develop the new Doraleh Container Terminal. The structure was the first ever Islamic deal to be supported by the World Bank's Multilateral Investment Guarantee Agency (MIGA), and was also funded by Dubai Islamic Bank and Standard Chartered, with reinsurance provided by the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). The Doraleh deal won the Islamic Finance *news* Best Country Deal in 2007. Djibouti in 2012 began the construction of its third port which will increase its capacity and more Islamic financing deals can thus hopefully be anticipated.

Banking and finance: In terms of banking, Djibouti has seen significant improvement in capturing bank accounts. For example, the total population holding bank accounts increased from 8% in 2009 to 12% in 2011 and Islamic retail deposits reportedly doubled between 2007-12. The banking system has substantially opened up with nine new banks entering in the last five years including four Islamic banks. Some of these have branches in neighboring countries or are foreign players, such as Saba Islamic Bank of Yemen.

Islamic banks	Date of establishment	Capital US$ million	Majority shareholders
Saba Islamic Bank	Jun 2006	1.7	Yemen, Dubai Islamic Bank
Salaam African	Dec 2008	3.4	Somali & Djibouti
Dahabshiil Bank International	Oct 2009	1.7	Dahabshiil FZCO
Shoura Bank	Jun 2010	1.7	Egyptian shareholders

Islamic banks have targeted rural non-banked communities that are largely outside the mainstream banking environment. They also aim to expand through collaborations with strategic partnerships with international and regional development banks to promote the development of the private sector.

The country has been supportive of the Islamic finance including the development of human capital. The University of Djibouti offers Islamic finance subjects, and in 2012 the country announced plans to launch an Islamic Finance Institute to cater to the development of human capital.

Foreign investment: Owing to its port activities, the country has seen a surge in foreign investment levels over the last few years; predominantly from GCC countries. With GDP growth increasing (from 4.5% in 2011 to 4.8% in 2012 and a forecast 5% for 2013) and inflation relatively under control at 3.8% (the Djiboutian franc is tied to the US dollar) the country is an attractive location for entry into the African continent.

The republic is a member of the International Center for Settlement of Investment Disputes (ICSID) and judgments by international courts are in-principle honored by the Djiboutian courts. There have been no investment disputes involving foreign companies in Djibouti in recent years.

Opportunities: There is a sizable opportunity for Islamic banking operations to expand as Djibouti's 94% population is Muslim, with three-quarters living in the capital — Djibouti city. Djibouti is eligible for the Overseas Private Investment Corporation (OPIC) program which offers up to US$400 million in combined financial and political risk insurance to the eligible investors. It is also a member of MIGA and of the Common Market for Eastern and Southern Africa (COMESA), which potentially gives access to over 300 million customer base in 20 countries.

As the country has fewer natural resources compared to other African countries there is potential to tap the funding requirements of developing industries and the SME sector via Shariah compliant funding and microfinance. The Djibouti government recently received US$100 million in funding from the IDB and in February this year announced the launch of a pilot Islamic microfinance scheme through the Islamic Djibouti Social Development Agency to promote access to Islamic financing for 10,000 households with no alternative income source.

Challenges: Although there are ongoing efforts to increase transparency in the overall functioning of the economy bureaucratic obstacles and delays may dampen the efforts of the market players. Notwithstanding its steady growth and security, political strife in neighboring countries affect its stable image.

Outlook: With its strategic location, Djibouti controls access to the Red Sea and the Indian Ocean – the world's busiest shipping passage – which gives it a major trade advantage. Djibouti has seen good political stability and economic growth unlike some of its neighbors. It has strong ties with France and the US and an excellent relationship with the GCC. With four Islamic banks already in the market and Islamic finance regulations in place, this small African republic looks set to be one of the major launchpads for Islamic finance in Africa.

Is Sukuk losing its identity?

As more and more jurisdictions raise funds through Sukuk, there has been substantial proliferation of Islamic finance in various regions of the world. The growing popularity of the instrument in the global capital markets has enabled both issuers and investors to benefit considerably. However, in its hitherto successful journey the asset class has still endured criticisms on the compromising of its core definition and purpose. SYED SIDDIQ AHMED discusses.

Riding on its growing popularity in diverse markets of the world, Sukuk has undoubtedly made Islamic finance known to the masses, aiding in the rapid growth of the industry. Often called 'Islamic bonds', investors have displayed pent-up demand post global financial crisis, compelling various jurisdictions to amend their laws and accommodate its spread.

Rising demand: The rising uncertainties in western markets have driven players to look for alternative financial models. One of the major institutions that has done so is the European Central Bank (ECB), which explored the possibilities and published an occasional paper on Islamic finance in Europe in June 2013. Sources have said that risk-sharing financial modeling structures are increasingly being considered in Europe.

A Suk (the singular of Sukuk) has the ability to be structured innovatively using many Shariah principles that have attracted various issuers. Saudi's Almarai Group, which completed the sale of its SAR1.7 billion (US$453 million) issuance in September this year, offered the Middle East's first corporate hybrid instrument to be structured on a perpetual and floating-rate basis; redeemable after five years. The recent Sukuk issuance by FWU Group was another example of innovation, with a life insurance policy linked issuance.

The trend continues: Most Sukuk that were issued in the second quarter of 2013 were hugely oversubscribed. However, the concern is that these continue to end up as buy-to-hold instruments thus giving little encouragement to the development of a secondary, tradable Sukuk market. Sukuk recently issued by Abu Dhabi's Al Hilal Bank were oversubscribed by as much as 12 times indicating a high level of market confidence in Sukuk despite the considerable volatility in the international market.

Risk sharing vs debt-based: There was an industry clamor following the high-profile statement of Mufti Taqi Usmani in 2007 claiming that 85% of issued Sukuk did not comply with Shariah law, with the usual promise to pay back capital violating the principle of risk and profit sharing on which Sukuk should be based. "You must face the actual consequences of your investment," Taqi said at an Islamic banking conference in Bahrain. "For current Sukuk, risk is not shared and reward is not shared according to the actual venture proceeds. About 85% of Sukuk are structured this way."

Sukuk oversubscriptions over the last three months

Issuer	Issue size US$	Oversubscribed by	Month of Issuance
Cagamas	18.4 billion	1.6 times	August
Syarikat Prasarana Negara (Prasarana)	302 million	3 times	August
Government of Turkey	1.25 billion	6.2 times	September
Government of Indonesia	1.5 billion	3 times	September
Malaysia Airports Holdings (MAHB)	157 million	3.4 times	September
General Authority of Civil Aviation (GACA)	4.06 billion	2 times	October
Osun Nigeria	62.2 million	0.2 times	October
Al-Hilal Sukuk	500 million	12 times	October

Source: IFN

This resulted in soul-searching from industry players as to the structuring and purpose of Sukuk. Today, with a majority of Sukuk being debt-based, concerned market players are asking whether Sukuk now are still simply replicating conventional bonds?

The inherent principles of Islamic finance that encourage risk sharing and equity to all stakeholders seem to become diluted, with form over substance issues raised in many cases. Although debt transactions are theoretically allowed, in strict terms they are discouraged in Islam. The recently concluded Sukuk issuance by the Saudi Ministry of Finance — Saudi General Authority of Civil Aviation (GACA) for SAR15.51 billion (US$4 billion) used the Murabahah principle for its structuring, for example. This is not to say that all issuances are debt-based however, as Sadara Chemical Company's issuance of SAR7.5 billion (US$2 billion) in June 2013 — based on a Musharakah (risk sharing) principle — demonstrates.

There is however a growing need especially from affluent issuers to continue to demonstrate and affirm the real purpose and reasoning of Islamic finance rather than deriving economic benefits from the proposition. This will go a long way towards instilling and safeguarding the true tenets of Islamic finance in the interest of maintaining a stable and sustainable economy. Shariah scholars may play a central role in this endeavor to promote risk sharing Sukuk structures within the industry.

A long road to perfection: There are conflicting opinions with regards to the capital guarantee clause in certain Sukuk, which in principle makes an Islamic financial contract invalid (with the exception of a few contacts such as Wadiah, or safekeeping). Contracts for the sale and repurchase of Sukuk assets at face value (and not the market value) have also raised considerable debate. Although Islamic financial principles allow flexibility with different Shariah contracts, industry stakeholders including Shariah scholars must make an attempt to curtail practices that may identify Sukuk as pure conventional bonds.

True asset-backed structures that have recourse not only to the issuer but also to the Sukuk assets themselves must be encouraged. Harmonization of Shariah rules within different jurisdictions with regards to the tradability and Shariah compliant liquidity must also be resolved. It is also important to have transparency in the process of structuring, arriving at profit ratios and the disbursement of profits between the issuer and the Sukukholders. Ultimately, Maqasid-al-Shariah needs to be considered in every Sukuk transaction in order to maintain Sukuk as a distinct brand of Islamic finance and to avoid conventional emulation.

Ratings and credit analysis of Islamic banks and Sukuk

With an annual growth rate of around 10-20% a year, Islamic financial markets are estimated to reach US$4 trillion in assets by 2015 according to KPMG data — and in this context more and more Islamic institutions are turning to global rating agencies such as Moody's to provide an objective opinion to the market on their creditworthiness. KHALID HOWLADAR explains the role of credit ratings in the industry.

Earlier last month, Moody's Investor Services assigned credit ratings to Al Hilal Bank, an Islamic bank founded around five years ago by the Abu Dhabi government in the UAE. Al Hilal's 'A1' issuer rating marks it as one of the highest rated Islamic banks globally. Moody's cited the bank's rapidly growing franchise, its solid asset quality and most importantly its 100% ownership by the Abu Dhabi government (rated 'Aa2', with a stable outlook) as the main drivers supporting the rating. Al Hilal is now the 12th Islamic financial institution to seek a credit rating from the agency.

So why do Islamic banks, which are founded on the ethical investment principles of Islam, want or need credit ratings?

In general, once an Islamic bank reaches a certain size, it will need to participate more in the global financial markets, particularly the interbank market. A new bank will be unknown to many of its global counterparts and as such many will demand a credit rating before taking counterparty risk with the bank. In order to grow, many banks will also need funding beyond their customer deposits and thus will turn to the global capital markets; this investor base will also often demand a rating before investing.

When Moody's assigns a credit rating to an entity that is raising funds (by issuing bonds or other securities) from investors, it is focused on assessing the risk of the borrower defaulting and not meeting its payment obligations on time. The agency does this by applying its published bank methodologies: essentially it analyzes the ability of the issuer to generate cash in the future by looking at its particular strengths and weaknesses. Moody's will also examine external and macro factors such as industry or national trends that could affect the ability of the issuer to meet its debt obligations; and of particular concern is the ability of management to keep generating cash in the face of adverse changes in the operating environment. In addition, Moody's assesses how the level of risk compares with other borrowers globally to ensure the consistency of the rating scale across different jurisdictions.

The majority of Islamic banks currently function similarly to conventional banks and make their money through financial intermediation. As such, they broadly face the same risks as conventional banks. The banks' counterparts and investors will also want a reliable and globally comparable risk assessment of the institution and any of the Islamic financial instruments, particularly Sukuk, that may be issued.

Assessing the credit risks of Islamic institutions and of Sukuk can pose a set of unique credit rating challenges

A key challenge often lies in analyzing the banks' financial statements, as Islamic banks often use industry-specific terminology to describe their balance sheets. Islamic financial intermediation is based on various Shariah compliant contractual agreements; but unlike conventional banks, where banking services and transaction agreements are explicitly debt based, many Islamic financial contracts are — in form — more equity-like, with many features designed to share risk between the bank and the customer on both the asset and liability side. Some of these contracts may expose Islamic banks to credit risk as well as some form of market risk.

However, the current nature of the industry means that Islamic banks generally operate like, and perhaps more crucially are regulated like, credit institutions. While there are exceptions, in practice the risk-sharing aspects are generally not applied on either the assets or the liabilities. Banks may make heavy losses, yet still pay investment account holders and investors their expected return. Customer expectations are key; and it's likely that any sharing of losses would lead to a 'deposit' flight, perhaps even causing systemic risk for all the local Islamic banks. Once all the risks of the balance sheet, both in form and substance, have been properly understood, Moody's can apply its standard methodologies used to rate financial institutions

The ethical investment principles that Islamic banks must abide by also create new operational complexities for management as they try to adhere to a set of five key principles derived from Shariah: a ban on interest, a ban on uncertainty, a ban on unlawful assets, a profit and loss-sharing obligation and an asset-backing obligation.

Each Islamic bank has an internal Shariah board which is tasked with reviewing and approving the bank's compliance with Shariah principles. For Moody's, Shariah non-compliance is an issue only to the extent there is ultimately some credit consequence.

The same approach is taken for Sukuk where again Shariah non-compliance is only relevant to the rating analysis if there is the possibility of it creating some financial loss for investors. The main challenge in assigning credit ratings to Sukuk lie in their complex financial and legal structure. Extensive legal documents need to be assessed by the analyst to get to the core of the credit risk.

Today the majority of Islamic banks are still credit and not equity-focussed institutions that have some particular characteristics driven by their need for Shariah compliance. There are some tensions between operating like a bank in a conventional market and being Shariah compliant, and this creates layers of complexity which need to be fully understood in order to conduct a comprehensive assessment of the underlying credit risks, before a rating is assigned.

Khalid Howladar is a senior credit officer with Moody's Investor Services, and he can be contacted at Khalid.howladar@moodys.com.

Al Hilal Sukuk sees strong investor demand

After conducting several international roadshows, Al Hilal Bank finally auctioned its US$500 million Sukuk issuance last week. The certificates reaped substantial investor demand and the issuance was 12 times oversubscribed, recording US$6.3 billion in its orderbook.

> ***"The overwhelming demand was an affirmation of Al Hilal's credit standing in the international financial community as well as the bank's strong growth"***

Approximately 220 investors participated in the bid, with a majority of the certificates taken up by financial institutions. In terms of geographical distribution, 37% of the investors were from the UAE, 21% hailed from GCC countries, 22% came from Asia, 17% were European investors and the remaining 3% originated from US offshore centers.

Taking into account the volatile market conditions, Al Hilal managed to use the resilience of the Sukuk market and the strong investor demand to its advantage in successfully pricing its transaction. Commenting on the deal Mohamed Jamil Berro, CEO of Al Hilal Bank, said: "The overwhelming demand was an affirmation of Al Hilal's credit standing in the international financial community as well as the bank's strong growth."

He further added that the Sukuk was priced at the tightest spread ever achieved by any Shariah compliant bank in the Middle East (a spread of 170bps over the US dollar at five-year mid swaps). The transaction is said to have re-opened the international Sukuk market following the disruptions after the US Federal Reserve's statements on tapering its asset purchase program.

Bearing a maturity period of five years, the Sukuk carry a return of 3.27%, to be paid on a semi-annual basis. Proceeds from the issuance are expected to be utilized for the bank's general purposes. The issuance, which represents a part of the bank's US$2.5 billion trust certificates program, has been assigned an expected long-term rating of 'A+(EXP)', an expected short-term rating of 'F1(EXP)' by Fitch and a provisional '(P)A1' senior unsecured rating by Moody's, with a stable outlook. — *NA*

Al Hilal Sukuk

US$500 million

مصرف الهلال
al hilal bank

7th October 2013

Issuer	AHB Sukuk Company
Obligor	Al Hilal Bank
Issuance price	US$500 million
Tenor	Five years
Coupon rate / return	3.27%
Maturity date	8th October 2018
Lead managers and bookrunners	Al Hilal Bank, Citigroup, HSBC, NBAD and Standard Chartered Bank
Co-managers	Bank Islam Brunei Darussalam (BIBD), Maybank Islamic Bank, Sharjah Islamic Bank and Union National Bank
Governing law	English & UAE Law
Listing	Irish Stock Exchange
Structure	Mudarabah/Wakalah Sukuk
Investor breakdown	Geographical distribution: UAE 37% Middle East ex UAE 21% Asia 22% Europe 17% US Offshore 3% Investor type distribution: Banks 48% Fund managers 31% Supra/Agency 13% Private banks 4% Insurance 4%

Should India issue sovereign Sukuk?

INDIA

By H Jayesh

India has not witnessed any issuance of non-local currency (rupee) denominated sovereign bonds of any kind (other than the India Millennium Bonds issued to non-resident Indians), though there have been talks of an imminent issuance. Various media sources have also reported potential Sukuk issuance by countries such as Australia, Ireland, South Africa, France and England.

The Government of India could consider a Sukuk issuance in consultation with the Reserve Bank of India (RBI), the central bank. In addition to channeling foreign exchange, an issuance could herald India as a major market for Islamic finance. The twin issues of stamp duty and taxation issues could also be mitigated, given the status of the 'borrower' (the government).

The investment market for a domestic sovereign issue is currently dominated by banks (both Indian banks and Indian branches of foreign banks), given the statutory liquidity ratio norms (as prescribed by the RBI).

The government could consider an Ijarah-based structure, which is perhaps the simplest of all Sukuk issuance and widely accepted. As in other structures, certain issues require prior deliberation.

(a) The Government Securities Act 2006 and the rules notified thereunder. The issuance of sovereign notes by the Government of India is governed by the Government Securities Act. The definition of government securities include a government promissory note, a bearer bond payable to a bearer; and a stock or a bond held in a bond ledger account.

(b) Sovereign guarantee. The principal and interest payments on government securities are typically backed by the central/state government and are considered risk free. As a result banks are not required to set aside any capital on their investments.

However, it remains to be seen whether Indian scholars shall consider Sukuk with an explicit sovereign 'guarantee', to be Halal. If a sovereign guarantee is not permissible under Shariah, then it would not be a 'risk-free' investment and banks may have to assign higher risk weights. Even otherwise, given the limited liquidity surrounding Sukuk in general, it is doubtful whether banks would take to the instrument.

> *"Given the limited liquidity surrounding Sukuk in general, it is doubtful whether banks would take to the instrument"*

(c) The asset-backed nature of Sukuk. If Sukuk are issued as 'asset-backed' then the understanding is that investors have ownership of the underlying asset. This may need to be deliberated in further detail, if Sukuk are subscribed by foreign investors and the underlying asset happens to be land or immovable property, which is typically the case in most Sukuk issuances (or any other asset that has restricted access under the Indian foreign investment norms). Issues pertaining to enforceability may come to the fore.

Although the government can relax this restriction in specific cases, it is unlikely to do so in all cases. The solution then is to raise funding against such assets that comply with Indian foreign direct investment laws and are under the automatic route. It is interesting to note an emerging trend of sovereign Sukuk issuances for funding government-owned or sponsored infrastructure projects that are subscribed by foreign investors. These investments are typically long-term in nature and are held to maturity.

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Refinancing fund for Islamic SMEs

BANGLADESH

By Md Shamsuzzaman

The Bangladeshi government will create a refinancing fund to the tune of BDT1 billion (US$13.88 million) for Islamic SMEs, mainly rural area-based units including agro-processing businesses.

The issue was discussed at a recent board meeting of Bangladesh Bank (BB), the central bank, with governor Dr Atiur Rahman in the chair. As per the decision, eight Islamic banks will receive the fund from the central bank for distribution in the rural areas at a reduced rate of profit.

The fund will operate on the basis of Islamic Shariah as rural areas in Bangladesh demonstrate a great demand for Shariah-based banking.

When asked, a senior official at the central bank said that each of the banks would receive a revolving fund on the basis of their demand. He also said different Islamic banks have been seeking for such funds for long time, and he expects that the fund will be available from January 2014.

The BB board memorandum on the requirements of the fund said that from a long-term perspective, banks are gradually helping to create a section of entrepreneurs across the country through financing and training. However, many people are still not interested in accessing formal banking on religious grounds, as Islam bans interest in business transactions. In view of this factor, the new fund will help bring those people under the banking network.

In addition, SME loans are in high demand in the growing rural economy, where entrepreneurs are running small-scale industrial units. Some of these groups specifically want to operate their business using a fully Shariah-based banking system, for which this product will be helpful.

According to BB statistics, eight Islamic banks distributed 42% of all SME funds distributed by all commercial banks in the fiscal year 2012-13. The credit flow to SMEs during the second quarter of the current calendar year increased 16% from the first quarter, BB sources said.

According to BB data, the loans disbursed to the SME sector rose to US$3.12 billion between April and June 2013, from US$2.69 billion in the January-March period. In total, the SME sector received US$5.81 billion during the first half of the calendar year.

For the year, the SME loan disbursement target was set at US$10.3 billion by the central bank. The data shows that over 56% of the targeted figure has already been distributed in the first half.

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The energy exchange in the Iranian capital market: Opportunities and challenges ahead

IRAN

By Majid Pireh

Iran is considered as one of the major oil and gas producing countries and is known to be the owner of one of world's largest hydrocarbon reserves and resources. This has led to attempts at progress in the refining and petrochemical industries, so that today, it is a producer of petroleum products.

Since one of the best and most transparent products pricing mechanisms is their supply in exchanges (bourses), in a 20th June 2011 meeting, the Exchange High Council of Iran voted for launching the fourth domestic exchange under the supervision of the Securities and Exchange Organization (SEO).

Accordingly, as a new bourse of the Iranian capital market, the energy exchange was formed in order to supply oil and petroleum derivatives, electricity, natural gas, coal, pollution rights and other energy carriers; all in a Shariah compatible manner. On the 10th March 2013 it officially began trading electricity, tar and coal.

Given the semi-governmental structure of energy production and distribution dimensions in Iran, which is regarded as a defect in this industry, and considering the accelerated privatization process and the implementation of Article 44 of the Constitution, the establishment of an energy exchange seems inevitable.

In the newly established exchange, besides trading real commodities, some models for Sukuk will also be applicable. As many know, Sukuk Musharakah have been issued since 1994 in Iran. In that year, the Municipality of Tehran embarked on the issuance of US$40 million-worth of Sukuk Musharakah with a four-year maturity period to finance the Navab Project.

Oddly enough, we have witnessed an uptrend since then with the issuance of over US$35 billion of Sukuk Musharakah in Iran. Comparing with the amount of US$4.5 million for Sukuk Ijarah since the first issuance in 2011, this indicates that there is a long way ahead for new models to gain ground in the country.

Nevertheless, the current infrastructure for issuing new Sukuk models other than Musharakah and Ijarah are displaying a desirable future. Sukuk Murabahah and Sukuk Salam are among the newcomers. For Sukuk Salam, it is noteworthy that since Iran produces energy, this sector has a lot of potential for trade and attracts considerable interest from investors.

Islamic financial instruments are likely to play a significant role in the energy bourse. Sukuk Salam are one of the key instruments for financing oil producers. The SEO has already ratified the issuance structure for Sukuk Salam to be traded on the energy exchange.

Regarding the above points, a great challenge to the development of the market comes with the lack of cooperation between the major institutions involved in the oil industry in the country. It is vital that the Ministry of Petroleum and the Iranian oil companies shake hands with the capital market to use the potential available for financing the oil industry. This has not yet taken place however. I am not sure what makes the oil managers afraid of the capital market, but I can strongly claim that Sukuk Salam are a very efficient Shariah-based instrument in this regard.

I believe that while the great potential for the Iranian oil industry could be considered a significant opportunity for the energy exchange, the oil managers' cautiousness represents a real challenge. While the fourth exchange is already operating in the country, with a higher rate of development it could open even brighter horizons for the Islamic capital market in Iran.

Majid Pireh is an Islamic finance expert at Iran's Securities and Exchange Organization. He can be contacted at m.pireh@seo.ir.

Leasing constraints in the MENA region: Egypt is not an exception

LEASING

By Professor Dr Shahinaz Rashad

According to World Bank reports, the leasing industry has long existed in MENA and is currently active in 70% of the countries in the region. However, despite its long presence, the leasing industry in the MENA region and specifically in Egypt remains generally under-developed by international comparison, but there is a lot of potential for further growth.

However, this potential will only be realized if MENA policymakers address the existing regulatory and institutional constraints hindering the growth of the industry. These include the absence of an effective legal framework that reduces ambiguities and introduces clear definitions of leasing and clear rights and responsibilities of the parties to a lease.

The growth of the industry is also hindered by lack of registries of leased assets, ineffective legal mechanisms for repossessing these assets, lengthy time taken to issue and implement court orders, and current treatment of provisions and default cases. Also, the leasing industry is still suffering from some double taxation issues for sale and lease back transactions without any tax levied on imported cars or equipment. Lessors should be able to enjoy the tax and duties exemptions rendered to lessees. Finally, the limited access to long term fixed-rate funding has restricted leasing companies' ability to mitigate their operating and treasury risks, especially independent providers which do not have easy access to bank finance.

Regulators should address several legal, taxes, and accounting impediments that includes lack of specialized courts for repossession of leased assets, standard asset register in case of equipment, and reconciliation between international and local accounting standards. Also, tax rules should recognize leasing as a financing mechanism and create a level playing field between leasing and other forms of finance, reducing the attractiveness of leasing.

> ***"The limited access to long term fixed-rate funding has restricted leasing companies' ability to mitigate their operating and treasury risks"***

This is in addition to allowing leasing companies to practice consumer leasing and operating leasing. Finally, policymakers should encourage leasing companies to focus on SMEs and micro lease financing. Accordingly, multilateral organizations such as the IDB should pay more attention to the leasing sector through channeling their grants and funds directly to serve micro lease financing institutions through these types of financial intermediaries.

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Death and taxes

REAL ESTATE

By Philip Churchill

A very somber start to any article, but as Benjamin Franklin, one of the founding fathers of the US, once said: "The only things certain in life are death and taxes." And whilst the UK is no different, our nation is also keen to encourage overseas investment and has created a mostly level playing field for Islamic finance.

The UK has long appreciated the importance that overseas investment in real estate brings. Whilst providing the firepower to deliver many of the iconic developments of central London, from The Shard to One Hyde Park, it also provides tremendous liquidity to the investment market. This encourages domestic developers to build more, knowing that there is an active international market looking for investment opportunities. Helping to motivate this investment is a tax regime where overseas ownership of UK real estate, when held for investment purposes, does not attract any tax on sale profits, thus encouraging longer-term holds and 'sticky investment'.

Thankfully, the UK was also one of the first nations to appreciate the importance of overseas investment from Islamic countries and the necessity to ensure that the tax structure did not discourage or penalize those wanting to invest in a Shariah compliant manner. So, whilst the transfer tax on lease contracts (Ijarah or otherwise) quickly ruled out the use of such contracts in Islamic real estate structuring, Her Majesty's Revenue & Customs (HMRC) introduced the 'Alternative Finance Arrangements' which ensured that profit rates payable on Murabahah transactions would be tax deductible, providing a parity with conventional interest payments.

I've reported before on the VAT rules that currently materially, but inadvertently, penalize against a true property Murabahah transaction being undertaken, but I remain hopeful that one day the 'Transfer of Going Concern' rules will be amended to allow a bank to own a property for less than a day before selling it on to the intended party, without VAT at 20% (albeit recoverable) being charged.

To reference Mr Franklin again, I would add that whilst death and taxes may be certain, professional advice can at least delay or reduce the impact of both. Wishing you a long life and tax efficient real estate investment!

Philip Churchill is the founder partner of 90 North Real Estate Partners. He can be contacted at pchurchill@90northrep.com.

Islamic finance in Djibouti: Gaining momentum

Djibouti occupies a unique place at the confluence of three continents and has a government committed to the promotion of the Islamic finance industry. Yet despite its potential, significant barriers continue to inhibit development. BACHIR FARAH BADAR looks at the current situation.

A few years ago the Djibouti banking market exploded with various laws and amendments voted in which enabled the development of the sector, driven by president Ismael Omar Guelleh's vision of domestic growth. Djibouti aims to be a regional hub in trade for all of its landlocked neighboring countries by developing port infrastructure and related services such as Free Zones. Geographically well-positioned and at a crossroads of the Middle East, Asia and Africa, Djibouti also plays a major role as a financial hub in order to facilitate the huge volume of trade between three continents.

> ***"The current offering in actual fact remains predominantly limited to Murabahah and Mudarabah"***

With initially only two conventional banks, a history of French colonialism heritage and with an almost non-existent central bank, the country's financial system was however not in a position to manage the upcoming huge volume of trade.

Restructuring began with a total reshape of Djibouti Central Bank (the main regulatory body of the Djibouti banking sector) and an opening of the market for smaller conventional banks as well Islamic banks waiting in the wings for their turn.

The first Islamic bank, Saba Islamic Bank, opened its doors in June 2006 after the law related to Islamic banking was voted in by parliament. Since that time three others banks have opened their doors successfully, all of which offer fully Shariah compliant Islamic products.

However, the current offering in actual fact remains predominantly limited to Murabahah and Mudarabah transactions due to the market demand. The Islamic banks in Djibouti are only currently operating for individual customers and livestock traders who have been rejected or who don't have enough access to the two main ruling conventional banks.

This is the result of a lack of awareness and lack of confidence. They are not engaging enough resources or promoting their offers strongly enough by developing an aggressive marketing strategy in order to circumvent the takeover of the industry by the conventional banks. And a bank cannot survive in the long-term with only two products.

This situation is creating frustration. The stakeholders are waiting for return on investment and profit and at the other side the management of the banks are unable to manage their assets and liabilities efficiently because of the market conditions. And this is common for all four Islamic banks in the country. In addition, some banks may also reportedly be driven to commit breaches of the central bank or Shariah laws. For them it might appear to be the only way to compete with the conventional banks, but this is only a short-term measure and is not sustainable in the long-run.

Bachir Farah Bada is an auditor and financial controller at the Djibouti Ports & Free Zones Authority (DPFZA). He can be contacted at farah.badar@d-portsfz.dj.

Sukuk: The Shariah spirit within Sukuk

The spirit of Shariah is that the money is gifted by God and needs to be utilized for prosperity and development purposes. Having said this, Sukuk are the most popular Shariah compliant instruments to collect money and invest in constructive projects. MOHAMMAD ABDULLAH MALIK DEWAYA explores the spiritual heart that lies at the center of this asset class.

It is also the spirit of Shariah that capital should be invested on a profit and loss sharing basis. Basically, it exposes the capital to certain risks in order to make cautious and balanced investment decisions. Hence, Sukuk are classified as asset-based and asset-backed Sukuk purely from a profit and loss sharing perspective.

The Arabic word 'Sukuk' can be simply translated as 'certificates'. So the first understanding is that there will be a party who will issue some financial / ownership / partnership certificates, which is regarded as the Sukuk issuer. On the second hand, the parties who purchase such certificates are called Sukukholders.

Special purpose vehicles (SPV)

Commonly, in any Sukuk structure there is the involvement of one or more SPV depending on the complexity, structure and size of the Sukuk. SPVs are mainly designed to manage the assets of the Sukuk and to administrate the cash flow from the time of purchasing the Sukuk, directing the proceeds and ending by profit distribution and capital return by an agreed exit method. However, for the sake of exploring new possibilities we ask: why not use the SPV model for interbank liquidity management of Islamic banks? What if the central banks or state banks take on the role of the SPV? Would it help them with Shariah compliant liquidity management of Islamic banks? I leave these questions open for debate and development.

Innovation in Sukuk assets

So far Sukuk issuances have proved that innovation in this successful Shariah compliant instrument is yet to reach its full potential. Any tangible or intangible asset that has value to the community, country or public can be securitized to issue Sukuk. For example, call minutes from telecoms companies can be sold to Sukukholders. The toll collections of the highway can be securitized, and the usufructs of seats in an airline can be sold to Sukukholders. Similarly, the services of doctors at hospitals can be sold to Sukukholders by way of Sukuk Ijarah. Sukuk Mudarabah can be sold to the public in small denominated certificates. The opportunities are limitless provided that they are reviewed by a Shariah reviewer and approved by the Shariah board.

Sukuk Al Ijarah (sale of usufruct)

Sukuk Ijarah are regarded as the most secure Sukuk. The process of these Sukuk is given below:

- The issuer issues the prospectus or offering circular defining the asset which it intends to securitize.
- The circular explains the different aspects of the issue: including Shariah certification and Shariah board details, the financial, market, political risks, the rating if any, listing, maturity date, rental payment schedule, memorandum of structure etc.
- The SPV will collect the funds from the Sukukholders and pay the price of asset or the usufruct to the issuer.
- The SPV acts as agent to collect the proceeds and distribute them to the owners i.e. the Sukukholders.

Asset-based Sukuk Ijarah

The Shariah ruling is that the Sukukholders shall bear the profit and loss of units represented by the certificates or the Sukuk. Briefly, the above statement is given in order to answer the question widely asked: what is the different between asset-based and asset-backed Sukuk?

As a matter of fact, so far the asset-based structure dominates Sukuk Ijarah issuance. Why is this so? The answer is that the rate of return is pre-determined and fixed regardless of the actual returns of the leasing of the asset. The Sukukholders lease the asset to the original issuer, who undertakes to pay the rental on the date and rate agreed upon. In result, he takes all the risk related to actual fluctuation in rental returns of the asset. The asset is transferred to the issuer at the end of the period or the maturity date by way of sale on agreed price which is normally equal to invested capital. However, the agreement shall not stipulate that the sale price will be at face value to comply with Shariah principles. All the above characteristics make this type of Sukuk popular for the issuer and participants.

Are asset-based Sukuk the same as conventional bonds?

Some people say that as per the market experience these are almost similar to the bonds. However, it is worth mentioning that these Sukuk are significantly different from the conventional bonds, for example, there is no involvement of interest element in the Sukuk unlike the conventional bonds which are mainly based on interest yield. The risk of asset depreciation, damage and total loss lies with the Sukukholders which is not the case with bonds. Hence, this type of Sukuk is valid and Shariah compliant due to the compliance of the structure.

Asset-backed vs asset-based Sukuk

So what is the difference between the above-mentioned asset-based Sukuk and asset-backed Sukuk? The brief answer is that in asset-based Sukuk, the Sukukholders do not have direct recourse to the underlying asset – i.e. they keep getting a fixed return regardless of the actual rental fluctuation of the asset. In addition, usually the Sukukholders are not given the official title transfer by the concerned agencies of the government. On the other hand, in the case of asset-backed Sukuk Ijarah, the fluctuation in rental proceeds directly reflects on the Sukukholders by an increase or decrease in the return distributable to them and the event of default shall lead to execution on the underlying assets.

Mohammad Abdullah Malik Dewaya is the head of Shariah compliance and audit of Maisarah Islamic Banking Services. He can be contacted at ma.dewaya@bankdhofar.com

Takaful — the road ahead: Challenges and opportunities

The Takaful and re-Takaful industry continues to grow but its influence remains limited to predominantly Muslim markets, while challenges remain which impede its healthy development. Key questions facing Takaful executives include how to achieve growth in the current market conditions and how to handle a fast-changing environment coupled with an equally rapidly evolving regulatory and governance landscape. ADEEL MUSHTAQ explores how issues such as the lack of a fertile re-Takaful market are holding back the market.

Over the years, Islamic insurance products such as Takaful have gained a stable customer base and recognition in the Middle East, Malaysia, Africa and Pakistan. Whereas survival and recognition have been the number one priority for many re-Takaful firms, since the emergence of the Takaful/re-Takaful sector, growth opportunities have largely been oriented towards the predominantly Muslim population. Nevertheless, Takaful has equally attracted interest from all segments of the market.

For re-Takaful firms based in the Middle East, the challenge largely has been to meet the growing demand for Shariah compliant insurance, while dealing with high price competition from conventional insurance firms, in a low economic growth environment coupled with volatile equity markets. Meanwhile, the world continues to change around us: from extended life expectancy to increasing urbanization, from more extreme weather events to greater use of social media, and from an increasingly interconnected world where trust in global financial institutions has been eroded.

Recent developments and the latest data serve to confirm the view that the Islamic insurance sector is the largest and most dynamic in the Middle East and North Africa (MENA) region. Despite the fact that the sector is still immature and moving towards becoming a credible model of its own, premiums in the sector have been growing at a compound annual growth rate (CAGR) of 20% over the last five years and are estimated to grow at a CAGR of 19% from 2012-15. In spite of this however, we continue to see a lack of well-rated re-Takaful capacity for large industrial and specialist risks.

SWOT analysis of the GCC Takaful sector

- High level of infrastructure development projects;
- Compulsory lines of insurance;

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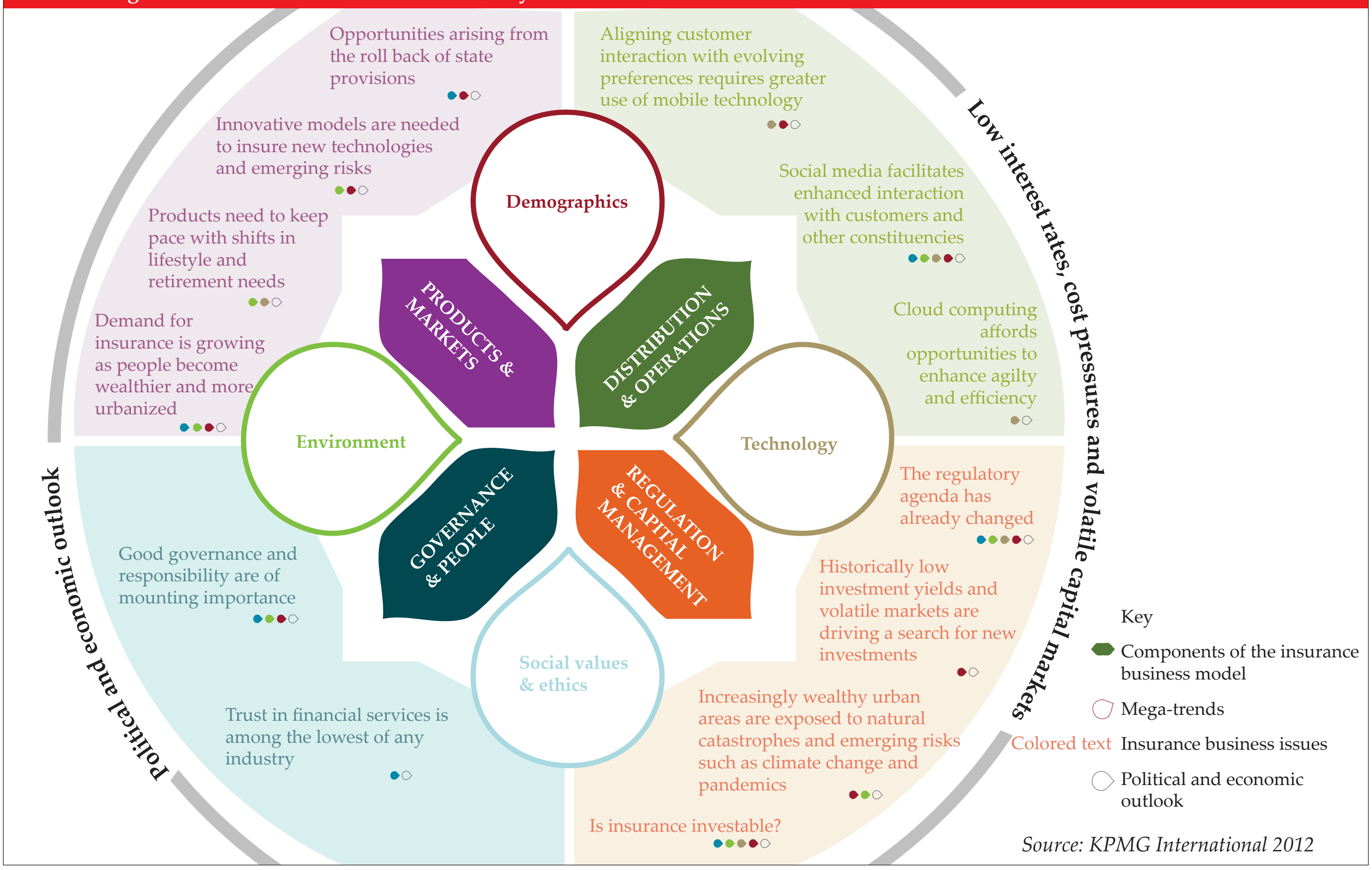
Chart 1: Megatrends in the Islamic insurance industry



Source: KPMG International 2012

Continued

- Shortage of re-Takaful capacity for large industrial and speciality risks;
- High level of competition i.e. between conventional and Takaful companies;
- Low-level of retention within insurance/Takaful carriers;
- Low-level insurance penetration;
- Low penetration of life business hence opportunity to develop family Takaful distribution model;
- Demand for Shariah compliant products;
- Customer awareness/understanding of Takaful theory is lower compared to other segments of Islamic finance;
- Shortage of expertise and human capital development;
- Takaful business faces higher business operating costs i.e. cost of compliance and operator fees.

"In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment." — Charles Darwin.

We have distilled the themes we see emerging today globally and regionally in the GCC in the re-Takaful and insurance sectors into four overarching megatrends which we believe are going to shape the future of the industry:

1. The environment: The combination of natural catastrophes, urbanization and growing wealth are changing the shape of risk.
2. Technology: Greater connectivity and use of social media provide re-Takaful firms with access to an unparalleled wealth of data.
3. Demographics: A growing population and longer life expectancy create opportunities but pose important questions about how re-Takaful healthcare and retirement products are best structured and delivered.
4. Social values and ethics: There is a significant opportunity to harness the power of social media to empower stakeholders as ambassadors for responsible business.

Products and markets

We often see that, as an Islamic finance concept, Takaful is still less understood by customers compared to other elements such as Islamic banking. Often customers are unable to distinguish Takaful contracts from conventional insurance policy, thus making competition price sensitive. It is important to recognize that Takaful products are inherently expensive because of the premium nature of the service and higher compliance requirements. As Takaful companies grow, they will naturally invest in much-needed research and development.

> ***"Forward-looking Takaful firms are starting to explore the growing impact of using social media to communicate with customers, cater to evolving buying behaviors and mine a rich source of customer insights"***

As the Takaful sector establishes itself, the greatest challenge is to meet the shift in environment. We see growing urbanization — likely to have positive impact on demand for insurance and Takaful products.

- Takaful needs to achieve critical business volume within a highly competitive landscape;
- Ambitious infrastructure projects are going to be growth drivers thus a larger role for insurers is expected to support this growth;
- The industry is progressive and well-placed to attract international insurers looking to set up base outside of traditional centers.

The combination of growing wealth, urbanization and population growth, as well as emerging risks, is changing the shape of risk. Takaful firms investing in R&D to develop Shariah compliant products are likely to benefit most. Currently not many customers are able to differentiate Takaful products from traditional or conventional products. Key business issues insurers must consider now for the future include:

- Demand for Takaful products will grow with changing environment such as urbanization;
- Products need to keep pace with shifts in lifestyles and needs;
- Opportunities arising from the rollback of state support.

Distribution and operations

Takaful as a concept is dynamic though in its infancy: thus different models and names with slight variations are operating across Bahrain, Malaysia, Pakistan, Sudan, Saudi Arabia, the UAE and other jurisdictions. We see this as a strength and not a weakness — as they say: "Rome was not built in a day."

In the new state of play, customers also increasingly expect to access services where, when and how they want, using smartphones and tablets. Forward-looking Takaful firms are starting to explore the growing impact of using social media to communicate with customers, cater to evolving buying behaviors and mine a rich source of customer insights.

Successfully building trust creates value and Takaful firms can enhance value by:

- Aligning customer interaction with evolving preferences for greater use of mobile technology;
- Utilizing social media to enhance interaction with customers, sales agents and intermediaries and other stakeholders through the democratization of information;
- Utilizing technology such as cloud computing to enhance agility and efficiency.

Governance and people

The approach of many supervisors continues to build upon the G20 concepts of 'Treating Customers Fairly' and 'Customer Outcomes' and includes some key lessons from recent insurance conduct issues. The new approach moves

continued...

Continued

away from the traditional focus on point of sale and places the regulatory lens squarely onto product design and customer value — in particular the product development process and governance; product features and customer needs; and whether products are designed to be suitable and remain suitable for the intended consumer market.

Fair treatment of customers is driving up the governance and customer agenda globally. Global surveys indicate that the Takaful concept is less understood by customers compared to other segments of Islamic finance and this would be an excellent opportunity for firms to strengthen relationships and reputation through engagement.

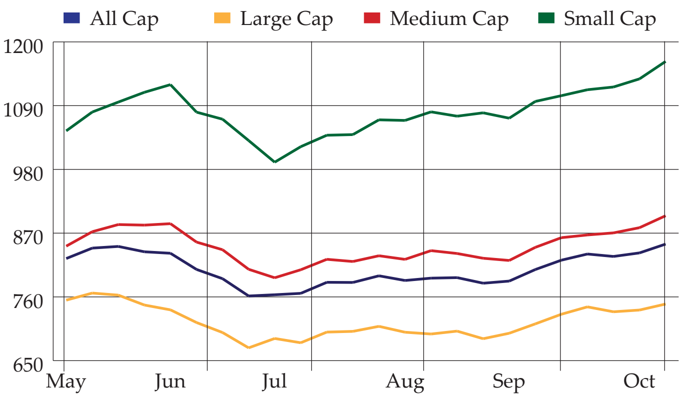
Regulation and capital management

The unrelenting pace of regulatory reform across the financial services sector continues and important insurance initiatives such as the IAIS (International Association of Insurance Supervisors) Insurance Core Principles (ICPs) will be a key focus for many insurers over the next few years. As GCC insurance supervisors begin to examine how best they can introduce the new IAIS/ICP requirements, a growing strategic challenge for insurers is how best to accommodate compliance and reporting requirements and continue to extract value. It is difficult to remember a time when the region's insurance/Takaful companies were facing so many regulatory pressures from so many sources. Coupled with the plain fact that the region is supporting the growth and expansion of the Takaful industry, it is clearly critical for Takaful companies — both those operating solely on a local and domestic level or those operating globally and throughout the region — to build the tools and capabilities to cut through this period of increasing regulatory complexity and build a solid platform that supports the successful implementation of strategy into the future.

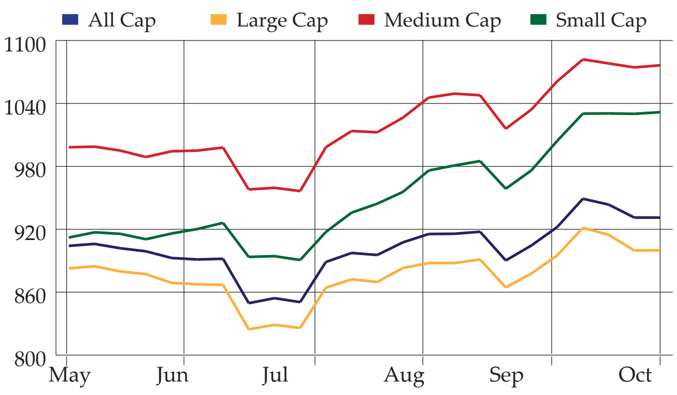
Adeel Mushtaq is a senior manager at KPMG Assurance and Advisory Services and the project manager for the KPMG AAOIFI technical team assisting in the development of the AAOIFI Takaful standards. He can be contacted at adeelmushtaq@kpmg.com.

ISSUER	SIZE	DATE ANNOUNCED
Government of Ras Al Khaimah	US$500 million	16th October 2013
National Commercial Bank	SAR4 billion	11th October 2013
ACWA Power International	US$800 million	4th October 2013
Islamic Development Bank	US$10 billion	7th October 2013
Government of Yemen	YER50 billion	30th September 2013
Emirates Airline	TBA	25th September 2013
Government of Pakistan	INR7 billion	20th September 2013
Government of South Africa	US$700 million	20th September 2013
Housing Development Finance Corporation	MVR50 million	17th September 2013
TH Heavy Engineering	RM51.54 million	6th September 2013
Almarai Company	SAR1.7 billion	5th September 2013
Bank Asya	TRY125 million	4th September 2013
Albaraka Turk Katilim Bankasi	US$200 million	4th September 2013
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
Genting Plantations	RM1.5 billion	26th July 2013
Republic of Senegal	US$200 million	25th July 2013
Masraf Al Rayan	US$1 billion	25th July 2013
Tamweel	US$235 million	25th July 2013
Bank Asya	TRY1 billion	23rd July 2013
Osun State	NGN10 billion	22nd July 2013
Syarikat Prasarana Negara	RM4 billion	18th July 2013
Dubai Investments	AED1.1 billion	16th July 2013
Tenaga Nasional	RM2 billion	3rd July 2013
Sumatec	US$100 million	24th June 2013
Al Baraka Bank Turkey	US$450 million	21st June 2013
Al Baraka Bank Turkey	US$200 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
VTB Bank	US$1 billion	3rd June 2013
Al Baraka Islamic Bank	US$200 million	20th May 2013
MMC Corporation	RM470 million	15th May 2013
Egypt Government	US$10–15 billion	14th May 2013
Puncak Niaga Holdings	RM165 million	14th May 2013
Dubai Investments Company	US$300 million	13th May 2013
Almarai	US$500 million	9th May 2013
Saudi Basic Industries Cooperation (SABIC)	SAR40 billion	8th May 2013
Batu Kawan	TBA	7th May 2013
BNM Sukuk	RM1 billion	7th May 2013
Tilal Development Company	OMR50 million	6th May 2013
Khazanah Nasional	US$1 billion	25th April 2013
Dana Gas	TBA	24th April 2013

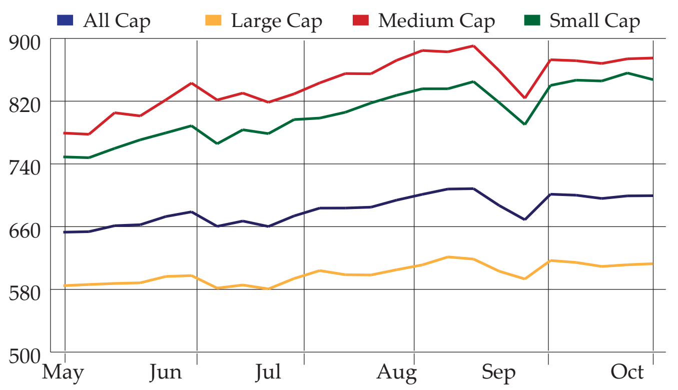
REDmoney Asia ex. Japan *6 Months*



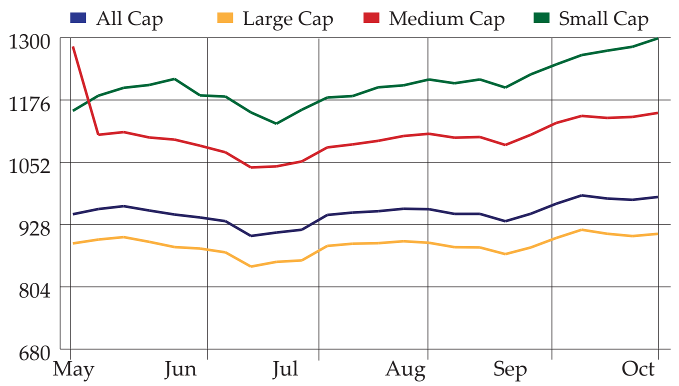
REDmoney Europe *6 Months*



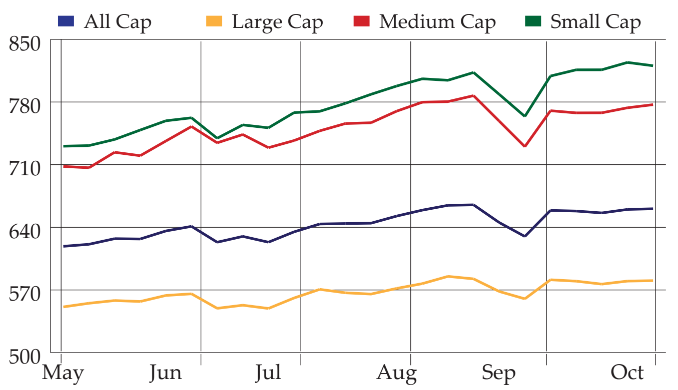
REDmoney GCC *6 Months*



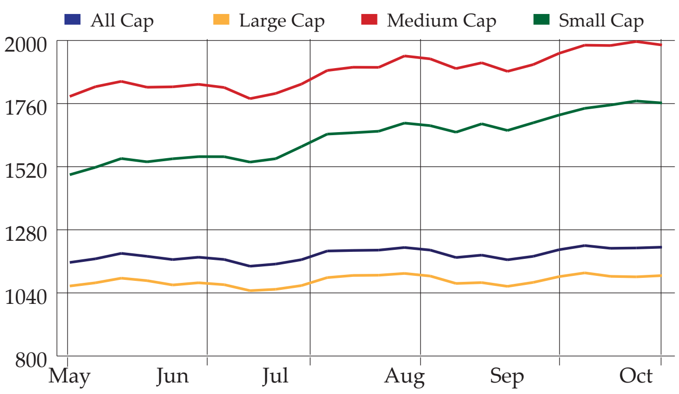
REDmoney Global *6 Months*



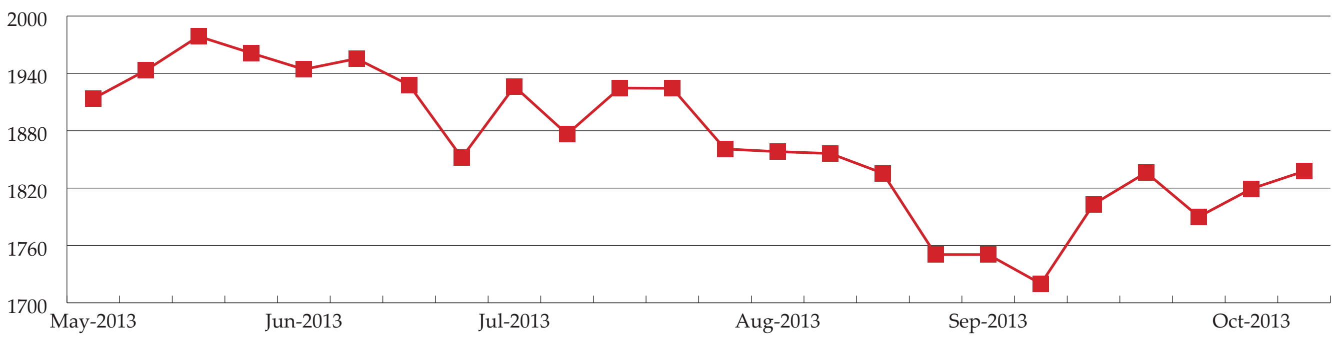
REDmoney MENA *6 Months*



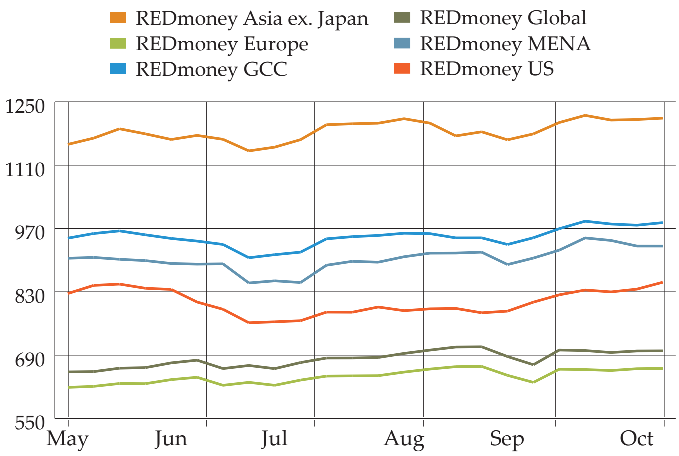
REDmoney US *6 Months*



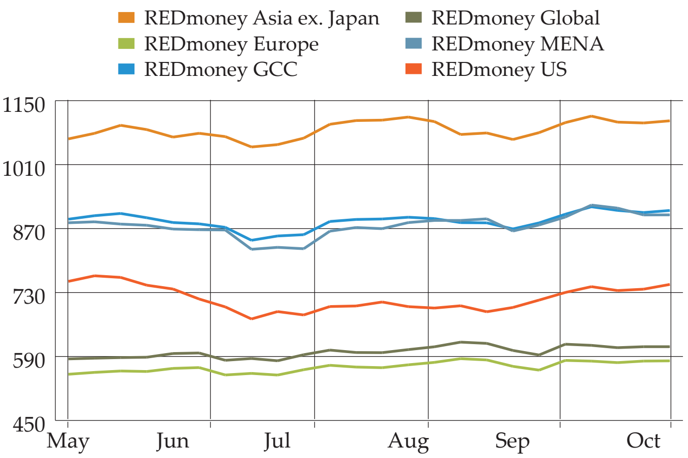
SAMI Halal Food Participation (All Cap) *6 months*



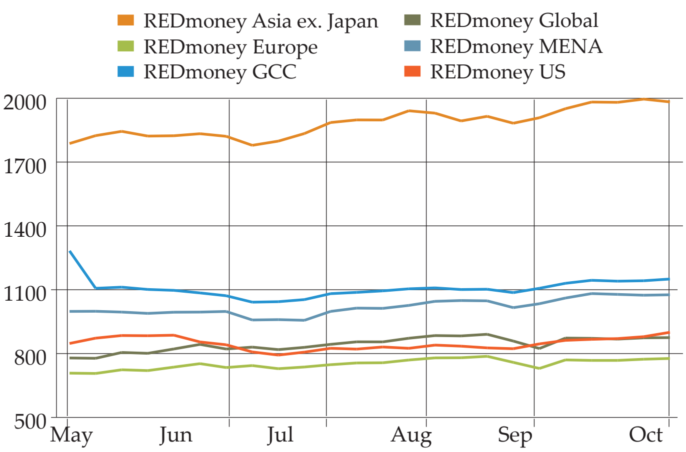
REDmoney Global Shariah Index Series (All Cap) *6 Months*



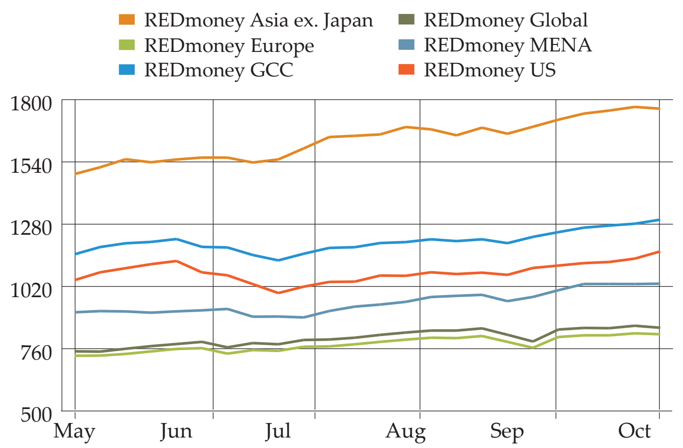
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



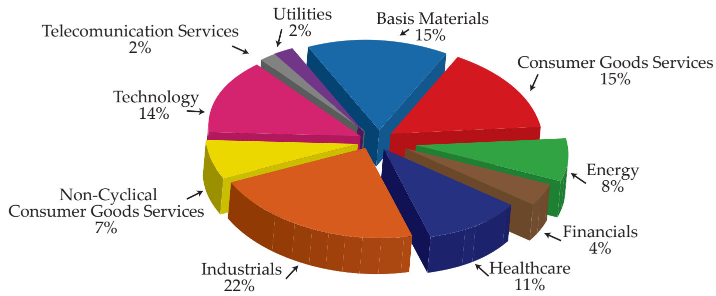
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

Equities are considered eligible for inclusion into the REDmoney Global Shariah Index Series only if they pass a series of market related guidelines related to minimum market capitalization and liquidity as well as country restrictions.

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



The REDmoney Global Shariah Index Series powered by IdealRatings consists of a rich subset of global listed equities that adhere to clearly defined and transparent Shariah guidelines defined by Shariyah Review Bureau in Jeddah, Saudi Arabia.

The REDmoney Shariah Indexes provides Islamic investors with an accurate and Shariah-specific equity performance benchmark with optimized compliance credibility due to the intensive research conducted to ensure that index constituents do not conflict with the defined Shariah requirements.

IdealRatings™ is the leading provider of Shariah investment decision support tools to investors globally, including asset managers, brokers, index providers, and banks to empower them to develop, manage and monitor Shariah investment products and Shariah compliant funds. IdealRatings is headquartered in San Francisco, California. For more information about IdealRatings visit: www.idealratings.com

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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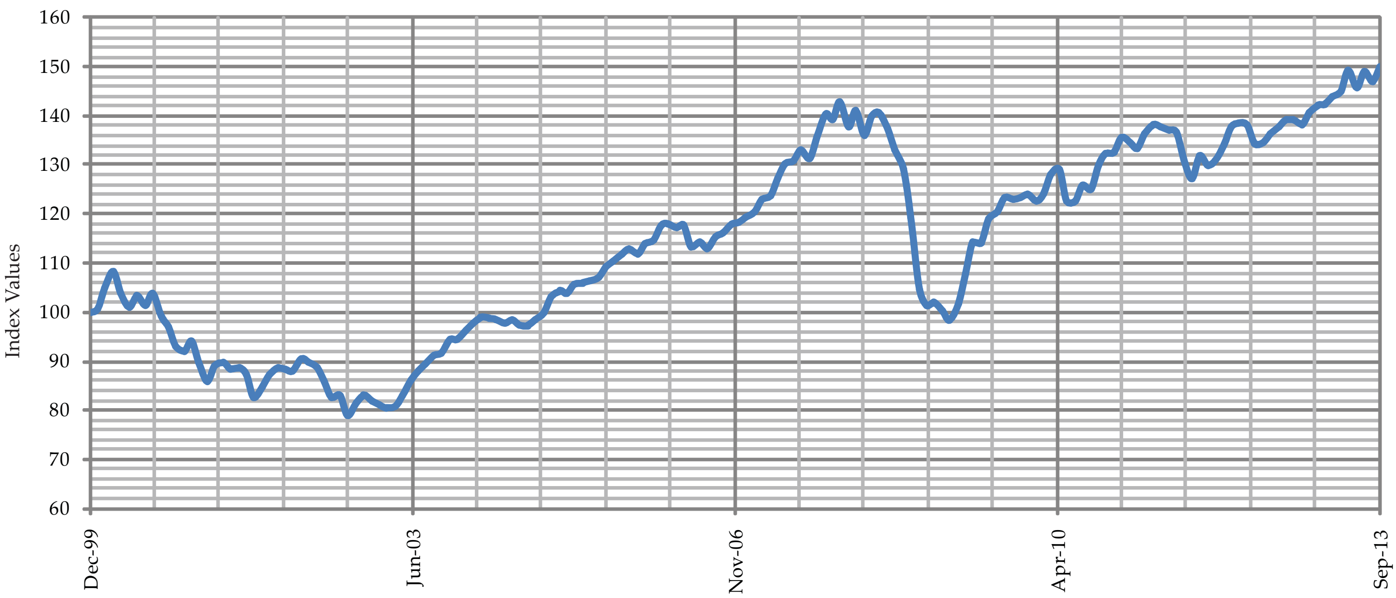
Tel +603 2162 7800

Eurekahedge Islamic Fund Index since Inception



Top 10 Yield-to-Date Returns for ALL Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Amanah GCC Equity	SABB	39.06	Saudi Arabia
2	Jadwa Saudi Equity	Jadwa Investment	35.47	Saudi Arabia
3	Jadwa GCC Equity	Jadwa Investment	34.08	Saudi Arabia
4	Jadwa Arab Markets Equity	Jadwa Investment	30.99	Saudi Arabia
5	Amanah Saudi Equity	SABB	30.73	Saudi Arabia
6	CIMB Islamic Small Cap	CIMB-Principal Asset Management	30.46	Malaysia
7	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	29.35	Saudi Arabia
8	Al Danah GCC Equity Trading	Banque Saudi Fransi	28.83	Saudi Arabia
9	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	28.78	Pakistan
10	AlAhli Saudi Mid Cap Equity	NCB Capital Company	28.61	Saudi Arabia
	Eurekahedge Islamic Fund Index		**4.47**	

Based on 53.44% of funds which have reported September 2013 returns as at the 14th October 2013

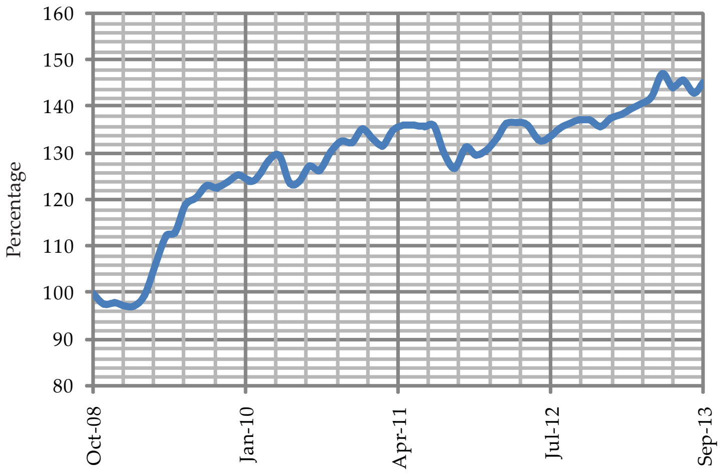
Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al-Hadharah Boustead REIT	MIMB Investment Bank	10.33	Malaysia
2	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	3.98	Saudi Arabia
3	Al Dar Real Estate	ADAM	3.51	Kuwait
4	Markaz Real Estate	Kuwait Financial Centre	0.93	Kuwait
5	Al-'Aqar KPJ REIT	AmMerchant Bank	-2.24	Malaysia
	Eurekahedge Islamic Real Estate Fund Index		**(0.96)**	

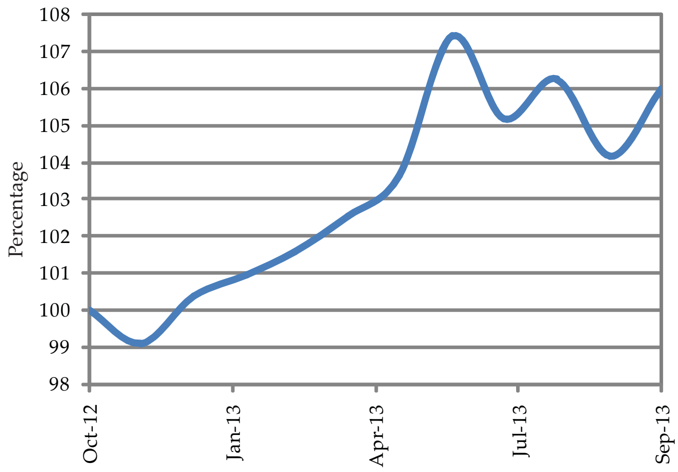
Based on 100% of funds which have reported August 2013 returns as at the 14th October 2013

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 Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Sharpe Ratio for ALL Islamic Funds since Inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	10.09	Pakistan
2	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	5.18	Pakistan
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	5.08	Pakistan
4	Public Islamic Money Market	Public Mutual	4.27	Malaysia
5	PB Islamic Cash Management	Public Mutual	3.25	Malaysia
6	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	2.73	Saudi Arabia
7	Commodity Trading - SAR	Riyad Bank	2.45	Saudi Arabia
8	PB Islamic Bond	Public Mutual	2.01	Malaysia
9	Public Islamic Income	Public Mutual	1.95	Malaysia
10	AlAhli International Trade	The National Commercial Bank	1.89	Saudi Arabia
	Eurekahedge Islamic Fund Index		**0.11**	

For funds having a track record of at least 12 months as at the end of September 2013

Top 5 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	8.05	Saudi Arabia
2	Al Rajhi Multi Asset Growth	Al Rajhi Bank	6.75	Saudi Arabia
3	AlManarah High Growth Portfolio	The National Commercial Bank	5.71	Saudi Arabia
4	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	3.95	Saudi Arabia
5	Al-Mubarak Balanced	Arab National Bank	3.68	Saudi Arabia
	Eurekahedge Islamic Fund Index		**3.95**	

Based on 45.6% of funds which have reported September 2013 returns as at the 14th October 2013

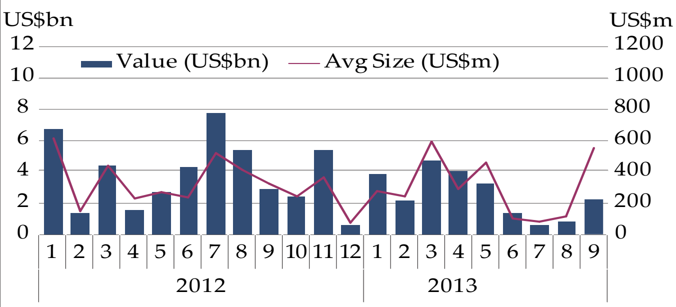
Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com Tel: +65 6212 0900

EUREKAHEDGE

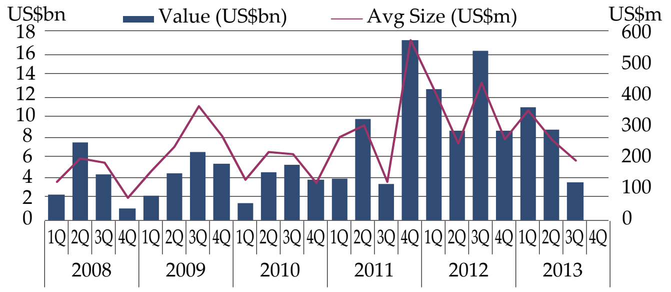
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
8th Oct 2013	Government of Ras Al Khaimah	United Arab Emirates	Sukuk	Euro market public issue	500	Mashreqbank, Standard Chartered Bank, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
3rd Oct 2013	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,250	Standard Chartered Bank, HSBC, QInvest
2nd Oct 2013	Sarawak Hidro	Malaysia	Sukuk Ijarah	Domestic market public issue	154	CIMB Group, Maybank Investment Bank
1st Oct 2013	Al Hilal Bank	United Arab Emirates	Sukuk Mudarabah / Sukuk Wakalah	Euro market public issue	500	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
26th Sep 2013	Almarai	Saudi Arabia	Sukuk	Domestic market private placement	453	Banque Saudi Fransi, Standard Chartered Bank, BNP Paribas, HSBC
12th Sep 2013	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	245	CIMB Group, AmInvestment Bank, Maybank Investment Bank
10th Sep 2013	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	1,500	Standard Chartered Bank, Deutsche Bank, Citigroup
26th Aug 2013	Malaysia Airports Holdings	Malaysia	Sukuk Murabahah	Domestic market public issue	151	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
20th Aug 2013	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	305	HSBC, RHB Capital, CIMB Group, AmInvestment Bank
5th Aug 2013	Sarawak Hidro	Malaysia	Sukuk Ijarah	Domestic market public issue	154	CIMB Group, Maybank Investment Bank
29th Jul 2013	Swiber Capital	Singapore	Sukuk Wakalah	Domestic market public issue	119	DBS, Maybank Investment Bank
26th Jul 2013	Golden Assets International Finance	Singapore	Sukuk Murabahah	Domestic market public issue	156	RHB Capital
15th Jul 2013	National Higher Education Fund	Malaysia	Sukuk Murabahah	Domestic market public issue	189	RHB Capital, AmInvestment Bank
28th Jun 2013	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	628	AmInvestment Bank
25th Jun 2013	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	109	CIMB Group
21st Jun 2013	Tanjung Bin O&M	Malaysia	Sukuk	Domestic market private placement	147	CIMB Group, Maybank Investment Bank
3rd Jun 2013	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	129	RHB Capital, Maybank Investment Bank
30th May 2013	Batu Kawan	Malaysia	Sukuk Musharakah	Domestic market private placement	163	CIMB Group, Maybank Investment Bank
29th May 2013	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,000	Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank
28th May 2013	Power & Water Utility Co for Jubail & Yabbu - Marafiq	Saudi Arabia	Sukuk	Domestic market private placement	667	HSBC

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk Ijarah	Euro market public issue	2,500	8.0	Standard Chartered Bank, Deutsche Bank, HSBC, Citigroup
2	Saudi Electricity Global SUKUK Company 2	Saudi Arabia	Sukuk	Euro market public issue	2,000	6.4	Deutsche Bank, HSBC
3	Sadara Chemical Company	Saudi Arabia	Sukuk Musharakah	Domestic market public issue	2,000	6.4	Deutsche Bank, Riyad Bank, Al-Bilad Bank, Alinma Bank
4	Turus Pesawat	Malaysia	Sukuk Murabahah	Domestic market public issue	1,734	5.5	RHB Capital, Bank Islam Malaysia, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,250	4.0	Standard Chartered Bank, HSBC, QInvest
6	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,000	3.2	Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank
6	Dubai Electricity & Water Authority	UAE	Sukuk Ijarah	Euro market public issue	1,000	3.2	Standard Chartered Bank, RBS, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
6	DIB Tier 1 Sukuk	UAE	Sukuk	Euro market public issue	1,000	3.2	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
6	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	1,000	3.2	Standard Chartered Bank, Morgan Stanley, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank
10	Medjool	UAE	Sukuk Wakalah	Euro market public issue	993	3.2	Standard Chartered Bank, Abu Dhabi Commercial Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
11	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	806	2.6	RHB Capital, AmInvestment Bank
12	Sime Darby Global	Malaysia	Sukuk Ijarah	Euro market public issue	800	2.6	Standard Chartered Bank, HSBC, Citigroup, Maybank Investment Bank
13	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	750	2.4	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
14	Golden Assets International Finance	Singapore	Sukuk	Domestic market public issue	727	2.3	RHB Capital
15	Power & Water Utility Co for Jubail & Yabbu - Marafiq	Saudi Arabia	Sukuk	Domestic market private placement	667	2.1	HSBC
16	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	581	1.9	AmInvestment Bank
17	TNB Northern Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	543	1.7	HSBC, KAF Investment Bank
18	Putrajaya Holdings	Malaysia	Sukuk	Domestic market private placement	507	1.6	CIMB Group, AmInvestment Bank, Maybank Investment Bank
19	Turkiye Finans Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.6	Saudi National Commercial Bank, HSBC, Citigroup, Noor Islamic Bank
19	SIB Sukuk Co III	UAE	Sukuk	Euro market public issue	500	1.6	Standard Chartered Bank, HSBC, Kuwait Finance House, Al Hilal Bank
19	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	500	1.6	Mashreqbank, Standard Chartered Bank, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
19	Al Hilal Bank	UAE	Sukuk Mudarabah / Sukuk Wakalah	Euro market public issue	500	1.6	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
23	DanaInfra Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	490	1.6	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank, Hong Leong Financial Group
24	Almarai	Saudi Arabia	Sukuk	Domestic market private placement	453	1.5	Banque Saudi Fransi, Standard Chartered Bank, BNP Paribas, HSBC
25	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	448	1.4	Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, QInvest, Bank Alkhair
26	Savola Group	Saudi Arabia	Sukuk	Domestic market private placement	400	1.3	HSBC
27	Saudi Hollandi Bank	Saudi Arabia	Sukuk	Domestic market private placement	373	1.2	HSBC, Saudi Hollandi Bank
28	First Resources (Indonesia)	Indonesia	Sukuk	Foreign market public issue	330	1.1	RHB Capital
29	Imtiaz Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	327	1.0	CIMB Group, Maybank Investment Bank
30	Telekom Malaysia	Malaysia	Sukuk	Domestic market private placement	309	1.0	CIMB Group, Maybank Investment Bank, AmInvestment Bank, RHB Capital
					31,315	**100**	

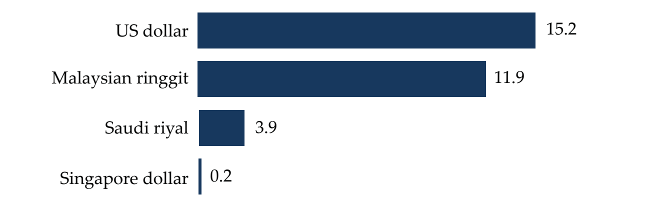
Top Managers of Sukuk

12 Months

	Manager	US$ (mln)	Iss	%
1	HSBC	5,049	27	16.1
2	Standard Chartered Bank	3,219	22	10.3
3	CIMB Group	2,904	34	9.3
4	RHB Capital	2,416	34	7.7
5	Deutsche Bank	2,408	5	7.7
6	AmInvestment Bank	2,348	23	7.5
7	Maybank Investment Bank	2,167	31	6.9
8	Citigroup	1,395	8	4.5
9	National Bank of Abu Dhabi	997	9	3.2
10	Emirates NBD	859	7	2.7
11	Dubai Islamic Bank	682	4	2.2
12	Abu Dhabi Islamic Bank	532	3	1.7
13	Riyad Bank	500	1	1.6
13	Alinma Bank	500	1	1.6
13	Al-Bilad Bank	500	1	1.6
16	QInvest	491	2	1.6
17	Al Hilal Bank	381	5	1.2
18	RBS	292	2	0.9
19	Bank Islam Malaysia	284	4	0.9
20	KAF Investment Bank	271	1	0.9
21	Hong Leong Financial Group	201	6	0.6
22	Morgan Stanley	200	1	0.6
23	Saudi Hollandi Bank	187	1	0.6
24	Affin Investment Bank	186	4	0.6
25	Kuwait Finance House	181	3	0.6
26	Abu Dhabi Commercial Bank	166	1	0.5
27	Barwa Bank	165	2	0.5
28	OCBC	158	4	0.5
29	BNP Paribas	153	2	0.5
30	Noor Islamic Bank	125	1	0.4
30	National Consumer Cooperative Bank	125	1	0.4
30	Saudi National Commercial Bank	125	1	0.4
30	Natixis	125	1	0.4
30	Credit Agricole	125	1	0.4
	Total	**31,315**	**115**	**100**

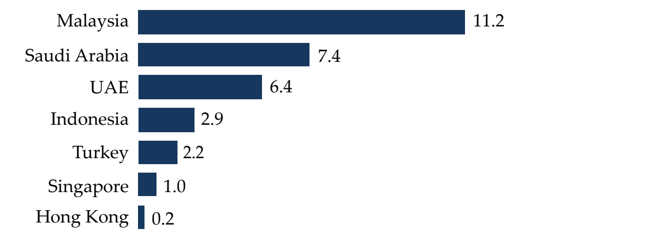
Sukuk Volume by Currency US$ (billion)

12 Months



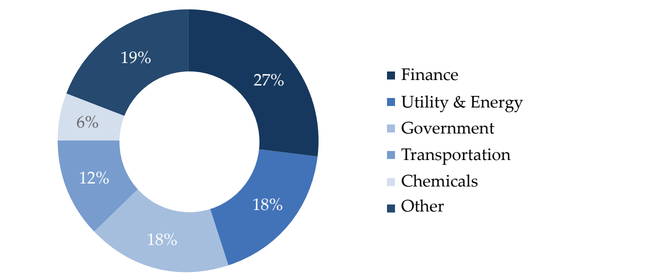
Sukuk Volume by Issuer Nation US$ (billion)

12 Months

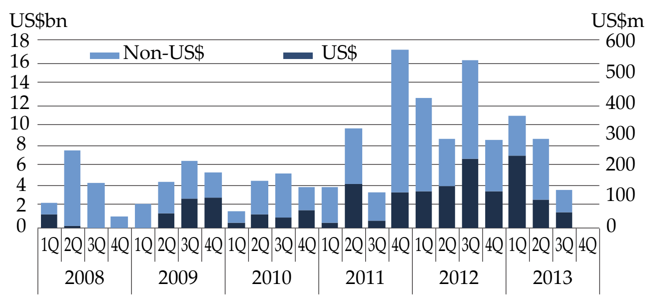


Global Sukuk Volume by Sector

12 Months



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Finance Mandated Lead Arrangers

12 Months

	Mandated Lead Arranger	US$ (million)	No	%
1	National Bank of Abu Dhabi	483	3	8.1
2	HSBC Holdings	483	3	8.1
3	Public Investment Fund	391	2	6.5
4	Arab Petroleum Investments	363	3	6.1
5	Samba Financial Group	352	2	5.9
6	Riyad Bank	291	2	4.9
7	Sumitomo Mitsui Financial Group	283	2	4.7
8	Mitsubishi UFJ Financial Group	272	2	4.5
8	Standard Chartered	272	2	4.5
10	Gulf International Bank	211	1	3.5

Top Islamic Finance Related Project Financing Legal Advisors Ranking

12 Months

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	2,300	2	25.3
1	Clifford Chance	2,300	2	25.3
3	Sullivan & Cromwell	2,241	1	24.7
3	White & Case	2,241	1	24.7

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking *12 Months*

	Mandated Lead Arranger	US$ (mln)	No	%
1	Riyad Bank	831	5	5.6
2	HSBC	735	4	5.0
3	Abu Dhabi Islamic Bank	682	7	4.6
4	Saudi National Commercial Bank	665	4	4.5
5	National Bank of Abu Dhabi	598	6	4.1
6	Standard Chartered Bank	567	5	3.8
7	Arab Petroleum Investments	519	4	3.5
8	Abu Dhabi Commercial Bank	482	3	3.3
9	Samba Capital	470	3	3.2
10	Emirates NBD	467	4	3.2
11	Sumitomo Mitsui Financial Group	439	3	3.0
12	Noor Islamic Bank	404	4	2.7
13	SABB	384	2	2.6
13	Banque Saudi Fransi	384	2	2.6
15	First Gulf Bank	384	5	2.6
16	Citigroup	368	2	2.5
17	Gulf International Bank	367	2	2.5
18	Deutsche Bank	357	2	2.4
19	National Bank of Kuwait	347	3	2.4
20	Credit Agricole	332	2	2.3
21	Mashreqbank	332	3	2.3
22	Dubai Islamic Bank	305	2	2.1
23	Arab Bank	267	2	1.8
24	Islamic Development Bank	258	3	1.7
25	Saudi Investment Bank	218	1	1.5
25	JPMorgan	218	1	1.5
25	Bank Al-Jazira	218	1	1.5
25	Arab National Bank	218	1	1.5
25	Al-Rajhi Banking & Investment	218	1	1.5
25	Al-Bilad Bank	218	1	1.5

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

	Bookrunner	US$ (mln)	No	%
1	Abu Dhabi Islamic Bank	224	2	14.5
2	Standard Chartered Bank	149	2	9.7
2	Noor Islamic Bank	149	2	9.7
2	Emirates NBD	149	2	9.7
2	Barwa Bank	149	2	9.7
2	Arab Banking Corporation	149	2	9.7
7	QInvest	107	1	6.9
8	Saudi National Commercial Bank	100	1	6.5
8	Riyad Bank	100	1	6.5
8	HSBC	100	1	6.5
8	Gulf International Bank	100	1	6.5

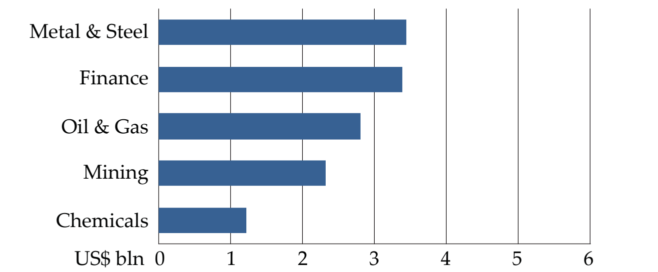
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
28th Mar 2013	Emirates Aluminium	UAE	3,400
10th Jun 2013	ICD	UAE	2,550
18th Dec 2012	Ma'aden	Saudi Arabia	2,400
5th May 2013	Saudi Aramco	Saudi Arabia	1,400
5th May 2013	SAMREF	Saudi Arabia	1,400
17th Jul 2013	Al Jubail Petrochemical (Kemya)	Saudi Arabia	800
26th Mar 2013	GEMS Education	UAE	545
28th Nov 2012	Sahara & Ma'aden Petrochemical Company	Saudi Arabia	498
18th Jul 2013	Albaraka Turk Katilim Bankasi	Turkey	427
2nd May 2013	Bank Asya	Turkey	383

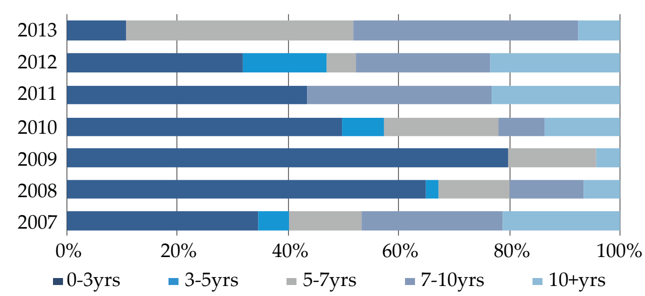
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	United Arab Emirates	7,226	7	49.0
2	Saudi Arabia	6,619	6	44.8
3	Turkey	809	2	5.5
4	Qatar	107	1	0.7

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Mandy Leung (Media Relations)
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Tel: +852 2804 1223

OCTOBER 2013			
21st — 22nd	**IFN Asia Forum**	**Kuala Lumpur, Malaysia**	***REDmoney Events***
22nd - 23rd	The 4th International Cyber Economic Crimes Conference	Kuala Lumpur, Malaysia	*Certified System Investigators*
NOVEMBER 2013			
4th	Islamic Finance: An Undiscovered Market in the United States	Washington DC, US	*Malaysia U.S. Chamber of Commerce*
7th	**IFN Hong Kong Roadshow**	**Hong Kong**	***REDmoney Events***
18th — 19th	**IFN Saudi Arabia Forum**	**Saudi Arabia**	***REDmoney Events***
20th — 21st	IREF Summit	London, UK	*ICG-Events*
24th	**IFN Africa Forum**	**Dubai, UAE**	***REDmoney Events***
28th	**IFN Brunei Roadshow**	**Brunei**	***REDmoney Events***
DECEMBER 2013			
12th	**IFN Thailand Roadshow**	**Bangkok, Thailand**	***REDmoney Events***
16th — 18th	Halal Middle East	Sharjah, UAE	*Expo Centre Sharjah*

Islamic Finance *news*

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