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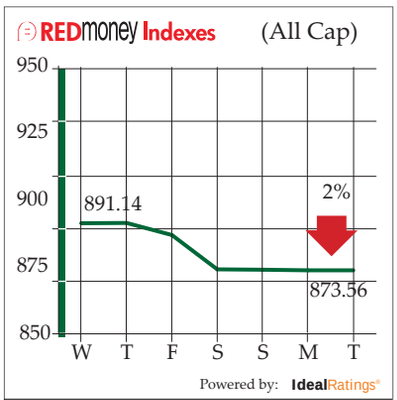

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Turkey: The road so far

In the third quarter of 2011 Turkish GDP surged to 8.2%, the second fastest growing economy in the world after China, and for the first nine months the expansion of the economy reached 9.6% compared to the same period a year before. But although the participation banking sector in Turkey has grown at a faster rate than the conventional sector in recent years, there are concerns that the highly protective regulatory attitude may be stifling further development. With economic growth set to slow in 2012, what will it take to keep Turkey's Islamic finance sector moving forward?

Overview

Turkey has only four participation banks, with combined assets at the end of 2010 of US$28 billion or 4.3% of the total banking system. According to the Participation Banks Association (TKBB), participation bank assets grew by 29% to US$31.74 billion in 2011 while equity capital increased by 13% to US$3.45 billion and total profit by 6% to US$450 million. Deposits grew by 18% to US$22.5 billion while loan volume increased by 28% to US$23.2 billion. In total, the four banks employ around 14,000 people in 685 branches. Although no market share figures are yet available for 2011, industry estimates are optimistic. Ufuk Uyan, CEO of Kuveyt Türk Participation Bank, is reported as suggesting that the current market share is around 6% and that a target of 10-15% by 2015 is easily achievable.

Currently Bank Asya is the largest participation bank and the 13th largest bank in Turkey, with around US$9 billion in assets. The bank recently announced a target of 36% growth in retail banking in 2012, and it plans to grow 20% every year until 2015 with 20 new branches each year. Turkiye Finans is the second biggest, with the largest branch network, followed by Albaraka Türk and Kuveyt Türk.

Anatolian Tigers

At the moment the majority of customers are reported to be Muslim entrepreneurs from the staunchly Islamic central Anatolian region: particularly Gazianteo, Konya and Kayseri. The term 'Anatolian Tigers', originally coined to denote the economic success of these cities, has recently been used instead to describe a new breed of devout businessmen who are driving Turkey's economic and political transformation. A report by the European Stability Initiative in 2006 described these SME entrepreneurs as 'Islamic Calvinists', with a particular form of pro-business, pro-free market Sufi Islam that has been one of the key forces behind the rapid rise of Islamic banking in the country.

Turkey's booming real estate sector accounts for the bulk of Islamic banking activity, but the participation banks also provide working capital and equipment to firms involved in construction, trade and industry: three of the country's strongest economic sectors.

Market expansion

However, the potential of participation banks in Turkey has been limited by a strongly secular outlook which has been

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Saudi Arabia and Turkey take center stage

Editor's Note

In a year where Sukuk issuances have reached record levels, Turkey and Saudi Arabia have emerged as among the most vibrant markets for Islamic finance. The two markets have not only shown tremendous potential for growth; but also stepped to the fore to meet market expectations.

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DEALS

Jafza in advanced talks over US$2 billion Sukuk refinancing

TASNEE announces potential debut Sukuk sale

Dubai to use proceeds from US$1.25 billion Sukuk for airport expansion

DIFC Investments' US$1.25 billion Sukuk refinancing plan imminent

Securities Commission Malaysia approved US$3.63 billion-worth of local currency Sukuk Q1

Al-Khodari signs US$53.32 million Islamic credit agreement with **SABB**

Bank Nizwa conducts IPO roadshow

Hong Leong Islamic Bank working on Sukuk to fund economic transformation program project

QInvest will hold majority stake in alliance with **EFG Hermes**

Banque Saudi Fransi hires banks for US$2 billion Sukuk roadshow

SME Bank seeks to raise US$987 million via government-guaranteed Sukuk

Faisal Private Bank up for sale after failing to raise funds

Khaleeji Commercial Bank arranges US$40 million financing deal for **Meydan Group**

Autoriti Monetari Brunei Darussalam sells US$80.15 million Sukuk Ijarah

Indonesia's year-to-date Sukuk issuances surpasses last year's

Emirates Islamic Bank to issue Sukuk worth more than US$500 million this year

Dana Infra hires four banks to manage mass railway Sukuk

NEWS

Egypt's draft Sukuk legislation targeted for completion in July this year

Islamic finance is in accordance with Malawi banking laws, say researchers

Al Baraka Bank Egypt reaches agreement with the World Bank to receive US$16 million in funding

US investors growing familiar with Shariah compliant structures, says **Latham & Watkins**

Emirates Islamic Bank worth a second look?

Indonesian Sukuk yields at highest level since September 2011

Royal Award for Islamic Finance open for nominations

China could be the next growth market for Islamic finance, says **Bank Negara Malaysia**

SMEs in Malaysia need to fulfil criteria before applying for Islamic fund

CIMB Group to venture into Australia within the year

Burj Bank implements **Path Solutions**' iMAL

Arcapita and creditors fight it out

Dubai Islamic Bank Pakistan to carry out Hajj scheme on behalf of government

Pakistan's domestic debt advances by 31% to US$79.6 million

Shariah compliant **Alternative Investments and Credits** to take legal action against the **Reserve Bank of India**

Treat Islamic banks equally, says **Sharia Bank Association of Indonesia**

Bursa Malaysia seeks feedback on exchange traded debt

Bank Indonesia expects Islamic finance to contribute up to 20% to banking industry in the next 10 years

Barclays Middle East sees decent year for debt markets

IDB to actively follow-up on mandate to develop Islamic microfinance

Islamic finance must address challenges to realize full potential, says **World Bank**

GCC needs to refinance up to US$60 billion in debt this year, says **RBS**

Islamic banks need to tackle slow growth rates, says **AT Kearney**

Former CEO loses another case against **Bank Alkhair**

Nakheel uses less than half of **Dubai Financial Support Fund**

SHUAA Capital announces new business strategy

ISLAMIC INVESTOR

TA Investment Management announces gross income distribution for TA Dana Fokus fund

Al-'Aqar Healthcare Real Estate Investment Trust eyes new trust in Indonesia

Saudi Arabia's **Sidra Capital** and **Gatehouse Bank** complete acquisition for Sterling UK Real Estate Fund

La Française AM launches France's first Islamic fund

TAKAFUL

Takaful Malaysia targets market leadership in the next five years

BIMB Holdings could see significant Takaful contributions from Indonesia

ICIEC inks deal with **Indonesia Infrastructure Guarantee Fund**

Takaful Malaysia eyes expansion following implementation of risk-based capital framework

Medgulf Allianz Takaful and **Mashreq Bank** in Takaful partnership

Amrahbank plans to offer country's first Takaful products

Great Eastern Holdings reports an increase of 65% in first quarter profits

AMAN calls for better home protection efforts

Asuransi Jiwa Manulife Indonesia posts US$204 million in total gross premiums in Q1

RATINGS

PEFINDO assigns 'idA +' rating to **Bank Muamalat Indonesia**

Hong Leong Industries redeems US$16.5 million outstanding Sukuk

RAM reaffirms **Al-'Aqar Capital**'s Class A, B and C Islamic notes

CI affirms **BankMuscat**'s financial strength rating

S&P affirms Saudi Arabia's long- and short-term foreign and local currency sovereign credit ratings

MOVES

Safdar Alam joins **Siyam Capital** as CEO

Shezan Marzban leaves **IdealRatings**

Dubai Financial Services Authority names **Ian Johnston** as new CEO

Law firm **Appleby** promotes **Sarah Demerling** to partner

ING Insurance names **Bruce Hodges** as new executive director and CEO

Turkey: The road so far

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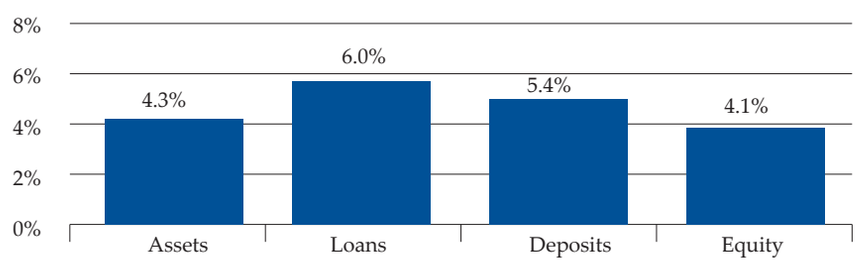
Participation Banks' Market Share in Turkish Banking System, end-2010



Source: BRSA data adapted by Fitch

Participation Banks' Market Share in Total Turkish Banking System

(%)	2010	2009	2008	2007
Total assets	4.3	4	3.5	3.3
Loans	6	6.1	4.9	5.2
Deposits	5.4	5.2	4.2	4.2
Equity	4.1	4	4.3	3.1
Net profits	3.4	3.5	4.8	3.5

Source: BRSA data adapted by Fitch

historically wary of religious influence. Many market players have noted that in the Islamic space, more players are urgently needed as there is a greater demand for products than the current banks can supply. One banker comments that: "Four Islamic banks are not enough for Turkey. There should be six to seven at this stage."

> ***"Four Islamic banks are not enough for Turkey. There should be six to seven at this stage"***

But although the government has up till now been reluctant to issue new licenses, there are signs that this may be changing. In a recent interview Tevfik Bilgin, the chairman of the Banking Regulation and Supervision Agency (BRSA), announced that they would consider issuing new licenses for persons who bring over US$300 million in capital to the country. This was backed up by the new license granted in October 2011 to Banque Audi, the biggest bank in Lebanon: the first bank to obtain a license in the Turkish banking sector for over a decade.

Banque Audi is the fourth biggest bank in the MENA region by assets, and operates in 10 other markets outside its home country. Although it is not an Islamic bank and has not applied for a participation license in Turkey, it does have Islamic branches in other markets, including Egypt, and is actively looking to tap high-growth areas of expansion. Its entry into the long-protected Turkish banking sector sends a strong message that the country may finally be opening up to outside participation.

Cross-border collaboration

There are already rumors that a number of applications have been submitted to the BRSA to set up new participation banks, including from Malaysia and the GCC. In a recent report Standard & Poor's emphasized that Turkish participation banks should "cultivate stronger ties with their international owners and create a sustainable brand image" in order to continue their strong growth.

One bank that has made considerable inroads is UAE-based Noor Islamic Bank, which in 2011 made US$2 billion-worth of debt transactions in the Turkish market including a US$325 million dual-currency syndicated Islamic loan for Bank Asya and a US$350 million dual-currency Islamic structured Murabahah syndicated financing facility for Albaraka

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CLOSING BELL

BIMB Holdings still eyeing Bank Muamalat Indonesia

MALAYSIA: Johan Abdullah, the group managing director and CEO of BIMB Holdings, which owns Bank Islam Malaysia, has said that the group is still interested in acquiring a stake in Bank Muamalat Indonesia.

"We are still collecting data and nothing is concrete yet. We like Indonesia because the market is robust and the infrastructure is readily available for us to go in there," he said.

Johan added that BIMB Holdings is also looking into listing Bank Islam.

New board member for Alkhaleej

QATAR: Alkhaleej Takaful Group has appointed **Fahed Ibrahim Al Hamad Al Mane** as its new board member, replacing Sheikh Abdullah Ben Nasser Aal Thani, who has resigned.

Green light for IDB financing

MALDIVES: The parliament's finance committee has given its approval to the government to secure MVR62.6 million (US$4.1 million)-worth of financing from the IDB.

The financing, with an annual profit rate of 2.5% and a 25-year maturity, will be used to establish a quarantine facility on the island of Hulhumale.

Malaysia's debt at US$147.75 billion in 2011

MALAYSIA: Donald Lim Siang Chai, the deputy finance minister of Malaysia, has said that the federal government's total debt amounted to RM456.1 billion (US$147.75 billion) last year.

Ninety six percent of the debt comprised domestic liabilities, including Sukuk as a source of funding for the country.

Turkey: The road so far

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Turk. Noor is targeting a further US$1 billion in 2012 and Hussain Al Qemzi, its CEO, comments that: "There is huge demand for financing in Turkey, mainly in the SME business." Although the bank does not yet have a physical presence in the country it may apply for a commercial license later in 2012, and in the meantime aims to cement its position in the Turkish loan syndication market by strengthening its collaboration with local banks and corporate issuers.

Hussein Erkan, the chairman of the Istanbul Stock Exchange (ISE), in a recent interview also noted that: "We have made some progress with the UAE and Egyptian Exchange to calculate joint indices… We have also had closed-door industry dialogue with Malaysia's regulatory and wealth management company representatives to determine major areas of cooperation between the two exchanges."

Global growth

Given the concern over stagnation in the participation bank market, there are also calls for the banks to focus on expansion beyond their home market. With three of the four participation banks in Turkey already part-owned by GCC companies the Gulf is an obvious location. However, other destinations are also proving attractive, including central Europe. Bank Asya in early 2012 opened a branch in Iraq and has plans to expand into Qatar, Bahrain and Dubai in the short-term and Germany, Albania, Bosnia and Kosovo in the medium-term. It is also moving into Africa with an investment into Tamweel Holding, which provides Islamic banking services in several African countries.

Sukuk appeal

However, the biggest push for the Turkish market would of course be a sovereign Sukuk. It was recently announced that the government plans to issue its first Islamic bond in 2012, in the hope that the sale will encourage private companies to tap the Islamic capital market. Mehmet Simsek, the finance minister, confirms that: "Strengthening the Sukuk market is important in making Istanbul a global finance center, and the Sukuk certificates will be traded on the Istanbul Stock Exchange."

However, no further details have yet been released regarding the issuance. According to Ali Babacan, the deputy prime minister: "Market conditions will determine the amount of the issue, and the Sukuk may be lira, dollar or euro-denominated and will attract investors from both Turkey and abroad."

Market demand

One Turkish banker points out that: "An emerging Islamic finance market, like Turkey, may be just what the global Sukuk industry needs to sustain growth. Turkish Sukuk originations could appeal to yield-hungry investors in the GCC, Asia and Europe because Turkish investments tend to pay relatively attractive spreads in comparison to Gulf and European spreads. There are many Turkish companies with a lot of good assets."

However, to date there has only been one Sukuk issuance in the Turkish market, from Kuveyt Türk on the 20th October 2011 for US$350 million.

Capital market push

Nevertheless, there are signs that Turkey is actively promoting the development of its Islamic capital market. Erkan notes that: "Since 2005, under the activities of Standing Committee for Economic and Commercial Cooperation of the Organisation of the Islamic Cooperation (COMCEC), the ISE has been working on creating awareness and developing the exchange industry in Islamic countries by acting as the coordinator of the Organisation of Islamic Cooperation (OIC) member states' Stock Exchanges Forum. We also cooperate with other international institutions such as the IIFM (International Islamic Financial Market) on developing an appropriate structure to create solutions for increasing the liquidity of Islamic capital market instruments."

> ***"An emerging Islamic finance market, like Turkey, may be just what the global Sukuk industry needs to sustain growth"***

Through these OIC forum activities, the ISE has created task forces to develop solutions to introduce new Islamic financial instruments and benchmarks for OIC member state stock exchanges. The ISE has initiated the creation of a series of OIC indices in collaboration with Standard & Poor's, and expects to launch a tradable index by the end of this year which it hopes will encourage institutional investors to create new instruments such as exchange traded funds. The forum also plans to launch a benchmark index in the near future. Erkan notes that: "Hopefully, Turkey will increase its market share in the industry, not only via participation banks, but also by capital market institutions which will issue new regulations and introduce new products that will be traded in organized secondary markets."

Growth constraints

But despite all the positive developments in the market, doubts still remain over the future of Turkey's Islamic banking sector. The growth rate of Islamic banks has not met expectations, and one banker notes that in fact: "The market's development has been very sluggish compared to what we expected." And

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Turkey: The road so far

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despite above average growth in the past few years, the participation banks have recently fallen behind the conventional sector. In the third quarter of 2011 Bank Asya gained 12% and Albaraka Turk only 4.9%, compared to a 19% gain in the overall banking index. And Turkey's economic growth is slowing, which will increase credit risk and affect participation banks' ability to make profits on their loans — which account for around 75% of their assets.

Government support

For the sector to grow further support is needed from the authorities as at the moment the participation banks are not able to compete on a level playing field due to inequalities and inefficiencies in tax treatment and regulation. Turkey's secular law means that currently Islamic banks have to rely on foreign creditors for Shariah compliant loans which means a high cost of borrowing. Bank Asya, for example, recently borrowed the equivalent of US$327 million in one-year Murabahah debt at 200 basis points above benchmark interbank rates – 50 basis points higher than the funding it replaced and almost twice as much as the 103.5 basis point average for Islamic loans worldwide.

In addition, the sector is constrained by a scarcity of domestic Shariah compliant investable asset classes, and limited access to liquidity from the central bank. Currently there is no Shariah compliant mechanism in Turkey similar to the repurchase agreements available to conventional banks, thus considerably increasing their liquidity risk. In its recent report Standard & Poor's noted that: "In our opinion, the Turkish Islamic banking industry has reached a stage at which it will be increasingly difficult to rely on its own momentum to sustain growth."

Hope for the future

However, there are signs that the government is beginning to recognize the urgent need for reforms. In February 2011 the government passed a law reducing the withholding tax on Sukuk Ijarah to 10% and exempting sales from VAT, stamp duty and corporate taxes. In March 2011 new measures also exempted Sukuk certificates with a minimum tenor of five years from taxes on revenue, while notes with shorter maturities are subject to a tax rate of 3-10%, putting them on an equal footing with non-Islamic debt.

Participation banks have been granted tax-neutral status, while an index of Shariah compliant companies was recently listed on the ISE. Babacan in an interview in April 2012 also announced that within two months the government is planning legislation to enable the treasury to sell Sukuk, and is currently working on a legislative framework to expand Islamic finance in Turkey. There are also plans to lift obstacles against international funds in Turkey, with only domestic revenues subject to taxation and portfolio managers allowed to invest up to 20% of their assets into international funds.

> ***"The Turkish Islamic banking industry has reached a stage at which it will be increasingly difficult to rely on its own momentum to sustain growth"***

There might be a long way to go, but it looks like Turkey is well on the way. — *LM*

Saudi Arabia and Turkey take center stage

Editor's Note

In a year where Sukuk issuances have reached record levels, Turkey and Saudi Arabia have emerged as among the most vibrant markets for Islamic finance. The two markets have not only shown tremendous potential for growth; but also stepped to the fore to meet market expectations.

This week, our issue highlights these two flourishing markets for Islamic finance; with our cover story looking at the further potential for the growth of the industry in Turkey.

In their write-up on Saudi Arabia, Craig Nethercott and Harj Rai of law firm Latham & Watkins discuss the airtime financing structure and how its growing popularity indicates the increasing sophistication of the Saudi market. Meanwhile, Sutan Emir Hidayat of the University College of Bahrain and Nouf K Al-Bawardi of SABB write on Islamic banking for Saudi's non-Muslim segment.

We continue our look at the consumer banking market with a feature by Ahmad Mukarrami of RHB Islamic Bank, who writes on the Ujrah concept for credit cards.

Mohamed Ali Mrad of Arab World Islamic Finance contributes our Takaful feature this week; on the rise of Takaful in the Middle East.

Our IFN Reports cover Sukuk issuances in Dubai; unrated Sukuk; and the impact of Indonesia's expected bank shareholding rules; while our IFN Correspondents write on developments in the industry in Hong Kong and Malta.

Meet the Head talks to Dr Nahed M Taher, CEO and co-founder of Gulf One Investment Bank, who is also the first female CEO of a Gulf investment bank; and Case Study highlights Saudi AJIL Financial Services' SAR500 million (US$133.32 million) Sukuk issuance.

DEALS

Jafza nears debt deal

UAE: Jebel Ali Free Zone (Jafza) has announced that it is in advanced talks with financial institutions for a financing deal to repay its US$2 billion Sukuk maturing in November this year.
The company plans to use the funding solely for the repayment of the debt, for which it is also seeking Sukukholder consent to redeem early.

"The trustee is proposing the introduction of a call option to provide Jafza with enhanced flexibility to implement the new financing in a timely and efficient manner and to allow the timing of the dissolution of the underlying trust to be coordinated with the new financing," it said.

TASNEE to market Sukuk

SAUDI ARABIA: Industrial and petrochemical company, The National Industrialization Company (TASNEE), began meeting investors in the second week of May as it markets a potential Sukuk, which will be its first.

HSBC Saudi Arabia has been hired to arrange the roadshows, which could lead to a privately-placed transaction, said TASNEE. The firm did not disclose any other details of the potential issuance.

Government Sukuk for airport expansion

UAE: The Dubai government will use the US$1.25 billion raised through its recent Sukuk issuance to fund the expansion of its airport, according to Sheikh Ahmed Saeed Al Maktoum, CEO of the Emirates Group and advisor to the emirate's ruler.

He added that the emirate is also on track to meet the debt repayment of its flagship conglomerate, Dubai World.

DIFCI set to repay

UAE: State-linked investment company DIFC Investments (DIFCI) is confident of successfully refinancing its US$1.25 billion Sukuk maturing on the 13th June this year, according to Abdullah Mohammed Saleh, its chairman.

"The group is in final discussions with banks, and management is confident that signed agreements are imminent to finalize the bank financing of the Sukuk," he said.

More Sukuk approved

MALAYSIA: The Securities Commission Malaysia approved RM11 billion (US$3.63 billion)-worth of Malaysian ringgit-denominated Sukuk issuances in the first quarter of this year.

The amount is higher than the RM7.7 billion (US$2.54 billion)-worth registered in the previous corresponding period.

Al-Khodari in Islamic deal

SAUDI ARABIA: Local contracting company Abdullah AM Al-Khodari Sons Company has signed a SAR200 million (US$53.32 million) agreement for Islamic credit facilities with SABB to provide bonding commitments and fund the company's capital requirements.

The facility is secured by promissory note and the assignment of contract proceeds of financed projects.

Bank Nizwa markets IPO

OMAN: Bank Nizwa has carried out its first investor roadshow for its IPO in the city of Nizwa.

The bank will also organize roadshows in six other cities: namely Barka, Ibra, Muscat, Salalah, Sohar and Sur, before the close of its IPO on the 22nd May.

Sukuk for ETP

MALAYSIA: Hong Leong Islamic Bank is working on arranging a Sukuk to help fund a project under the country's economic transformation program (ETP), according to Raja Teh Maimunah Raja Abdul Aziz, its CEO.

The planned issuance is part of the bank's initiative to tap into Malaysia's Sukuk market more actively. The bank is also building a team to manage Sukuk deals, said Raja Teh.

QInvest and EFG Hermes sign alliance

GLOBAL: Egypt-based EFG Hermes has agreed to set up a Middle East-wide investment bank that will be 60%-owned by Qatari Shariah compliant bank, QInvest.

The remainder of the stake in the bank will be owned by EFG Hermes, which will inject its core brokerage, research, asset management, investment banking

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Banque Saudi Fransi hires banks for US$2 billion Sukuk roadshow

SAUDI ARABIA: Banque Saudi Fransi (BSF) has hired three banks to arrange roadshows for its debut US dollar-denominated Sukuk, as Saudi's Sukuk market shows rapid development with a diversification from local currency papers.

Citibank, Credit Agricole and Deutsche Bank were hired to arrange the roadshows for BSF, starting on the 7-11th May 2012 in Malaysia, Saudi Arabia, Singapore, the UAE and the UK. The Saudi bank is marketing a US$2 billion Sukuk program, the issuance of which will likely follow the roadshows, subject to market conditions.

Law firm Baker & McKenzie advised BSF on the establishment of the program, listed on the London Stock Exchange.

Saudi's burgeoning Sukuk market has grabbed headlines this year since the General Authority for Civil Aviation kicked off the market with its US$4 billion offering in January. Data from Dealogic shows that Sukuk from Saudi Arabia amounted to US$5.5 billion in the last 12 months as at the 1st May; just over double the amount issued in the 12 months to the 4th May 2011.

Sales of Saudi riyal-denominated Sukuk have also surged during the same period, amounting to SAR4.7 billion (US$1.25 billion) against SAR2.1 billion (US$559.95 million). However, US dollar Sukuk offerings continue to lag behind local currency Sukuk, as Saudi corporates continue to shy away from borrowing in the US dollar markets.

Nonetheless, recent sales such as Saudi Electricity Company's US$1.75 billion program, which saw US$17.5 billion-worth of orders, suggest investors remain hungry for top quality issuances from the kingdom.

As BSF readies its landmark offering, hotly watched as it is a conventional bank offering a Shariah compliant instrument, Saudi's Sukuk market appears set for unstoppable growth ahead.

continued...
and infrastructure businesses into the venture.

In turn, QInvest will invest as much as US$250 million into the joint venture and hold the rights to buy the remaining 40% between 12-36 months after the close of the transaction for US$165 million or at a fair market valuation, subject to an undisclosed cap.

The deal is expected to be completed in the third quarter of this year.

SME Bank turns to Sukuk

MALAYSIA: SME Bank, a public-owned development financial institution, is planning to raise RM3 billion (US$987 million) via a government-guaranteed Sukuk to increase its funding, as it anticipates less assistance from the government in the coming years.

The Sukuk will be issued in stages over the next three years, with the first tranche expected to be issued in July this year.

Faisal Private Bank up for sale

SWITZERLAND: Faisal Private Bank, the Shariah compliant Swiss arm of Bahrain's Ithmaar Bank, is up for sale after failing to raise enough funds to meet the Swiss regulator's minimum capital requirements, according to Mark Koch, the CEO of Faisal.

The bank is currently actively seeking a new shareholder to take a majority position within the bank and is in advanced discussions with two financial institutions, based in the GCC and the UK, respectively.

KHCB arranges financing

BAHRAIN: Khaleeji Commercial Bank (KHCB) has arranged a US$40 million financing deal for property developer Meydan Group.

The financing will be used to fund the company's general working capital requirements and its ongoing projects including Meydan City, a residential and lifestyle community development in Dubai.

Brunei sells Sukuk

BRUNEI: The local monetary authority, Autoriti Monetari Brunei Darussalam, has priced the 72nd issuance of the government's BN$100 million (US$80.15 million) Sukuk Ijarah at a rental rate of 0.18%. The Sukuk will mature on the 26th July 2012.

More Indonesian Sukuk

INDONESIA: The country's finance ministry has issued IDR35.2 trillion (US$3.77 billion)-worth of Sukuk as at the 2nd May this year, surpassing last year's sales of IDR34 trillion (US$3.64 billion). The ministry is targeting IDR40 trillion (US$4.33 billion) in Sukuk sales this year.

EIB to tap Sukuk market again?

UAE: Emirates Islamic Bank (EIB), which is expecting to merge with Dubai Bank by the end of 2012, is reportedly planning to issue more than US$500 million-worth in Sukuk this year to fund the expansion and activities of the merged entity.

EIB last sold Sukuk in January this year, in a US$500 million offering.

Mass railway Sukuk on track

MALAYSIA: Dana Infra, a finance ministry company set up to fund development projects including the Klang Valley My Rapid Transit (MRT) mass railway, has appointed AmInvestment Bank, CIMB Investment Bank, RHB Investment Bank and Maybank Investment Bank to manage the sale of a Sukuk in order to part-finance the MRT project.

The initial issuance of the local currency Sukuk, slated by the end of this month via a private placement, could amount to RM2 billion (US$659.76 million).

DEAL TRACKER Full Deal Tracker on page 37

ISSUER	SIZE (US$)	CURRENCY	DATE ANNOUNCED
Emirates NBD	500 million	US$	7th May 2012
Malaysian Airline System	TBA	TBA	3rd May 2012
Dana Infra	653.98 million	RM	2nd May 2012
Epmex	441.49 million	RM	25th April 2012
Noor Islamic Bank	1 billion	US$	19th April 2012

AFRICA

Sukuk laws in July

EGYPT: Draft legislation to allow the sale of Sukuk to address the country's budget deficit and dwindling reserves is targeted for completion by July this year, according to Ashraf Badr El-Din, a lawmaker with the Muslim Brotherhood's Freedom and Justice Party.

Mabid Ali Al-Jarhi, an economic advisor to the party, also noted that if the party becomes part of Egypt's new government, it envisions issuing short-term Sukuk to finance commerce. "We will have a law for Sukuk so that banks, companies, the central bank and the finance ministry can get financing through Sukuk," he said.

Islamic finance for Malawi

MALAWI: Researchers have questioned the central bank of Malawi's refusal to license an Islamic bank set up by local firm Shariah Investments, publishing a paper arguing that Islamic banking and finance can run in accordance with local bank rules.

In their paper, Abdul Sheriff Kaunde and Abdullah Omar Mdala noted that Islamic banking follows the three essentials features of banking stipulated in the country's banking act, namely in relation to the acceptance and withdrawal of deposits; and the use of money for financing and investment.

They also cautioned that by not allowing Islamic banking, Malawi could lose out on foreign direct investments.

Al Baraka in World Bank tie-up

EGYPT: Al Baraka Bank Egypt has reached an agreement with the World Bank to obtain Islamic financing worth EGP100 million (US$16 million) to expand into financing the small and medium-sized enterprises (SME) sector, said Ashraf Al Ghamrawy, its managing director and CEO.

He added that the bank plans to grow its SME financing book by 15% this year from EGP2 billion (US$331 million) currently, while its profits are expected to grow around 20% this year.

AMERICAS

US Sukuk ahead?

US: Bryant Edwards, a partner and the chairman of Latham & Watkins' Middle East practice, has said US investors are becoming increasingly familiar with Shariah compliant structures and the market is seeing the beginnings of

continued...

Emirates Islamic Bank worth a second look?

UAE: Emirates Islamic Bank (EIB), one of the market's lower-profile Islamic banks due to its retail focus and often overshadowed by its parent bank, Emirates NBD (ENBD), has emerged into the spotlight due to its potential merger with Dubai Bank.

While some may have chosen to overlook the bank, writing off its potential due to a dismal performance last year, its preliminary results for the first quarter of 2012 suggest EIB may be poised for positive times ahead.

The bank announced its highest operating profits in two years, amounting to AED138 million (US$37.58 million) in the first quarter of this year; 56% and 68% higher year-on-year and quarter-on-quarter, respectively.

Net income for the period rose 21% year-on-year to AED228 million (US$62.08 million), while it reported a net profit after provisions of AED17 million (US$4.63 million).

"The first quarter results represent an extremely positive start to the year for us and we believe are a strong indicator for the remainder," said Jamal Ghalaita, its CEO.

According to Jamal, the growth reflects "decisive measures" taken in the fourth quarter of last year, following the resignation of EIB's board and the reappointment of a new board; in addition to the appointment of Jamal as CEO. Six of the new board members are from ENBD, while Jamal himself was previously group deputy CEO for consumer wealth management at ENBD.

EIB's current fortunes are a far cry from just a short time ago, when it recorded a net loss of AED448 million (US$122 million) for its 2011 financial year; amid concerns it was also losing customers as financing receivables declined 11% to AED12.9 billion (US$3.51 billion) and customer deposits tumbled to AED3 billion (US$816.74 million) from AED10.4 billion (US$2.83 billion) in 2010.

However, with a new growth strategy in place and the potential benefits that could be reaped from a merger with Dubai Bank, EIB's performance may be worth a second look going forward.

continued...
Shariah compliant issuers laying the groundwork for a Reg S Sukuk in the US.

Edwards also noted that issuances in the US will require issuers to "invest time in building name recognition among a US investor base" to achieve the optimum in debt offerings.

ASIA

Indonesian yields reach highs

INDONESIA: Yields on local two-year Sukuk reached the highest level since September 2011 in April, rising 39 basis points to 2.92%.

According to local asset management company Samuel Aset Manajemen, the rising yields are a result of the government's decision to maintain fuel subsidies; creating uncertainty over inflation.

Higher yields may also hinder the government's target to sell IDR40 trillion (US$4.35 billion)-worth of Sukuk this year.

Up for nominations

MALAYSIA: The Royal Award for Islamic Finance, a biennial award honoring exceptional individuals in the field of Islamic finance, has been opened for nominations.

The award, jointly organized by the Malaysian central bank and the Securities Commission Malaysia in support of the Malaysia International Islamic Financial Center initiative, focuses on an individual's record of achievement and outstanding contribution to the advancement of Islamic finance globally.

The winner of the award will be selected by an independent seven-member international jury, chaired by Musa Hitam, Malaysia's former deputy prime minister and the chairman of the World Islamic Economic Forum Foundation.

China the next hot market?

CHINA: Dr Zeti Akhtar Aziz, the governor of Malaysia's central bank, has said that China could possibly be the next growth market for Islamic finance transactions.

This is as Islamic finance builds on its foundation as the fastest growing sector in international finance; expanding into new markets such as China, she said.

Zeti added that Malaysia has encouraged multi-currency Sukuk issuances; such as in Chinese yuan, allowing issuers to raise yuan-denominated funds in Malaysia to finance investments in China.

Satisfy conditions first

MALAYSIA: Local small and medium-sized enterprises (SMEs) must meet certain criteria before applying for the government's newly launched RM2 billion (US$651 million) Islamic fund for SMEs, said Donald Lim Siang Chai, the country's deputy finance minister.

Lim said that SMEs must have 60% local ownership to qualify for the scheme, for which the maximum aid is RM5 million (US$1.65 million) for each enterprise. Under the program, the SMEs will be funded for five years, with the government providing a 2% rebate to the financing profit rate.

Thirteen Islamic financial institutions are involved in disbursing the fund: namely Affin Islamic Bank, Alliance Islamic Bank, AmIslamic Bank, Bank Islam Malaysia, Bank Kerjasama Rakyat Malaysia, Bank Muamalat Malaysia, CIMB Islamic Bank, Hong Leong Islamic Bank, HSBC Amanah Malaysia, Kuwait Finance House (Malaysia), Maybank Islamic, Public Islamic Bank and RHB Islamic Bank.

CIMB Group to go 'down under'

AUSTRALIA: Nazir Razak, the group managing director and CEO of CIMB Group Holdings, has said that the group is set to expand cross-border transactions by venturing into Australia within the next three-four months.

The bank, which will be able to enter the Australian market through its acquisition of The Royal Bank of Scotland's Asian cash equities and investment banking business, will leverage its Asian reach to win market share in Australia, said Nazir.

Burj Bank deploys iMAL

PAKISTAN: Burj Bank has implemented Path Solutions' iMAL Islamic banking system.

The software will facilitate the bank's corporate and retail financing business,

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Arcapita and creditors fight it out

GLOBAL: Bahrain's Arcapita Bank, which has filed for bankruptcy protection in the US, has received the court's permission to pay staff and business partners after making changes acceding to creditors' demands.

In a case closely watched as much as for the prolific rise and dramatic fall of Arcapita as for how Shariah compliant investment structures will be treated under US bankruptcy laws, the Islamic investment bank faces an uphill task as its creditors appear prepared to tussle with it every step of the way.

So far its creditor committee, which includes hedge funds Euroville Sarl and VR Global Partners, the National Bank of Bahrain, Commerzbank, Barclays Bank and the Central Bank of Bahrain, has sought US bankruptcy judge Sean Lane's oversight to change the way Arcapita pays its employees, business partners and insurance.

Arcapita has also agreed to its creditors' dispute against hiring Ernst & Young as an advisor, in addition to settling on providing creditors 10 days' notice before it pays its business partners.

Creditors also argue that there is a need to safeguard Arcapita's cash for them, as the bank is a foreign entity with private equity stakes in portfolio companies; giving rise to the need to ensure that the bank does not fund entities in countries outside the bankruptcy court's jurisdiction.

Other challenges from creditors include payments made to Gibson Dunn & Crutcher, Arcapita's bankruptcy counsel; which received US$1.65 million from the bank ahead of its bankruptcy. The creditors argued that under bankruptcy law, some of the payments may be returned to pay them back.

Meanwhile, Arcapita has also filed a proposed budget for the month of May, projecting that it will spend US$2.7 million on staff expenses and have an operating cash flow of US$3.5 million.

It also said that it will lose US$5.7 million on a consolidated basis for the month, including in restructuring costs.

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trade finance operations, branch automation, investment banking, risk management and alternate delivery channels.

DIB Pakistan to carry out Hajj scheme

PAKISTAN: Dubai Islamic Bank Pakistan has been nominated by the ministry of religious affairs to facilitate the country's Hajj scheme.

Would-be pilgrims can obtain application forms for the pilgrimage from any of the bank's branches across the country. However, acceptance will be given on a first come, first served basis.

Pakistan's debt surges

PAKISTAN: Data from the country's central bank, the State Bank of Pakistan, has shown that the government's current debt and liabilities grew 31% to reach PKR7.35 billion (US$79.6 million) as of the 31st March 2012.

The growth was contributed by a 70% surge in sales of the government's Sukuk Ijarah, reaching PKR305.1 billion (US$326 million).

Legal case against RBI

INDIA: Shariah compliant investment firm Alternative Investments and Credits (AICL), which has been stripped of its license by the Reserve Bank of India (RBI), is planning to take legal action against the central bank.

"Basically, the Indian banking and finance system runs on the interest concept and Islamic finance is based on profit-sharing," said an RBI spokesperson after the regulator revoked AICL's registration.

However, AICL's legal team has pointed out that there are no stipulations under the regulations issued by the central bank which prevent a financial entity from accepting or carrying out interest-free or participative financing.

Equal treatment urged

INDONESIA: Yuslam Fauzi, the chairman of the Sharia Bank Association of Indonesia and the president director

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Bursa Malaysia seeks feedback on exchange traded debt

MALAYSIA: Bursa Malaysia has published a consultation paper seeking feedback on a proposal for the listing and quotation for trading of Sukuk and conventional bonds issued by the Malaysian government, local and foreign corporations on the stock exchange.

"The introduction of the exchange-traded bonds (ETB) initiative is in line with one of Bursa Malaysia's strategic priorities to offer a diverse range of tradable products on the exchange, and to elevate the bourse to be the leading market place in Asia," said the exchange operator in a statement.

It also said that the project comes under the government's National Key Economic Area initiatives; comprising measures aimed at developing the Malaysian economy to high-income status. "Aside from enhancing the diversity of products offered to investor, this initiative is also expected to attract a new segment of investors into the market and provide issuers with greater flexibility in their fundraising exercises," it added.

The consultation paper is published on Bursa Malaysia's website and will be available for comment until the 18th May this year.

While the exchange operator's move may help develop the local Sukuk market, it remains questionable whether it will facilitate trading of Islamic bonds; in a market where secondary trading of Shariah compliant papers is notoriously thin.

Nonetheless, with Malaysia's Sukuk market accounting for 73% of the total US$92 billion in new issuances last year, there is vast potential for an active market for Sukuk trading in the country; opening up room for further maturity in the local market and its attractiveness to foreign issuers.

Among requirements for ETBs set out by the consultation paper is that only papers with maturities of more than one year can be listed and traded. Listed Sukuk and bonds are also limited to those with a local rating of 'AA' or 'AAA' or an international rating of 'BBB' and above.

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of Bank Syariah Mandiri, has urged the Indonesian central bank to treat the country's Islamic and conventional banks equally.

He also noted that one of the reasons that Indonesia's Islamic finance market lags behind that of Malaysia is because the local industry is not provided with adequate incentives.

Good growth potential

INDONESIA: The local Islamic banking industry is expected to contribute 15-20% to the banking industry in the next 10 years, said Halim Alamsyah, the deputy governor of the central bank.

He noted that the Shariah compliant market grew at an average of 40.2% in the last five years, compared to the conventional banking sector which posted a 16.7% growth in the same period; with the trend expected to continue going forward.

GLOBAL

More upbeat on the long-term

GLOBAL: John Vitalo, CEO of Barclays Bank Middle East, has said that the region's bond and Sukuk markets will be "decent" this year, on par with 2011.

However, he is more upbeat on its longer-term prospects as companies move away from European banks and seek other sources of financing, including through the issuance of Sukuk.

IDB maintains microfinance push

GLOBAL: The IDB will actively follow-up on its mandate to expand the Islamic microfinance industry, said Boubacar Sidibe, its vice-president of operations.

The bank has also offered to support innovation and research activities in the sector as a means to fight poverty in IDB member countries.

Islamic finance gets World Bank attention

GLOBAL: Dr Mahmoud Mohieldin, the managing director of the World Bank, has said that Islamic finance must address several challenges before it can reach its full potential.

According to Mahmoud, the challenges include improving regulatory oversight, rebalancing tax treatment, strengthening insolvency framework, promoting standardization, ensuring adequate liquidity and establishing sound risk-management practices.

The World Bank has also signed an agreement with INCEIF to develop education and executive programs in Islamic finance. The collaboration focuses on sharing research, case studies and knowledge; and strengthening capacity.

GCC refinancings loom

GLOBAL: The Royal Bank of Scotland (RBS), which has five to 10 mandates to manage bond and Sukuk sales in the GCC, has said that the region needs to refinance up to US$60 billion-worth of debt, including Sukuk obligations, by the end of this year.

However, the bank does not see any issues related to refinancing the debt, noted Jacco Keijzer, the head of debt capital markets for the Middle East and Africa at RBS.

Around half of the bank's bond and Sukuk mandates are from the UAE.

Islamic banks in slow growth

GLOBAL: Global management consultant AT Kearney has said that Islamic banks need to tackle slowing growth rates and the erosion of profitability by trying a new approach; instead of emulating conventional banks.

The company suggests that Islamic financial institutions should fully exploit the Islamic banking niche and meet consumer needs with a myriad of Shariah compliant products and services that include wealth and asset management and auto financing.

MIDDLE EAST

Bank Alkhair's ex-CEO loses case

BAHRAIN: Majed Al Sayed Bader Al-Refai, the former managing director and CEO of Bank Alkhair, has lost another civil court case against the bank since his termination in August 2010, following findings that he committed 58 criminal offences during his time there.

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According to a statement from Bank Alkhair, a judge at Bahrain's Supreme Fifth Civil Court dismissed the case brought forward by a firm owned by Majed and three associates which aimed to nullify the bank's decision to remove him from its board in October 2010.

In March, Bahrain's Chamber for Dispute Resolution dismissed a BHD1 million (US$2.64 million) claim from Majed in relation to his exit from the bank.

Nakheel in revamp

UAE: Nakheel, which has managed to slash its trade claims by 70% to AED17.61 billion (US$4.79 billion) from the initial AED59.32 billion (US$16.15 billion), has only used 41.5% of the AED26.78 billion (US$7.29 billion) provided by the Dubai Financial Support Fund (DFSF).

The developer also received a performance guarantee from the Dubai government for its post-restructuring obligations arising under a AED903 million (US$245.79 million) Ijarah facility maturing in 2017.

Funding from the support fund is to be used to meet payments of interest/profit/rental, fees and distributions to trade creditors; among others.

SHUAA turning around

UAE: SHUAA Capital is targeting to improve its cash flow by 71% in the first half of this year following the implementation of its new business strategy last year, covering the restructuring of its asset management, advisory and credit divisions.

The investment bank said that its new plan has already led to a 57% improvement in its monthly operating cash flow, adding that it has concluded its downsizing program, in which it reduced its workforce by 60%.

Qatar has not benefited

QATAR: The country has yet to see benefits from the central bank's ban on the operation of Islamic windows by conventional banks, said industry observers.

While Qatar's Islamic banks recorded total asset growth of 35% in 2011, this marks a slowdown from their 39% expansion in 2010. In contrast, the country's conventional banks have shown faster asset growth, rising 23% in 2011 compared to a 16% increase in 2010.

Mohieddine Kronfol, the chief investment officer for regional fixed income at Franklin Templeton Investments in Dubai, noted that the move to separate Islamic and conventional banking has increased regulatory risk in Qatar; which is inconsistent with the government's efforts to develop the local financial services industry.

Liquidity needed in Oman

OMAN: Banking industry players have highlighted that the country's fledgling Islamic finance market will require liquidity management tools as Islamic banks and windows begin offering their products and services.

AbdulRazak Ali Issa, CEO of BankMuscat, said that the Islamic businesses' robust capital base needs to be supplemented by equally strong liquidity management tools to ensure

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RATINGS

Good start for BMI

INDONESIA: PEFINDO has assigned an 'idA +' rating to Bank Muamalat Indonesia (BMI) with a stable outlook.

The rating is based on the strong support from BMI's majority shareholder, the IDB, high growth potential in the Islamic banking segment and its sturdy market position.

Sukuk redeemed

MALAYSIA: Hong Leong Industries has redeemed its RM50 million (US$16.5 million) outstanding Sukuk under its RM500 million (US$165 million) Islamic commercial papers/medium-term notes program (2008/2015).

RAM has subsequently withdrawn the Sukuk's rating of 'A3' /stable/'P1'ratings with no further rating obligations.

Firm business base

MALAYSIA: RAM has reaffirmed the respective 'AAA', 'AA2', 'AAA(bg)' and 'P1' ratings of Al-'Aqar Capital's Class A Islamic medium-term notes (IMTN), Class B IMTN, Class C IMTN and Islamic commercial papers under its RM300 million (US$99 million) Sukuk Ijarah program.

All the long-term ratings have a stable outlook.

The reaffirmation is based on its debt service coverage, structural features and loan-to-value ratios that are commensurate with the respective ratings and sturdy cash flows.

Concrete ground

OMAN: CI has affirmed BankMuscat's financial strength rating (FSR) at 'A-' and changed its outlook on the rating to positive from stable.

The rating is based on the bank's market position in Oman, its improved profitability in 2011 and better asset quality ratios; including its strong provision coverage ratio.

Sound rankings

SAUDI ARABIA: S&P has affirmed its long- and short-term foreign and local currency sovereign credit ratings on Saudi Arabia at 'AA-/A-1+'. The outlook is stable.

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that the sector stays resilient and sustainable.

Hamood Sangour al Zadjali, the executive president of the country's central bank, also said that Islamic banks and windows need to be creative and innovative in their Shariah compliant product offerings to ensure liquidity.

Capital for Meethaq

OMAN: The Shariah board of Meethaq, BankMuscat's Islamic banking window, has approved an OMR150 million (US$388.5 million) capital allocation for the Islamic unit.

The Islamic window currently awaits regulatory approval for its establishment from the authorities.

BMI Bank profits in Q1

BAHRAIN: BMI Bank has reported a net profit of US$400,000 for the first quarter of 2012, against a net loss after provisions of US$4.5 million in the same period last year.

The bank's total assets rose 20% to US$1.8 billion, in comparison to US$1.5 billion at the end of 2011.

DIFCI selling assets to repay debt?

UAE: DIFC Investments (DIFCI), which is faced with the repayment of a US$1.25 billion debt pile, has reportedly sold financial software provider SmartStream Technologies.

DIFCI is said to have been seeking buyers for SmartStream since 2010 to raise much-needed capital.

Smaller Q1 loss

UAE: SHUAA Capital has reported a loss of AED8.5 million (US$2.31 million) for the first quarter of 2012, against a loss of AED26.3 million (US$7.16 million) in the previous corresponding period.

Its results were accredited to cost-cutting measures that helped its overall expenses decrease by 7.4% to AED62.1 million (US$16.9 million).

Al-Khabeer Capital posts higher profits

SAUDI ARABIA: Local Shariah compliant asset management and investment company Al-Khabeer Capital has reported a 74% year-on-year increase in its net profit to SAR19.1 million (US$5.09 million) in 2011.

The company's investments advanced by 71% to SAR559.5 million (US$149.17 million), while its asset management business grew 169% to SAR1.4 billion (US$373.26 million).

Ajman Bank's Q1 profits rise

UAE: Ajman Bank has reported a net profit of AED4.5 million (US$1.2 million) for the first quarter of 2012, 154% higher than in the previous corresponding period.

The increase was partly due to a 12% growth in assets to AED4.5 billion (US$1.2 billion). Meanwhile, total income grew 28% to AED63.5 million (US$17 million).

LMC reports Q1 results

BAHRAIN: Liquidity Management Center (LMC) has reported a net profit of US$511,000 after provisions of US$146,000 as at the 31st March 2012, in comparison to a net profit of US$361,000 for the same period in 2011.

During the period, total assets decreased by 36.4% to US$117.4 million.

Coming up...

Volume 9 Issue 19 — 16th May 2012

Meet the Head
Hans De Cuyper, CEO, Etiqa Insurance & Takaful

Features
Corporate governance initiatives in Qatar; by Dr Ali Al Amari, senior director, supervision and authorization division, Qatar Financial Centre Regulatory Authority.

How well do you know your own business? by Daniel Eriksson, vice president of product management and presales at Advent Software.

Procuring banking systems and technology in the Islamic banking sector; by Anthony Pallett, partner in the Dubai office of Latham & Watkins and a member of the Islamic Finance Group.

MOVES

SIYAM CAPITAL

UK: **Safdar Alam** has joined investment firm Siyam Capital as CEO.

He was previously CEO of Solum Asset Management and has also served as the head of Islamic structuring at JP Morgan in Bahrain.

IDEALRATINGS

US: **Shezab Marzban** has resigned as the head of research and product development director at IdealRatings.

DUBAI FINANCIAL SERVICES AUTHORITY

UAE: The Dubai Financial Services Authority (DFSA) has appointed **Ian Johnston** as its next CEO.

He will replace Paul Koster with effect from the 15th June 2012. Johnston has been the DFSA's deputy CEO since 2009 and its managing director since 2006, when he joined the regulator.

APPLEBY

GLOBAL: International legal firm Appleby has promoted **Sarah Demerling**, the team leader for the firm's Islamic finance and structured finance teams in Bermuda, to the position of partner.

She is also the deputy team leader of the funds and investment services team within the corporate and commercial department.

ING INSURANCE

MALAYSIA: ING Insurance has named **Bruce Hodges** as its new executive director and CEO as well as the new director of ING Management Holdings.

Hodges will be in charge of managing ING Insurance as well as its Takaful joint venture operations in Malaysia.

Unrated yet in demand

The Sukuk market is currently riding high with a trend of billion dollar issuances being oversubscribed by investors, particularly in the dominant market, Malaysia. Interestingly, as the global Sukuk market continues to set new heights, there is also a demand for unrated issuances.

Among them are the recent Maxis RM2.45 billion (US$798.5 million) unrated Sukuk Musharakah program, Danga Capital's CNY500 million (US$78.42 million) Islamic trust certificates and Celcom Axiata's medium-term notes issuance of up to RM4.2 billion (US$1.3 billion) in nominal value under a Sukuk program.

In Malaysia, the Sukuk market is governed by guidelines imposed by the Securities Commission Malaysia that compels all Sukuk issuances to be rated. However, paragraph 10.09 of the Islamic Securities (Sukuk) Guidelines allows four exceptions: including irredeemable convertible Islamic loan stocks, foreign currency-denominated Sukuk (as in the case of Danga Capital's CNY issuance), convertible Sukuk or Islamic loan stocks and exchangeable Sukuk which fulfill several requirements as well issuances that are non-transferable and non-tradable.

According to Meor Amri Meor Ayob, CEO of Bond Pricing Agency Malaysia (BPA), most of the issuances that go unrated fall under the last category where the Sukuk is non-transferable and non-tradable. He explains that since the issuers are well known in the market, certain investors are more than willing to take up the issuance, sometimes in its entirety.

Elaborating further, the Malaysian fixed income market, and Sukuk in particular, is now not a supply push but rather a demand pull scenario due to ample liquidity. Case in point, he says, is the number of Islamic banking licenses issued in the country as well as the recently approved private pension scheme. "Because of that, if you look at the balance sheet of these institutions, there is an imbalance where there is an overflow of liabilities coming in as a result of people's deposits but there is a lack of assets to balance it."

This he says has resulted in many institutions keen to become fund managers and aggregating the funds between the conventional and the Shariah compliant portfolios. "More often than not, issuers create a structure for these specific investors. Once the Sukuk has been issued, the buyer holds it to maturity."

> ***"With an independent price discovery, issuers can negotiate with the investor, placing both parties on a better footing"***

On whether unrated Sukuk will be a more popular trend going forward, Meor Amri says it will depend on the availability of willing investors at the outset. For lesser known issuers who have yet to obtain ready buyers for their pending Sukuk, obtaining a rating for the tradable paper is essential to gauge market sentiment on the issuance. "The unrated Sukuk which have gone to the market were issued by major institutions."

According to Meor Amri, BPA's non-involvement in the day-to-day valuation of unrated Sukuk is because it is only regulated to monitor rated issuances. However, the agency has the capability to provide an independent third party price discovery to an issuer, investors or both parties. "With an independent price discovery, issuers can negotiate with the investor, placing both parties on a better footing. Otherwise, who sets the price for the issuance? Both parties will want to negotiate for a price that would benefit them respectively," he notes, adding that to date BPA has yet to provide any consultation on the matter.

As long as the Asian market continues to be flush with liquidity, reputable institutions will continue to issue unrated Sukuk. In the world of private deals, it can not only be done with ease but makes it more cost effective. — *RW*

Indonesian government's next moves hotly watched

All eyes are back on Indonesia as the government is said to be preparing to unveil its new shareholding rules for the country's commercial banks this month.

In addition to the impact that the new regulations (expected to limit single-shareholder ownership in banks) will have on foreign institutions present in Indonesia, market watchers now fear that the country's uncertain regulatory environment may have weakened the momentum of its recent sovereign rating upgrades by Moody's and Fitch.

In fact, not all are convinced that Indonesia has turned a fresh page in terms of economic and political reform; with Standard & Poor's maintaining its 'junk' rating on Indonesia. Its opinion is based on the country's low per capita income, structural and institutional impediments to higher economic growth, continued high private sector external debt and shallow domestic capital markets.

"We have detected some policy slippages, after a remarkable decade of entrenching democracy following the collapse of the Suharto administration. The abandonment of a planned electricity tariff rise, the inability to implement fuel subsidy cuts despite rising oil prices and a host of proposed or actual policy measures in industry and trade point to rising policy uncertainty," noted the ratings agency in a recent report.

Meanwhile Cheah King Yoong, a banking analyst at Malaysia's Alliance Research, noted that CIMB Group and Maybank could be negatively hit by Indonesia's limits on single-shareholder stakes in local banks; due to their majority stakes in CIMB Niaga and Bank Internasional Indonesia, respectively. The banks also have Shariah compliant operations in Indonesia via CIMB Niaga Syariah and Maybank Syariah Indonesia.

"The implementation of this regulation could force these banks to pare down their stakes…and dampen their earnings prospects," said Cheah in a report.

Another Malaysian player, Syarikat Takaful Malaysia, may also face difficulties in Indonesia due to the expected new rules. "The regulatory framework in Indonesia is ever-changing and unpredictable. Sometimes it poses risks to what we want to do moving forward," said Hassan Kamil, its group managing director.

The firm owns 56% in Syarikat Takaful Indonesia (STI) and could see hurdles on two fronts. Firstly as STI's partnership with Bank Muamalat Indonesia could be affected by a possible streamlining of the bank's business due to its own foreign ownership conundrum (Bank Muamalat's foreign shareholders include the IDB and Kuwait's Boubyan Bank); and secondly as Takaful Malaysia will have to pare down its own stake in STI.

Hassan noted that Takaful Malaysia will need a longer time to reduce its stake in STI; while it also planned for the Indonesian subsidiary to contribute strongly to the group's growth going forward.

With the far-reaching impact of Indonesia's regulatory framework and its possible negative effect on foreign investments, the country's government may need to re-balance its policy moves to ensure its newfound shine is not short-lived. — *EB*

Dubai issuances down despite recovering economy

Dubai's economy has been showing signs of revival, with property prices recovering and an increasingly bullish investor sentiment on the back of improving trade flows with Asia, increased tourism and its safe-haven status amid political concerns in neighboring Arab countries. However, out of the projected US$100 billion-worth of Sukuk issuances expected to originate from the Gulf this year, issuances out of the UAE are not expected to constitute a major chunk.

Last month, the Government of Dubai raised US$1.25 billion worth of Sukuk in two five and ten-year tranches, with proceeds from the bond sale providing sufficient liquidity to fund the government's budget deficit and refinancing plans. This was the first time the UAE government tested the credit markets since June 2011, when it issued a ten-year bond worth US$500 million; attracting orders over US$1.8 billion.

The newly issued bonds were over-subscribed by more than three and a half times, and gained a tight pricing at 4.9% and 6.45% respectively for the five and ten-year bonds. However, the government clarified that none of the proceeds would be used to refinance the debt of Jebel Ali Free Zone and DIFC Investments, according to Mohammed Al Shaibani, the director general of the Dubai ruler's court. Both entities currently represent the largest restructuring exercises in the emirates this year, worth a combined US$3.25 billion. Other debt due to mature according to the MENA Bond and Sukuk list include EIB Sukuk's US$350 million Sukuk Musharakah and Dubai Sukuk Center's US$1.25 billion Sukuk Mudarabah.

According to a Dubai-based lawyer, the majority of work in the UAE currently constitutes restructuring and refinancing, with a minimal quantity of Sukuk in the pipeline: although this does include Emirates NBD's planned US$500 million issuance this year, and Dubai Investment's potential issuance worth US$200 million to finance the expansion of its second production line at its Emirates Float Glass Factory in Abu Dhabi.

Rating agency Standard & Poor's also recently warned that it may cut the credit rating of DIFC Investments due to "heightened refinancing risk" on its US$1.25 billion Sukuk due in June. In a report, the rating agency stated: "DIFC Investments has little room for delays in its efforts to secure a bank loan and government support to refinance the Sukuk", placing its 'B+' long-term and 'B' short-term ratings on Creditwatch with a negative outlook. DIFC Investments, which is controlled by the Dubai government, is a high-risk situation considering Nakheel's Sukuk defaults in 2009, and could potentially create another round of bad PR for Dubai despite its recovering economic situation and improving real estate sales and pricing. As always however, it is a game of wait-and-see, and should the emirate pass the acid test of restructuring and refinancing of its debt due this year, it is expected that Sukuk issuances could regain momentum in the country. — *NH*

Amendments to the Inland Revenue Ordinance and the Stamp Duty Ordinance — Part One

HONG KONG

By Anthony Chan, IFN Correspondent

The long-awaited legislative amendments to promote the development of the Islamic bond market in Hong Kong were finally revealed by the government on the 29th March. The Financial Services and the Treasury Bureau published the consultation paper on the "proposed amendments to the Inland Revenue Ordinance (IRO) and the Stamp Duty Ordinance (SDO) to facilitate the development of an Islamic bond market in Hong Kong" (consultation paper), inviting comments from market participants and other stakeholders on the proposed changes. This is a big step forward for enhancing Hong Kong as an Islamic finance center in Asia.

Current tax issues

The government has been seeking to level the playing field for common types of Sukuk against conventional bonds in respect of tax and other implications. The government has identified several key tax disadvantages in relation to Sukuk:

(1) Stamp duty would normally be charged if the underlying asset involved is a stock or immovable property in Hong Kong as a result of the transfer and lease of those assets between the originator and the SPV set up under a Sukuk for the purpose of holding the assets;

(2) Coupon payments made by the special purpose vehicle (SPV) to the Sukukholders would not normally be deductible from profits for tax purposes as they are not interest payments;

(3) The originator of the Sukuk would normally not be entitled to depreciation allowances in respect of the underlying asset since the asset would have been transferred to the SPV; and

(4) The coupon payments and disposal gains derived from Sukuk would not normally enjoy tax concession/exemption under usual Hong Kong taxation principles.

Proposed legislative framework

Under the legislative proposals the government proposes, as the consultation paper puts it: "To adopt a prescriptive and religion-neutral approach, in line with that adopted by other major financial markets such as the UK, as prescriptive legislative provisions without specific reference to Shariah principles would provide more certainty in implementation to market players in Hong Kong."

Proposed legislative amendments seek to cover four types of structures: namely Ijarah, Musharakah, Mudarabah and Murabahah, which are the more common types of Sukuk in the global market. As the majority of Sukuk are in a tripartite structure comprising an originator, a bond issuer (typically a SPV established for the purpose of issuing Sukuk) and a bondholder, the proposed framework is drafted based on this tripartite structure.

In order to reflect this tripartite structure, the government proposes to introduce a new scheme, known as the alternative bond scheme (ABS). An ABS is comprised of two arrangements: a bond arrangement and an investment arrangement. The former refers to the arrangement between the bond issuer and the bondholder, while the latter refers to the arrangement between the bond issuer and the originator which represents the underlying structure of Sukuk. The legislative amendments propose to specify three types of investment arrangement:

(1) Leaseback arrangements which cover a Sukuk Ijarah structure;

(2) Profit-sharing arrangements which cover business-plan Musharakah and Mudarabah Sukuk structures; and

(3) Purchase and sale arrangements which cover a Sukuk Murabahah structure.

The legislative amendments to the IRO and SDO will no doubt be welcomed by market participants and will be conducive to promoting the development of Islamic finance market in Hong Kong. It is expected that the relevant amendment bill will be tabled to the Hong Kong Legislative Council in July this year. Although it remains to be seen whether the government will propose further amendments after the consultation period ends in late May and how it will impact the Islamic market both domestically and globally after its implementation, it is nevertheless a milestone in the development of Hong Kong as a center for Islamic finance in the Asia Pacific region.

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Paving the way for Islamic finance

MALTA

By Reuben M Buttigieg, IFN Correspondent

The World Congress of Muslim Philanthropists and Global Donors this year saw the launch of a new initiative in Islamic finance. This initiative is the setting up in Malta of a microfinance fund which will aim to provide finance to microfinance institutions globally. This initiative is not an isolated event in the Islamic finance front in Malta. In fact although Islamic finance has not been geared at the levels desired, an increased momentum of initiatives has been monitored.

Islamic trusts

Certain trustees in Malta have declared that there has been an unprecedented registration of trusts on the island. It appears that Islamic trusts are becoming more popular with Muslims in North Africa and southern European countries. There are two distinct reasons for the increased interest in Islamic trusts in Malta. For the Muslims in Europe there could be three main reasons:

1. Inheritance rules in mainland Europe may be in conflict with Shariah.
2. Protection of capital.
3. A special purpose vehicle that may purify non-Shariah compliant financing is very popular in countries where Islamic banks are not present.

From the perspective of the Muslims in North Africa, currently the reason for a trust is principally for the protection of assets.

Musharakah home financing

Musharakah home financing has now became a reality in Malta. Although there are no Islamic banks in Malta, RBG Fiduciary Services has managed to create a structure whereby the financing of homes is now possible through the use of a trust. The model seems to have been welcomed by the conventional banks in Malta as it transpires that it is not only being used for Islamic financing but also it is being considered an ideal model for conventional finance. In this context, Muslims in Malta now have the opportunity to adequately finance their homes in a Shariah compliant manner.

Special purpose vehicles

Over the last few months Malta has been experiencing an increased number of registered special purpose vehicles by Islamic financial institutions. The nature of these vehicles varies from shipping and airline companies to energy companies. These companies try to benefit from the Malta tax system as well as the investment incentives and Malta's EU membership, as well as Malta being a reputable center for such transactions. This reputation has been built over the years and in fact Malta has one of the largest shipping registers in the world. Its geostrategic location has also helped in this.

> ***"Muslims in Malta now have the opportunity to adequately finance their homes in a Shariah compliant manner"***

Government of Malta's SPV

Interesting is the change in financing mentality of the government of Malta. One of the main projects in Malta is currently the re-building of the entrance of the capital city, Valletta. Included in the project is the building of the city entrance, a theatre and a new parliament. The government has announced the setting up of a special purpose vehicle to finance this. The way it is being structured hints to a Sukuk structure. Although it is not a Sukuk this has been a major development in Malta as this is the first time that the government is financing a project this way. The Maltese government has already had the proposal of a Sukuk in 2009. This new financing proposition suggests that the government has taken such a proposition seriously.

Diplomatic relations with countries in the MENA region

The Maltese government has been engaged in various diplomatic relations with various Middle Eastern countries such as the recent Qatar state visit to Malta and the related discussions engaged in between Malta and Qatar. These relations have been very strong in the past. In fact Qatari commercial entities have been present in Malta for more than 30 years. It appears that both states would like to enforce their relations with a new agreement. The agreements being discussed are both commercial and other mutual assistance agreements in various areas.

The efforts do not stop in Qatar but have extended to other GCC countries as well. In fact there have been various delegations organized by Malta Enterprise (the prime foreign direct investment promotion vehicle in Malta) in GCC countries including Abu Dhabi, Bahrain, Dubai and Saudi Arabia.

The diplomatic efforts are also very strong in North Africa, particularly with Libya and Tunisia. Malta's role in the Arab Spring brought these countries closer to Malta. Malta does and will continue to play a significant role in the development of these countries including in Islamic finance dissemination. In fact there are already discussions going on regarding education on Islamic finance in the region.

Malta is once again acting as a bridge between Europe, the Middle East and North Africa. This is critical at this point in time given the potential that North Africa offers when it comes to Islamic finance. These efforts have been recognized by various international organizations including Islamic banks such as the Al Baraka Banking Group.

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AJIL Financial Services Company's US$133.32 million Sukuk

AJIL Financial Services Company launched a SAR500 million (US$133.32 million) privately-placed Sukuk on the 14th April.

The offering comprised the first Islamic bond from the Saudi-headquartered leasing provider, whose shareholders include Riyad Bank and Japan's Mitsubishi UFJ Lease & Finance Company.

> *"The issue was priced at the lowest margin by a non-government issuer in the Saudi riyal market since 2008"*

Structuring and pricing

The Sukuk, structured as a Sukuk Istithmar, has a three-year maturity and was issued via AJIL Cayman, a special purpose vehicle.

The papers follow an amortizing schedule over 12 periodic distributions and pays a coupon of three-month Saibor (Saudi interbank offered rate) plus 80 basis points on a quarterly basis.

"This off-balance sheet Sukuk is an innovative structure incorporating a credit wrap in the form of a purchase undertaking from Gulf International Bank [the parent of GIB Capital] and Riyad Bank. The underlying creditworthiness of the structure along with the credit enhancement provided by the purchase undertaking received a very positive response from investors.

"The issue was oversubscribed and priced at the lowest margin achieved by a non-governmental issuer in the Saudi riyal market since 2008," noted Srinivas Vemparala, CEO of GIB Capital.

Legal and Shariah advisors

Abdulaziz AlGasim Law Firm, in association with Allen & Overy, acted as legal advisor to GIB Capital and Riyad Capital, which arranged the transaction; while Walkers (Dubai) advised the issuer with regard to Cayman Islands law; and legal advisors in association with Baker & McKenzie advised the originator and Sukuk administrator in relation to Saudi law.

The transaction was also advised by the Shariah committee of Riyad Capital. — *EB*

AJIL Financial Services Sukuk

SAR500 million (US$133.32 million)

14th April 2012

Issuer	AJIL Cayman
Obligor	AJIL Financial Services Company
Issuance amount	SAR500 million (US$133.32 million)
Tenor	Three years
Coupon rate / return	Quarterly Saibor + 80 basis points
Currency	Saudi riyal
Maturity date	14th April 2015
Lead manager(s)	GIB Capital, Riyad Capital
Governing law	Saudi law and Cayman Islands law
Listing	Unlisted
Structure / instrument	Sukuk Istithmar

Mobily leads the way in jumbo refinancing

The increased demand by Saudi banks for the use of the airtime financing structure, five years on from its initial inception, is an indication of the growing sophistication of the Saudi Arabian market. CRAIG NETHERCOTT and HARJ RAI explore.

In March 2012 Etihad Etisalat Company (Mobily), the second mobile service provider in Saudi Arabia, successfully completed its SAR10 billion (US$2.7 billion) refinancing of its existing facilities. The financing, which was structured with multiple tranches, once again utilized the innovative airtime facility structure (first used by Mobily in 2007) and also included the use of a more conventional Murabahah-Tawarruq structure.

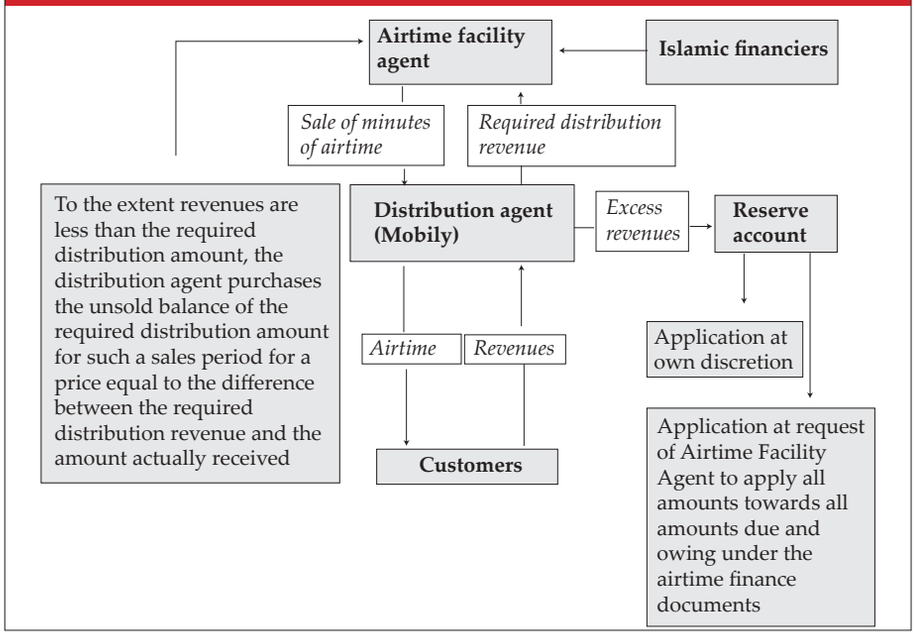
Being one of the largest general syndicated Islamic financings deals to date, the financing was also raised solely from Saudi Arabian banks (Al Rajhi Banking & Investment Corporation, Banque Saudi Fransi, Riyad Bank, Samba Financial Group, Saudi Hollandi Bank, The National Commercial Bank and The Saudi British Bank), highlighting both the strength of liquidity and the demand for Shariah compliant financing structures in the Saudi market.

> *"The airtime structure was first utilized by Mobily in 2007 and at that time represented a new Islamic finance instrument specifically designed for telecom operators"*

Development and structure of the airtime structure

The airtime structure was first utilized by Mobily in 2007 and at that time represented a new Islamic finance instrument specifically designed for telecom operators. The structure was again adopted by Mobily's principal shareholder, Emirates Telecommunications Corporation (Etisalat), for its own Sukuk program in 2010. The structure allows a telecom operator like Mobily to sell minutes of airtime to an airtime facility agent (acting on behalf of the financiers). The telecom operator is then appointed to act as the distribution agent on behalf of the financiers to sell the minutes of airtime to its customers, ensuring at all times that the revenues generated from the sale of such minutes is at least sufficient to cover the payments to be made to the financiers under the facility.

Table 1



A failure on the part of the distribution agent to generate sufficient revenues is compensated by way of liquidated damages from the distribution agent to the financiers. Any excess revenues generated by the distribution agent are retained by the distribution agent by way of a book-entry reserve account which Mobily is permitted to utilize at its discretion (subject to an obligation to repay such amounts in the event of any shortfall in payments due to the financiers). In addition, the distribution agent is required to obtain and maintain all necessary rights, powers and licences granted by the relevant regulatory authorities to the telecom operator. Pursuant to a sale undertaking, Mobily is granted the right to repurchase the airtime minutes should it wish to prepay the facility prior to a scheduled maturity date.

Similarly, the financiers are granted the right pursuant to a purchase undertaking to require Mobily to repurchase the airtime minutes following an event of default which is continuing or to repurchase any unsold airtime minutes on a scheduled maturity date.
A key advantage of the airtime structure for telecom operators is that the most valuable assets of the company, the license and network infrastructure, are not required to be transferred to the financiers and will at all times remain with the operator, thus avoiding any regulatory hurdles.

Multiple tranches

The recent airtime transaction was distinguished from earlier transactions by the introduction of multiple term tranches. The multiple tranches were structured to grant greater flexibility to Mobily and more closely align the terms

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of the financing with its corporate needs. As a result, three separate tranches were created with five and seven-year tenors, with the repayment profiles being sculpted on both an amortizing and bullet payment basis. The airtime facility was supplemented by two Murabahah-Tawarruq facilities, one for the purposes of providing a revolving working capital facility to Mobily and the other, a multiple term tranche facility, replicating the same commercial terms as the airtime facility. Whilst the introduction of multiple tranches initially led to some complex drafting issues (and interesting discussions with the Shariah boards of the financiers), the structure will now no doubt serve as a template for other companies seeking to raise multi-tranche Islamic finance.

Use of intangible assets in Islamic financing

The airtime facility structure represents the increasing use, and acceptance, of intangible assets as the basis for Islamic financing. Earlier this year, the Saudi Arabian General Authority of Civil Aviation issued its debut SAR15 billion (US$4 billion) Sukuk which was partly based on a sale of its rights to charge and collect fees from airlines; and last year the Saudi International Petrochemical Company (Sipchem) issued its SAR1.8 billion (US$480 million) Sukuk using its right to receive distributions and other payments from its subsidiaries as the underlying revenue-generating Sukuk assets.

> ***"The airtime facility structure represents the increasing use, and acceptance, of intangible assets as the basis for Islamic financing"***

Traditionally, the most common Islamic financing structures require the use of an underlying tangible asset as the basis of the financing which has restricted the ability of some companies to access the increasingly liquid Islamic markets (specifically in the context of the Sukuk capital markets). Whilst the Murabahah-Tawarruq structure has offered some flexibility to companies wishing to raise Islamic finance without encumbering their own assets, the generic nature of this form of Islamic finance, which can be used in almost all types of business since the assets which are bought and sold by way of commodity trades are not those which are actually used by the company, has attracted criticism from some Shariah scholars, most recently in the context of the Goldman Sachs Sukuk program. Furthermore, the Murabahah-Tawarruq structure is generally only accepted in the context of short-term financings and not seen as a suitable structure by credit committees for medium and long-term financings, and even less so in the context of project financings.

Conclusion

Permitting intangible assets to be used in these structures is an important step in the development of Islamic financing. The increased demand shown by the Saudi banks for the use of the airtime structure five years on from its initial inception is also an indication of the growing sophistication of the Saudi Arabian market.

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Islamic banking in Saudi Arabia: Grasping the non-Muslim segment

SUTAN EMIR HIDAYAT and NOUF KHALID AL-BAWARDI identify the perceptions of non-Muslim customers towards Islamic banking, and the factors which motivate them to use Islamic banking services in Saudi Arabia.

During the last two decades there has been a rapid expansion of banking services in Saudi Arabia. The kingdom's financial scene has been transformed due to the tremendous proliferation of local banks, a rapid expansion of branch networks and privately-owned banks and an enormous widening in the range of financial services provided by financial institutions. Saudi Arabia has a well-developed banking system consisting of 11 commercial banks.

These include a number of local banks which are wholly-owned by Saudi nationals/entities and joint-venture banks which have foreign stakeholders. Three of the commercial banks are wholly Saudi-owned, including the largest, National Commercial Bank (NCB) and second largest, Riyad Bank. Unlike Kuwait, which effectively expelled foreign banks in the 1970s, Saudi Arabia allowed foreigners to maintain a stake in the kingdom's financial system. City Bank (SAMBA); HSBC (Saudi British Bank); Banque Indo-Suez (Al-Bank Al–Saudi Al-Fransi); ABN AMRO/RBS (Saudi Hollandi Bank) and Arab Bank (Arab National Bank) continue to have investment in Saudi banks.

This has facilitated the introduction of modern technology and the development of competitive banking services and products. The 1990s produced a more flexible attitude to foreign management of Saudi banks. Currently, seven of the foreign banks have non-Saudi chief executives or general managers.

As a result of the expansion in banking services in Saudi Arabia, the consumption of banking products and services has exhibited an extraordinary increase in the recent years. This increase has also been evident in the realm of Islamic banking. The past few years have also seen an expansion in the range of Islamic banking products which are offered to customers in Saudi Arabia.

Out of the 11 banks operating in Saudi Arabia, three (Al Rajhi, Al Jazira and Al Bilad) are operating their businesses in accordance to Shariah. The popularity of the Islamic banking system is not limited to the local Saudi banks. Instead, increasingly conventional foreign banks also show an interest in Islamic banking system. Al Rajhi, the main player, has been active in promoting its Islamic positioning in the market.

Table 1: Shariah compliant credit facilities of Saudi Banks, as of the 31st December 2006

Banks	Total loan and advances, Net of provisions SAR million (US$ million)	Total Shariah compliant facilities, Net of provisions SAR million (US$ million)	Shariah compliant Facilities as a percentage of total loan and advances SAR million (US$ million)
Al-Rajhi	89,132.3 (US$23.76)	89,132.3 (US$23.76)	100 (US$26.66)
National Commercial Bank	77,244.6 (US$20.6)	34,364 (US$9.16)	44.5 (US$11.86)
Samba Financial Group	67,027.7 (US$17.87)	22,140.1 (US$5.9)	33 (US$8.8)
Riyad Bank	52,183.1 (US$13.9)	19,934 (US$5.31)	38.2 (US$10.8)
Banque Saudi Fransi	51,019.0 (US$13.6)	10,547 (US$2.8)	20.2 (US$5.39)
Arab National Bank	49,747.2 (US$13.26)	n/a	n/a
Saudi British Bank	42,450.2 (US$11.32)	21,547 (US$5.74)	50.8 (US$13.54)
Saudi Hollandi Bank	26,479.8 (US$7.06)	6,100 (US$1.63)	23 (US$6.13)
Saudi Investment Bank	20,691.3 (US$5.52)	3,870 (US$1.03)	18.7 (US$5)
Bank Al-Bilad	9,658.9 (US$2.58)	9,658.9 (US$2.58)	100 (US$26.66)
Bank Al-Jazira	6,271.1 (US$1.67)	6,271 (US$1.67)	100 (US$26.66)
Total	491,905.2 (US$131.15)	223,481.3 (US$59.58)	45.4 (US$12.1)

Source: (Cunningham, 2007)

The National Commercial Bank (NCB) has also extended its Islamic offering in the last two years, by opening more Islamic branches. Saudi British Bank has also been active in promoting Islamic banking products and has opened/converted four branches to Islamic and planning to convert more Islamic branches. At the end of 2006, 45.4% of Saudi banks' credit facilities were extended through Shariah compliant facilities. Through the system as a whole, Murabahah is by far the most commonly used credit instrument by banks in Saudi Arabia. The break-up of the Shariah compliant credit facilities of Saudi Banks in 2006 is presented in Table 1.

Leaving aside the three wholly Shariah compliant banks, it can be seen from Table 1 that 34.7% of loans and advances extended by the eight conventional banks were Shariah compliant in 2006. Saudi British Bank (SABB) leads the pack with just over half of its credit facilities being Shariah compliant, closely followed by National Commercial Bank with 44.5%. Riyad Bank and Samba Financial Group had 38.2% and 33% respectively.

The consequence of this is that Islamic (local) banks operating in Saudi Arabia are faced with strong competition not only from Islamic banks but also from non-Islamic rivals (multinational joint-venture banks). However, foreign banks operating in Saudi Arabia are not generally perceived as leading banks in

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terms of Islamic banking products (5% of the market share). Currently, Al-Rajhi and NCB continue to dominate a large part of the Islamic banking market in Saudi Arabia.

> ***"The social benefits offered by Islamic banks are the key elements that influence the perception of customers"***

Non-Muslim expatriates in Saudi Arabia

The population of Saudi Arabia was estimated to be about 27.1 million in 2010. This includes an estimated 8.4 million resident expatriate workers. The largest expatriate communities in Saudi Arabia include 1 to 1.5 million people each from India, Philippines, Bangladesh and Pakistan, and another 900,000 each from Egypt, Sudan, Yemen and Lebanon.

There are also some people from North America, South America and Europe. A large segment of the Saudi expatriate population consists of non-Muslims. In 2009, the Saudi non-Muslim expatriate population included about 1.5 million Christians and 1.3 million Hindus. Both Saudi and foreign Islamic banks have been trying to market their Islamic banking products to this significant non-Muslim expatriate population in order to capture a larger market share of the Islamic banking market in Saudi Arabia.

Keeping in view the rising expectations of customers in the face of stiff competition it is necessary for Saudi Islamic banks to understand non-Muslim customers' perceptions of the banking services offered and refine their approach in dealing with the customers. It is due to the fact that the customer is the nucleus around whom the banks must operate and develop.

When competition intensifies and when banks start to offer more or less similar products and services, it is the customer's satisfaction and his perceptions about the nature of the bank products that can influence the bank's performance and determines its competitiveness and success. Hence it is of paramount importance to assess the perceptions of non-Muslim customers towards Islamic banking products and services in order to successfully grasp the segment.

Factors that influence customer perception towards Islamic banking

There are few studies available on customer perceptions towards Islamic banking services. Most of the studies are survey-based with the purpose of evaluating customers' satisfactions towards Islamic banking services. In the studies, several factors that influence the perception of customers towards Islamic banking services are identified. Based on the studies reviewed by the authors, it is found that there are five important factors that influence the perception of customers towards Islamic banking services:

1. The provision of a fast and efficient service;
2. The bank's reputation and confidentiality;
3. Religious belief;
4. Social benefits;
5. Service quality.

Several studies have found that the provision of a fast and efficient service is the key element that influences the perception of customers towards Islamic banking services. It is also found that slow and inefficient service has distracted many customers from utilizing Islamic banking services despite their religious belief. This really makes sense especially in the globalization era where fast and efficient transactions are highly required. Efficiency here also means Islamic banks should offer competitive charges for their services as compared to conventional banks.

Several studies also have found that a bank's reputation and confidentiality are important factors that influence the perception of customers towards Islamic banking services. Everyone wants to get assurance that his/her Islamic bank is a trustworthy and reputable institution. Damages in reputation can bring any bank to bankruptcy due to excessive withdrawals by its savers/depositors. In addition, savers also require all banks to keep their confidentiality. In fact, this is one of the reasons why savers deposit their money in the banks.

Religious belief is still seen as one of the factors that influences the perception of customers towards Islamic banking services. However, several studies have indicated that religion is found to play a less important role in customers' decisions to transact with an Islamic bank. The studies also reveal that one of the factors that contributes to the decline of religion's role is lack of awareness and understanding towards the Islamic banking products among the Muslim customers. Obviously, the situation is even worse in the case of non-Muslim customers.

Several studies have also found that the social benefits offered by Islamic banks are the key elements that influence the perception of customers towards Islamic banking services. This is due to the fact that Islamic banks in their operation should aim to achieve the objectives of Shariah and one of the objectives of Shariah is the welfare of the society. After understanding the factors that influence the perception of customers towards Islamic banking services, the authors conducted a survey to test non-Muslim's perceptions towards Islamic banking services in Saudi Arabia. The results of the survey are described in the next section.

Non-Muslim's perceptions towards Islamic banking services in Saudi Arabia

A survey using a questionnaire was conducted to test non-Muslim's perceptions towards Islamic banking services in Saudi Arabia. Using 103 respondents that completed the questionnaire, the study concluded that non-Muslim customers in Saudi Arabia use Islamic banking services because of cheaper costs (efficient), and a better quality and range of services provided by the Islamic banks. The main Islamic banking principle of avoidance of Riba is not the major motivating factor for non-Muslim customers to use Islamic banking services.

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The study also concludes that the majority of non-Muslim customers are first exposed to Islamic banking at their places of work where corporate Islamic banking products/services are utilized regularly by their employers. The majority of these non-Muslim customers perceive the social benefits of Islamic banking as good.

Overall the majority of non-Muslim respondents perceive Islamic banking services as satisfactory. The respondents are of the opinion that Islamic banking services can cater to their banking needs.

> ***"The majority of non-Muslim customers are first exposed to Islamic banking at their places of work"***

Conclusion

The above discussions indicate that non-Muslim customers in Saudi Arabia constitute a potential market to be grasped by Saudi Islamic banks. Therefore, understanding the factors that influence their perception is indeed very important.

Based on the survey conducted to test non-Muslim's perceptions towards Islamic banking services in Saudi Arabia, it is found that majority of the respondents express satisfaction at the quality and professional nature of services offered by the Saudi Islamic banks.

Therefore, Saudi Islamic banks have to seriously look at exploiting this segment of customers. They should tailor their non-Muslim customer acquisition strategies accordingly and ensure that more and more non-Muslim expatriate customers embrace and use Islamic banking services.

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Ujrah-based credit cards: Innovations in Islamic consumer banking products

The Ujrah concept is the latest development in the Islamic credit card practice globally. AHMAD MUKARRAMI and JUMADI KADIR explore.

'Credit card-i' is known as a magical card that provides a payment instrument which indicates a convenient line of credit and a revolving facility. The earliest Islamic credit card facility introduced in Malaysia was based on Bai Al Inah. Under this concept, the customer is required to buy the underlying asset from the bank with deferred payment; and subsequently the customer will sell it back to the bank at a lower price with cash. This transaction will create a debt obligation due from customer over a certain period of time.

> *"'Credit card-i' is known as a magical card that provides a payment instrument which indicates a convenient line of credit and a revolving facility"*

The difference between the selling price and purchase price will be regarded as the ceiling income to the bank. The Shariah Advisory Council ruled that the concept of Inah in credit card-i is permissible based on the following mechanism:

1. The customer purchases an asset from the bank, on deferred terms (the purchase price comprises cost plus profit); for example, [RM11,800 (US$3, 888) (RM10,000 (US$3,295) + RM1,800 (US$593)], to be paid within one year by the customer; and

2. The customer thereafter will sell back the asset to the bank on a cash basis (at cost value); for example RM10,000. The selling price of the asset is lower than the purchase price. This is the amount which will be credited into a marginal Wadiah account of the bank, for the customer's use.

Tawarruq-based credit card-i

Some scholars, especially in the Middle East, criticize the practice of Inah due to some of its salient features. One of them is the mechanism of sell-and-buy back with two different payment methods.

The first transaction is initiated by the bank, which sells an asset at differed payment to a customer, and then the customer subsequently sells it back to the bank at a lower price with a cash payment.

Hence, the asset initially bought on the deferred price will be sold back to the same party and the asset/commodity is returned to the original owner which makes it quite obvious for some scholars as to circumvent Riba. Therefore, the concept of Tawarruq is introduced and adopted to curb the issue.

According to the Fiqh jurists, Tawarruq can be defined as a person (Mustawriq) who buys an asset/commodity at a deferred price, in order to sell it at a lower price with cash. Usually, he sells the asset to a third party, with the aim of obtaining cash.

This is the classic Tawarruq, which is permissible, provided that it complies with the Shariah requirements on sale (Bai). The contemporary definition on organized Tawarruq is when the Mustawriq buys merchandise from a local or international market on a deferred price basis. The financier arranges the sale agreement either himself or through his agent. Simultaneously, the Mustawriq and the financier execute the transactions, usually at a lower spot price.

In a Tawarruq-based credit card-i facility, the mechanism is quite similar to Bai Al Inah concept except for the following characteristics:

1. There are three parties involved — the customer, bank and broker.

2. The subject matter is not returned to the original owner.

With the Tawarruq concept, the bank will purchase a commodity from broker A; then will subsequently sell it to the customer at a markup price. The amount represents the debt obligation due from the customer who will then sell it to broker B at a lower price with cash. The proceeds from this sale will be deposited into the credit card account as the designated limit to be utilized by the cardholders.

However, there are disagreements among scholars regarding a few issues, especially on a pre-arrangement between parties in a Tawarruq Munazzam (organized Tawarruq). They opine that the person who seeks liquidity should transact with the parties who are not assigned prior to the execution of contract. In other words, it should comply with the rules of Tawarruq Fiqhi which is solely accommodating the need of the Mustawriq to seek liquidity. Once again, a new concept should be introduced to minimize the issues in Bai Al Inah and Tawarruq and thus, unveil the new development of the credit card-i facility.

Emergence of the Ujrah concept

The regional Shariah dialogue which was held on the 28-29th June 2006 was one of the efforts aimed at harmonizing and enforcing deep understanding among Shariah scholars. One of the resolutions made was to limit the use of Inah and Tawarruq in the product offering of the Islamic banking industry.

In order to tap into the market of those who would like to enjoy a credit card facility while still observing Shariah issues, the Ujrah concept was established at the right time as

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the latest development in the Islamic credit card practice globally. It is highly recommended and practiced widely in the Middle East due to its characteristics and features that allow banks to charge a fee over service rendered to the counterparty. The fee imposed is determined upfront and mutually agreed by all parties. This salient feature makes it more transparent to both parties in terms of the charge quantum which is known upfront and justifies the service rendered.

> ***"This is a positive development for Islamic banking products that offer an alternative to the highly criticized Shariah concept"***

The significant difference between the concepts of Ujrah and the other concepts are in terms of the relationship between the parties and the essence of the contract. The Ujrah concept does not involve selling and buying activities. Hence the debt obligation is absent in this sense.

Credit cards based on Ujrah

This is a positive development for Islamic banking products that offer an alternative to the highly criticized Shariah concept. Apart from that, an Ujrah-based product is more acceptable internationally and is in line with one of the objectives of Islamic finance: to harmonize the Shariah concept globally. In 2009, HSBC Amanah introduced an Islamic credit card based on Ujrah, followed by CIMB Islamic. RHB Islamic Bank has also shown its commitment by adopting Ujrah as the underlying concept.

Generally, the concept is about providing the cardholder with privileges, services and entitlements in exchange of a fixed fee. Taking into consideration the services rendered, it must be clearly specified and agreed by the cardholders. Among the entitlements given to the cardholders is to utilize the financial limit given by the issuers. The cardholders will enjoy certain privileges specially designed for promotions, discounts on certain merchants and as well as the convenience of online shopping. This will include the convenience of cashless transactions, as most merchants prefer payment via card credit in order to enhance total collection, i.e. several bill payments.

In line with the spirit of Shariah that is enjoining goods and forbids evils, the cardholders are also assured to have a special control mechanism embedded on the card which will only facilitate the lawful transaction of products and services. Thus, the purchase of liquor, gambling activity and at karaoke premises will not be authorized. It is done by tagging certain merchant outlets that conduct non-Shariah compliant business activities via barring selected merchant codes. If there is an attempt to perform such a transaction, it will be automatically rejected.

Conclusion

The International Council of Fiqh Academy of the OIC has ruled the concept of Tawarruq Munazzam and Reversed Tawarruq as impermissible. The reason behind this decision is due to the element of deception in its implementation that involves pre-arrangement for the purpose of obtaining quick cash facility.

Therefore, in line with the efforts to uphold the development of Islamic finance, there is a need to move away from highly criticized issues. An Ujrah-based credit card is among the latest developments and innovations meant to minimize the issues surrounding the Islamic finance globally. It is widely practiced in the Middle East as its features are tailored to meet the demand of cardholders to enjoy a Shariah compliant credit card facility.

Ahmad Mukarrami is the head of the Shariah division and Jumadi Kadir is the acting head of the Shariah research & training department at RHB Islamic Bank. They can be contacted at ahmad_mukarrami@rhbislamicbank.com.my and jumadi_kadir@rhbislamicbank.com.my.

Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 9 Issue 18

Sawadeekap Islamic funds

Cover Story

Just north of Asia's leading Islamic financial center Malaysia lies Thailand, with approximately 6% of the total population being Muslim, predominantly in the south of the country. Islamic finance is relatively new with Islamic Bank of Thailand (ibank), established in 2002, the only fully-fledged Islamic bank.

While news of Islamic banking and the impending ibank Sukuk issuance continue to make headlines in the industry, very little is known about two asset management companies which are currently managing Islamic funds in Thailand – the first of which dates back to 2004.

MFC Asset Management is Thailand's first mutual fund management company, founded by the Thai government and the International Finance Corporation in 1975. Its current major shareholders are the ministry of finance, Government Savings Bank, and the Thai Military Bank.

It went on to set up MFC Islamic Fund, making it the first Islamic mutual fund in Thailand. Despite being a retail fund the main investors in the fund comprise two of its current shareholders, along with the Social Security Fund, the Securities Exchange of Thailand and even ibank. The fund invests in equity and fixed income securities with the bulk placed in PTT, the national energy company and integrated gas company, according to its fact sheet as at the 30th April.

The success of MFC Islamic Fund enabled the asset management company to launch its second Islamic fund, the MFC Islamic Long Term Equity Fund, three years later. The fund has a similar portfolio as its sister fund with slightly over a quarter invested in energy stocks, while about 16% goes into property development and information and communication stocks make up almost 15% of the fund's assets.

Fund	AUM
Krung Thai Shariah Retirement Mutual	THB66.99 million (US$2.16 million)*
Krung Thai Shariah Long Term	THB106.39 million (US$3.43 million)*
MFC Islamic	THB201.4 million (US$6.5 million)*
MFC Islamic Long Term Equity	THB135.53million (US$4.37 million)#
*as at the 30th March 2012 #as at the 27th April 2012	

Source: company websites

Ironically, the other asset management company to provide a Shariah fund offering is Krung Thai Asset Management which is a subsidiary of Krung Thai Bank, which sold its Shariah compliant financial services to ibank in 2005. It has two funds: the Krung Thai Shariah Long-Term Equity Fund and the Krung Thai Shariah Retirement Mutual Fund, both launched in December 2006.

Although the assets under management (AUM) of the four funds are miniscule – the largest being the MFC Islamic Fund with AUM of THB201.4 million (US$6.5 million) – the performance of these funds in terms of returns have been anything but small. A check on the factsheets of the respective funds shows that all have posted positive returns with the MFC funds registering double digit returns over a one-year period. MFC's Shariah funds also reveal an outperformance of not only the Stock Exchange of Thailand SET Index but also the FTSE SET Shariah Index in the category of the one year and since inception returns.

Islamic funds were introduced about the same time as Islamic finance in Thailand but they have proved to be more than just a channel to provide minority Muslims with an alternative avenue for investment. They have also managed to provide alpha over the investments.

The next step for the two asset management companies is to increase their fund size. This can be done by marketing their respective Shariah funds to the non-Muslims in the country, something that asset management companies in Malaysia have been successful in doing. — *RW*

In this issue...

Income distribution for TA Dana Fokus

MALAYSIA: TA Investment Management has declared a gross income distribution of one Malaysian sen (0.0033 US cents) per unit for its TA Dana Fokus fund.

The fund has returned a total gain of 37.01% up to the 30th March this year since its launch in June 2008.

Al-'Aqar eyes Indonesia

INDONESIA: Malaysia-based Al-'Aqar Healthcare Real Estate Investment Trust (REIT), an Islamic REIT, is considering opening a trust in Indonesia.

Yusaini Sidek, CEO of Damansara REIT Managers, the managing company of the trust, said that the company will look at registering the trust if the country provides tax incentives and clearer rules on land ownership by foreign entities.

First deal completed

UK: Saudi-based investment bank Sidra Capital, formerly known as Aayan Capital, and Gatehouse Bank have acquired the first property for the Sterling UK Real Estate Fund (SURF).

The two banks secured the Cambridge-based property, known as the Cooperative Group Distribution Center, for GBP23.55 million (US$38 million). The property will generate an average annual distribution yield of around 8.4% over five years.

SURF targets to acquire Shariah compliant commercial real estate in the UK as it builds a property portfolio with an equity size of GBP100 million (US$161.8 million).

French Islamic fund launched

FRANCE: Local asset manager La Française AM has launched the country's first Islamic collective property investment vehicle open-ended fund, in partnership with a Kuwaiti Shariah compliant and conventional bank, which it did not name.

The company and the Kuwaiti bank have also reportedly entered into a joint venture to source and manage assets of Shariah compliant core real estate projects in France.

RHB Mudharabah Fund

The fund aims to provide a balanced mix of income and potential for capital growth by investing in stocks listed on the Bursa Malaysia or on any other stock exchanges, unlisted stocks and Islamic debt securities and other non-interest bearing assets acceptable under the principles of Shariah. The fund's activities are conducted strictly in accordance with the requirements of the Shariah principles and are monitored by the Shariah Committee of the fund.

What led to this fund being launched?

RHB Mudharabah Fund was launched in May 1996 during the robust period of the local equity market and the initial expansion period of the bond market. The fund was launched to provide product diversification to investors and also to tap into the growing market for Shariah products.

Why has this particular region / asset class been chosen?

We chose to launch a domestic balanced mandate to target investors who want to participate in the dynamic local equity market but are also risk averse, i.e. investors with a moderate risk profile. A balanced mandate allows for flexibility in asset allocation which provides stability to the fund in any market cycle.

What are the key factors that drive the fund's performance?

The key drivers to the fund's performance are stock selection and asset allocation.

Who are your investors?

Investors of this fund are Malaysians, although there are no restrictions for foreign investors to invest in the fund.

What specific risks does the fund take into consideration?

The fund invests in the local Shariah market and therefore is exposed to the same risks as the other funds in the same category, i.e. stock market risk, individual stock risk, liquidity risk, issuer risk, interest rate risk, credit/default risk and Shariah specific risk.

What are the sectors you are heavily invested in and why?

Plantation: The sector is expected to continue to outperform on the back of robust CPO prices.

Oil & Gas: The sector is expected to be resilient on the back of Petronas's RM300 billion (US$98.07 billion) capex spending over the next five years.

What are the sectors you have recently exited and why?

We have not exited any sectors in a big way. However, we have sold down our single stock holding in the technology sector as we wanted to limit the losses given that we expect stock price to further weaken.

How has this change affected your portfolio of this fund?

The performance has improved as the stocks no longer put a drag on the fund. The fund has performed within our expectation and the performance has improved as we continue to overweight the favorable sectors i.e. plantation and oil & gas.

What is the rate of return of this fund?

	YTD	1Y	3Y	5Y
Rate of return (%)	3.60	1.99	46.50	41.34

Gross Dividend Yield (FY11)	5.8%
Average 5-year Return	8.27%

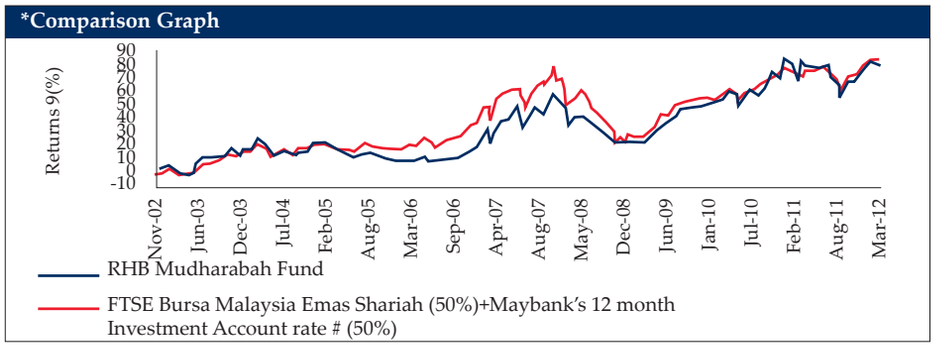
What is the market outlook for this fund?

The fund is invested in a balanced mix of growth and beta stocks that will give both capital appreciation and dividend yield. In addition, its exposure in bonds will provide stability and income to the fund. We expect the fund to fare better in these volatile times.

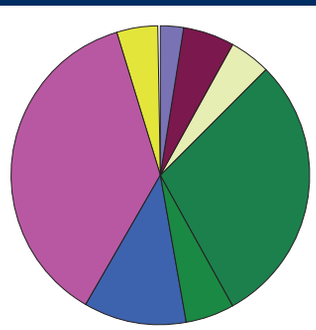
Fact sheet

External Fund Manager	Junita Ishak, RHB Islamic Asset Management
Trustee	CIMB Islamic
Shariah Advisor	RHB Islamic Bank
Benchmark (Index)	Weighted average of FTSE Bursa Malaysia Emas Shariah Index (50%) and Maybank's 12-month General Investment Account Rate (50%)
Domicile	Malaysia
Inception Date	9th May 1996
Fund Characteristics **(As at the 31st March 2012)*	**Fund Type** Open **Fund Size** RM26.31 million (US$8.6 million) **NAV per share** RM0.8463 (US$0.2768) **Minimum Initial Investment** RM1,000 (US$327.11) **Minimum Additional Investment** RM100 (US$32.71) **Management Fee** Up to 1.5% pa of NAV **Dividend policy** Subject to the availability of income at the end of the financial year

***Comparison Graph**

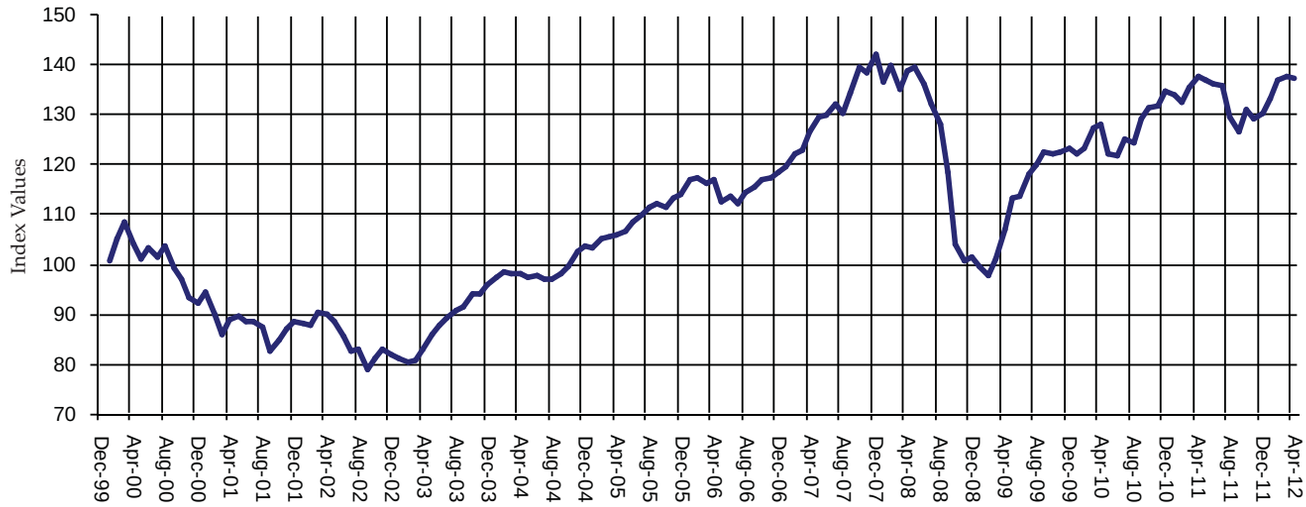


***Asset & Sector allocation**



Industrial products	2.71%
Construction	5.56%
Trading/services	4.39%
Infrastructure	29.35%
Plantations	5.37%
Sukuk	11.05%
Cash	36.88%
Consumer products	4.7%

Eurekahedge Islamic Fund Index



Top 10 Monthly YTD returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	30.62	Pakistan
2	Atlas Islamic Stock	Atlas Asset Management	28.33	Pakistan
3	Al Meezan Mutual	Al Meezan Investment Management	26.91	Pakistan
4	Meezan Islamic	Al Meezan Investment Management	26.67	Pakistan
5	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	26.35	Pakistan
6	Jadwa Saudi Equity	Jadwa Investment	24.32	Saudi Arabia
7	Al-Saffa Saudi Equity Trading	Banque Saudi Fransi	24.31	Saudi Arabia
8	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	23.12	Saudi Arabia
9	Jadwa Arab Markets Equity	Jadwa Investment	20.96	Saudi Arabia
10	Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	20.50	Egypt
	Eurekahedge Islamic Fund Index		**5.51**	

Based on 62.02% of funds which have reported April 2012 returns as at 8th May 2012

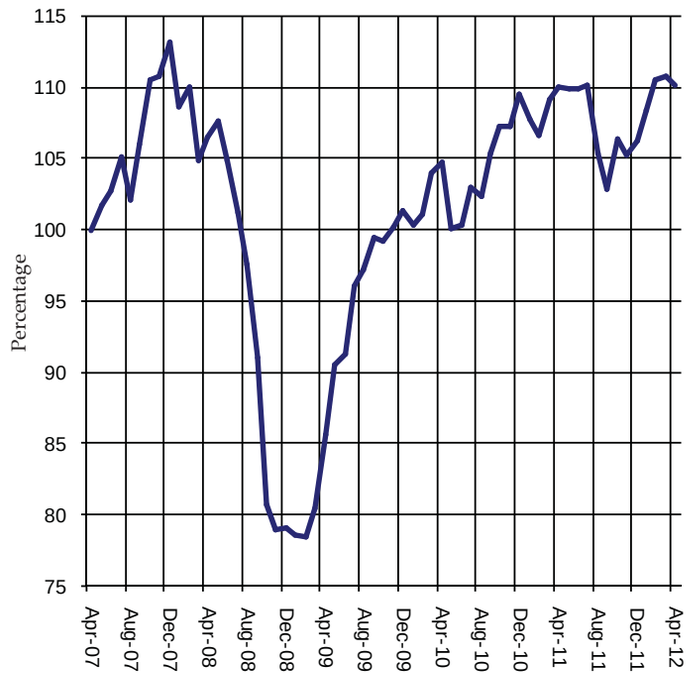
Top 10 Sharpe ratio for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	10.02	Pakistan
2	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	4.77	Pakistan
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	4.74	Pakistan
4	Public Islamic Money Market	Public Mutual	3.64	Malaysia
5	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	3.08	Saudi Arabia
6	Public Islamic Income	Public Mutual	2.70	Malaysia
7	PB Islamic Cash Management	Public Mutual	2.63	Malaysia
8	PB Islamic Bond	Public Mutual	2.06	Malaysia
9	Public Islamic Bond	Public Mutual	1.91	Malaysia
10	Al Rajhi Commodity Mudarabah - SAR	Al Rajhi Bank	1.88	Saudi Arabia
	Eurekahedge Islamic Fund Index		**0.07**	

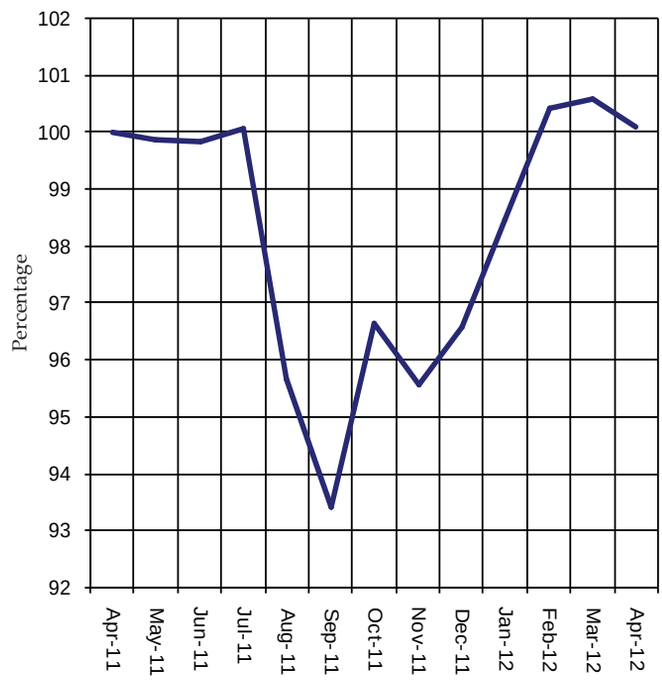
For funds having a track record of at least 12 months as at end April 2012

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 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	12.76	Saudi Arabia
2	AlManarah High Growth Portfolio	The National Commercial Bank	9.09	Saudi Arabia
3	Al Rajhi Multi Asset Growth	Al Rajhi Bank	8.83	Saudi Arabia
4	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	6.28	Saudi Arabia
5	AlManarah Medium Growth Portfolio	The National Commercial Bank	5.93	Saudi Arabia
6	Al-Mubarak Balanced	Arab National Bank	4.24	Saudi Arabia
7	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	3.12	Saudi Arabia
8	AlManarah Conservative Growth Portfolio	The National Commercial Bank	3.11	Saudi Arabia
9	Al Dar Fund of Funds	ADAM	2.80	Kuwait
10	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	1.91	Saudi Arabia

Based on 100.00% of funds which have reported March 2012 returns as at 8th May 2012

Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	19.71	Saudi Arabia
2	Al-'Aqar KPJ REIT	AmMerchant Bank	13.91	Malaysia
3	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	11.01	Ireland
4	Al Dar Real Estate	ADAM	4.63	Kuwait
5	Markaz Real Estate	Kuwait Financial Centre	3.76	Kuwait

Based on 100.00% of funds which have reported March 2012 returns as at 8th May 2012

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

Takaful news

Brought to you by Takaful IKHLAS

9th May 2012

Saudi Arabia: Underperforming

Cover story

Although Saudi Arabia has been largely unaffected by the global financial crisis, the kingdom stands in a much healthier economic position than many other markets. According to Dr Saleh Malaikah, the chairman of Salama — Islamic Arab Insurance Company, due to the responsible fiscal policies and good economic fundamentals of Saudi Arabia many industries remain strong, including the burgeoning insurance market.

The insurance and Takaful market in the kingdom is certainly not impervious to market fundamentals, helped by the continuing high price of crude oil, but many experts believe that the long term outlook is positive. Malaikah adds that: "Although the short term outlook is less benign due to local conditions and the global downturn, I think that the Saudi insurance sector presents a high-value business and offers significant growth potential."

Saudi Arabia remains by far the largest Takaful market, contributing somewhere between a third and half of the industry's total, with figures estimated to be somewhere in the region of US$4.5 billion. The growth of Takaful industry in 2011 alone saw Saudi Arabia add US$500 million to its gross contributions despite the slowdown of the industry to approximately 12%, down from an average compand annual growth rate of 38% between 2005-2009.

Operators in Saudi Arabia have struggled to show positive returns since the financial crisis. The local market is currently dominated by five players whose combined 2011 first-half premiums totaled SAR5.55 billion (US$1.48 billion), compared to SAR5.3 billion (US$1.41 billion) for the same period in 2010, showing a growth rate of 4.58%. The remaining operators meanwhile are struggling due to their lack of size and scale and as such are incurring higher than average expenses and loss ratios in an attempt to gain further market share.

According to the Economist Intelligence Unit the GCC member economies are expected to post an average growth rate of 5.3% in 2012. While the pace of the global economic recovery remains hesitant and uncertain against the backdrop of mixed indicators, Saudi Arabia is expected to achieve a better than average level of growth with real GDP growth estimated at around 5.5%.

Sentiment from within the financial sector continues to remain positive as banking earnings emerge on the back of improved traction in loan growth, fee income and lower provisions. However Saudi Arabia's Tadawul index underperformed as the bourses' insurance and investment sectors recorded noteworthy losses. The losses were triggered in part by indications of capital market reform in regards to speculative activity, something that the Takaful market should not have to be overly concerned about. It is also expected that rising bank deposits and surplus liquidity available in the country will benefit the insurance and Takaful market going forward.

The Saudi Arabian Monetary Authority (SAMA) has also from 2012 instructed all operators to align their operations away from a pure Takaful model and brought them into line with its own cooperative insurance model. As a result, Takaful operators have had to adjust their internal accounting structures, removing the use of Wakalah and Qard, and its true repercussions are yet to be truly felt.

With regulatory uncertainty emanating from the world's largest Takaful market and the expiration of the mandatory insurance policies that had previous been key growth drivers, questions are beginning to be asked of the Saudi Arabian Takaful industry and its short-term future.

Saudi Arabian firms are also not immune to the issues that are common to almost all Takaful companies. For example; many of their Shariah compliant investment assets remain illiquid and volatile, such as the perennial favorite real estate.

Growth remains an opportunity for boosting premiums and has dampened the market exploiting mandatory insurance uptake.

Competition has redressed this imbalance to a certain extent, however, the vast majority of Takaful providers have still not established regional or international brands and are therefore limiting their future potential due to their local focus. — *SW*

In this issue...

Takaful Malaysia eyes top spot

MALAYSIA: Syarikat Takaful Malaysia (Takaful Malaysia) plans to become the market leader in the local Takaful sector within the next three to five years.

According to Mohamed Hassan Kamil, its group managing director, the group will be recruiting more agents and investing up to RM3 million (US$990,874) for the establishment of new Takaful centers.

Meanwhile its newly launched investment-linked product, Takaful myGenLife, is expected to contribute up to RM20 million (US$6.61 million) within the next six months.

Takaful windfall for BIMB?

INDONESIA: BIMB Holdings, which holds a stake in Syarikat Takaful Indonesia (STI) via its Malaysian Takaful arm Syarikat Takaful Malaysia, could see significant contributions from the Indonesian Islamic insurance market pending the outcome of regulations from the country's central bank.

Desmond Ch'ng, a director of equity markets research at Maybank Investment Bank, noted that while the market will not comprise a major contributor to BIMB's earnings anytime soon, there is scope for expansion in market share for STI.

This is as Indonesia's regulators may limit the sale of Takaful to only standalone Takaful firms from 2015 onwards, allowing STI to benefit.

Supporting investments

INDONESIA: The Islamic Corporation for the Insurance of Investment and Export Credit has signed an MoU with the Indonesia Infrastructure Guarantee Fund, a state-owned guarantee provider for public-private partnership infrastructure projects.

The agreement is aimed at coordinating their activities and seeks mutual cooperation in promoting infrastructure investments in the country. The two institutions will also collaborate in increasing public awareness on the importance of political risk insurance through joint conferences, seminars and training.

Takaful Malaysia eyes M&As

MALAYSIA: Mohamed Hassan Kamil, the group managing director of Syarikat Takaful Malaysia (Takaful Malaysia), has said that the company is looking at growing its reach and market share via merger and acquisitions (M&A) from 2014 onwards, once the Malaysian central bank's risk-based capital framework for Takaful operators has been put in motion.

Mohamed expects that once the framework has been put in place, likely by the end of 2013, Takaful operators that do not meet the minimum capital requirement will have to inject more capital or consolidate to stay afloat.

Medgulf and Mashreq partner up

GLOBAL: Bahrain-based Medgulf Allianz Takaful has entered into an agreement with Qatar-based Mashreq Bank to provide Takaful.

The products will include Shariah compliant solutions for child education, retirement, general savings and protection of investments.

Takaful for Azerbaijan?

AZERBAIJAN: Amrahbank is planning to launch the country's first Takaful offering in partnership with the Islamic Corporation for the Development of the Private Sector (ICD), according to Shafiga Hajiyeva, the head of international relations at Amrahbank.

The Islamic finance sector is growing in the country and the bank plans to tap into the Islamic insurance market through its partnership with the ICD.

Great Eastern posts 65% growth

SINGAPORE: Great Eastern Holdings has reported an increase of 65% in its first quarter 2012 net profit to SG$262.5 million (US$210.33 million) from a year earlier.

Chris Wei, its CEO, noted that among markets the firm is targeting is Malaysia's Takaful market, where there is potential to increase the penetration of Islamic insurance products.

Home protection for the public

UAE: Dubai Islamic Insurance and Reinsurance Company (AMAN) has urged residents in the emirates to strengthen their home protection efforts, particularly against fire.

This follows reports that a total of 3,274 building fires were recorded in the UAE last year.

Profitable quarter

INDONESIA: Asuransi Jiwa Manulife Indonesia has reported IDR1.88 trillion (US$204 million) in its total unaudited gross premiums for the first quarter of 2012, a 31% increase from the same period last year.

Premium income from its Shariah business grew 140% to IDR10.2 billion (US$1.1 million).

Takaful in the Arab world: History, situation and perspectives

The rise of Takaful in the Middle East as a suitable alternative to conventional insurance will likely create a fully-fledged insurance industry in the region which will boost economic growth. MOHAMED ALI MRAD discusses.

The Arab world is a group of 22 countries with 372 million inhabitants that are united by the same language (Arabic), the same civilization and history and the same religion (Islam) and with a strategic geographical situation at the crossroads between three continents: Europe, Asia and Africa.

From a demographic point of view, the 372 million Arabs represent 5.3% of the world's total population with a high population growth rate ranging from 0.96% for Tunisia to 4.93% for Qatar with an average population growth of 1.77%, equaling 1.6 times the world's average population growth rate.

From an economic perspective, the Arab world is the one of richest regions in the world by its natural resources. It not only possesses the largest oil and the largest gas reserves in the world but also many other natural resources including the largest global phosphate reserves.

The Arab world represents roughly 4% of global GDP. It is also growing fast at an economic growth rate of more than 6.12% or 1.7 times the world average growth rate of 3.7%.

The Arab world is surely the best deposit in terms of the development of Islamic finance in general and Takaful in particular. One must not forget that Takaful has its modern origins 33 years ago in an Arab country with the establishment of the Islamic insurance company in 1979 in Sudan, and Arab countries have since then pioneered the global Takaful market and its development, especially in the GCC zone. The region now dominates the global Takaful industry with more than 70% of the world's eight billion Takaful users in 2012.

Potential growth

Takaful has been showing double digit growth rates in the Arab region for the last decade. The potential of Takaful growth in the Arab world is still intact and we might see an exponential growth in the coming decade helped by more economic and financial integration in the zone, especially after the Arab Spring and the advent of democracies in the Middle East.

Indeed dictatorial regimes in the last five decades have blocked political and economical integration between the Arab countries except the GCC states, which have succeeded in their initiatives. As an example, Maghreb countries have recently seriously reactivated the Arab Maghreb Union economical cooperation and integration process, but we can clearly imagine the beginning of a global and comprehensive economical cooperation and integration between all the Arab world's 22 countries. This will lead to the development of new Islamic finance outlets in the several Arab countries where Islamic finance has been absent or even forbidden.

Arab insurance markets (both conventional and Islamic) are worth US$21 billion or 0.5% of the global insurance market and show a low penetration rate of roughly 0.8%, on average dominated by non-life insurance, which is worth US$17 billion of gross annual premiums representing a penetration rate of 0.65%; leaving a poor 0.15% penetration rate for life insurance which is worth only US$5 billion. Lebanon has the highest penetration rate of more than 3% of its GDP while Saudi Arabia has the largest insurance market at about US$3.5 billion dollars. Somalia trails far behind with an almost non-existent insurance market. Penetration rates range from a poor 0.26% for Yemen to an honorable 3.16% in Lebanon.

Except for Iraq for obvious terrorism risk reasons, the non-life insurance market in the Arab world is essentially correlated to motor insurance and life insurance, is still embryonic and does not require much analysis except to note that its penetration rate is inversely proportional to the cultural and religious conservatism from one country to another and is not as correlated to GDP per capita as one might imagine.

The Arab Takaful market is worth US$5.7 billion dollars representing 26% of the Arab world's total insurance market but only a 0.83% penetration rate in average. A 1% increase in penetration rate in the Arab world represents US$26 billion and if the Arab world reaches an average penetration rate equivalent to Malaysia's 5% and taking into account the Arab growth rate, its insurance market could grow to reach US$200-250 billion or 4-5% of the world's global insurance market in the coming decade. On the other hand if the Takaful market share grows to 50%, the Arab Takaful market will be worth US$100-125 billion or only 2-2.5% of the world's global insurance market in the next decade.

Future of Takaful

This vision might differ from the perspective of certain predictions already made by some international consulting companies which see much lower figures, but we are confident and comfortable with our prediction especially after the recent spate of Arab revolutions.

Nevertheless, this growth will not be easy and Arab insurance in general and Takaful professionals in particular have to be proactive and use a smart and efficient marketing strategy in order to develop their business and exploit this potentially vital market. From a concrete point of view the task is not easy but the objective is realistic and reachable if certain conditions are fulfilled.

Since the Arab world's economy and finance are not yet integrated, with large disparities between countries, a local country by country approach is necessary. Adaptability will be the key to success for Takaful professionals. They must also have a systematic approach, using for example micro-Takaful combined with alternative distributions in certain Arab countries and for

continued...

Continued

certain categories of population and at the same time develop sophisticated products combined with state-of-the-art bancaTakaful distribution for high net worth clients in certain Arab cities. This should be done for both households and corporations.

Family Takaful

The challenge will be in the development of Family Takaful. Indeed it is in this branch that the essence of Takaful growth in the Arab world resides and it must be considered as an Islamic savings alternative. We can appreciate the potential of Family Takaful in the Arab world by noting the gross Arab world national savings rate of about 33% for a total amount of more than US$850 billion. These 'sleeping' savings could be partly invested in Family Takaful vehicles if they exist.

The main issue is the 'chicken and the egg' paradox, as in any new product or market. Indeed, when it comes to Family Takaful one does not know if demand has to precede supply or the contrary. In my opinion and using studies of the development of new markets such as the cell phone market, it is supply that has to precede demand. Indeed the cell phone market has been initiated and developed by industrial professionals who invested massively not only in industry but also in marketing even before demand existed and their bet turned out to bring rewards beyond anything they could have imagined.

Insurers are generally quite conservative when it comes to taking such bets but it is the only way to develop new and significant outlets and first movers will be the winners.

Another chicken and egg factor exists for the Sukuk market. Family Takaful and the Islamic asset management industry need large amounts of highly-rated Sukuk while potential Sukuk issuers do not see significant demand coming from Islamic institutional investors, particularly Takaful professionals. Here again the ball is in the court of the Takaful industry and if it can show its investment capacity, many investment grade issuers would be happy to finance Takaful needs through Sukuk.

Conclusion

Concrete short, medium and long-term actions have to be undertaken on a pan-Arab basis, not only at the political level but especially by economical and financial actors in the Arab world in order to help derive profit from the huge pool of Arab savings. This is the challenge for the future of the Arab world. This will lead to the economical independence of the Arab world as an entity and help develop Arab countries with large populations and fewer resources like Egypt.

The role of Takaful as an investment vector and of Islamic institutions such as the Islamic Development Bank and Islamic financial groups like the Al Baraka Group will be key in this development.

Mohamed Ali Mrad is the founding chairman of Arab World Islamic Finance and he can be contacted at mohamed-ali.mrad@awifinance.com.

Q "With more onshore financial centers aligning their regulations towards giving Islamic finance preferential tax treatment and a level playing field, will this negate the need for offshore centers?"

A Offshore centers often play a much broader role. International investors moving capital may not wish to repatriate it and wish to park it in an offshore center to manage risks associated with their corporate tax profile as opposed to any issues relating to Islamic finance. In some markets, domestic insecurity or the lack of good investment alternatives drive the viability of offshore centers. Some of these drivers are also relevant to the Islamic financial center. These and many other considerations will assure that offshore centers are going to be with us for a very long time.

ABDULKADER THOMAS
CEO and President, SHAPE — Financial Corp

A Although we see tax treatments for Islamic and conventional finance converging, this does not take away the requirements for offshore centers. Similar to conventional financial investors, Islamic financial investors will seek tax efficient structures which remains the main reason for using offshore centers.

DR NATALIE SCHOON
Principal consultant, Formabb

A The major tax advantage of offshore jurisdictions for Islamic finance is that there is no withholding tax levied on income and no transfer taxes or stamp duty. For example, the transfer of the assets underlying a Sukuk from the originator to a special purpose vehicle might result in a tax liability, but if the Cayman Islands is chosen as the jurisdiction for the transfer, the transaction will be tax exempt. Similarly there will be no tax on the income or capital gains accruing to investors in Islamic funds.

However although the freedom from regulation may also attract some Islamic financial institutions to jurisdictions such as the Cayman Islands, this has great dangers. There are at best minimal or indeed often no disclosure requirements. As a result there is little protection from fraud by counter-parties.

As more onshore jurisdictions enact legislation to either exempt Sukuk or Islamic funds from tax, as in the case of the Malaysia International Islamic Financial Center, or ensure there is a level playing field with conventional offerings, as in London, the attractions of offshore centers have been undermined. Kuala Lumpur and London are well regulated with sound legal systems with a track record in handling Islamic financial disputes.

The evidence would suggest that the balance in Islamic finance has tipped in favor of onshore business, a desirable development if Islamic finance is to occupy the moral high ground, unlike offshore centers which are all too often perceived as being involved in unethical practices.

RODNEY WILSON
Emeritus Professor, Durham University

A In my opinion, although there is recognition of providing a level playing field to Islamic banking and finance in different countries of the world, we do not see any preferential tax treatment accorded to Islamic banking and finance anywhere in the world. There is no doubt that the tax neutrality has helped Islamic banks and financial institutions to compete with their conventional counterparts on equal footings in such jurisdictions where it exists, we cannot compare onshore and offshore jurisdictions in terms of cost benefit analysis.

Offshore jurisdictions, being more tax efficient as compared to their onshore counterparts, are still preferred even in conventional finance, and there is no reason to assume that this will change in case of Islamic finance. It remains more beneficial to offer such products like funds, trusts and other similar products from an offshore jurisdiction.

PROFESSOR HUMAYON DAR
Chairman, president & CEO, Edbiz Consulting

Next Forum Question:

"Following the recent financial crisis, conventional banks have been segregating their consumer and corporate banking operations for corporate governance and clarity reasons. Should Islamic banks follow suit?"

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before the 18th May 2012.

Dr Nahed M Taher, CEO & co-founder, Gulf One Investment Bank

Dr Nahed M Taher is the first female CEO of a Gulf investment bank. She has represented the Saudi government, the private sector and the Chamber of Commerce in many high level international business and banking events. Dr Nahed is a board member of a number of Saudi private companies and committees including the businesswomen's committee of the Jeddah Chamber of Commerce.

Could you provide a brief journey of how you arrived where you are today?

After studying Economics at King Abdulaziz University in Saudi Arabia, I joined the teaching team of the university in 1987 as a lecturer in Economics. I later continued my studies at Lancaster University Management School UK, where I successfully completed my MSc and PhD programs in Monetary Economics in 1998 and 2001 respectively. I then returned to King Abdulaziz University as an assistant professor and the head of the accounting department, before joining the National Commercial Bank as a senior strategic economist and chairman of the portfolio management committee. In 2005, I co-founded Gulf One Investment Bank and became the CEO.

What does your role involve?

My role involves providing visionary leadership, strategic orientation, and guidance in the bank's decision-making process as well as raising the profile of the bank through effective communication with stakeholders, including shareholders, investors, employees, policy makers, media, knowledge hubs, and the local community.

What is your greatest achievement to date?

It is difficult to pick just one of my accomplishments because all of them are interconnected and linked to one

objective of promoting a knowledge-based GCC economy that will be strong, competitive, productive, and prosperous enough to create long-term jobs and economic opportunities for all its people. To this end, I will say that my educational endeavour, culminating with the successful completion of my doctorate program, is the key to my subsequent achievements.

Which of your products/ services deliver the best results?

All our products/services are contributing materially to the bank's overall performance. We are making significant inroads in the financing of infrastructure projects, and we have pioneered advisory on the first ever Islamic financed public-private partnership on airport infrastructure (the Hajj Terminal at King Abdulaziz Airport in Jeddah.)

What are the strengths of your business?

The strengths of the bank lie in its unique business model which is focused on knowledge-based, tailored-made solutions to investment banking. In addition, the bank has a distinctive high caliber investment banking team, comprising of competent, dedicated, experienced, and dynamic individuals with established track records in their fields from all corners of the globe.

What are the factors contributing to the success of your company?

The success of the bank hinges around its core strengths (unique business model and high quality staff), extensive network of relationships across the MENA region, strong links to international partners, and three fundamental values: independence, alignment of interests for the investors and the bank, and building regional capacity. By leveraging its knowledge, expertise, and regional/global networks, the bank provides customized solutions addressing the infrastructure deficit in the MENA region. The innovative financing mechanism employed by the bank makes a huge difference as it finances infrastructure projects across a wide range of sectors with high job and income multipliers.

What are the obstacles faced in running your business today?

The recent global financial crisis, the regional uprising, and the ongoing Eurozone debt crisis have all created uncertainty and eroded investor confidence, which is posing serious challenges not only to our own operations but also to project financing in general in the region. In the aftermath of such crises, enthusiasm for innovative financing mechanisms has waned, and investors are increasingly averse to putting money into unconventional financing instruments.

Where do you see the Islamic finance industry in the next five years?

The ethical nature of Islamic finance, grounded in the fundamental principles of assets-backed, interest-free transactions and the prohibition of speculative activities, encourages effective risk management and transparency, thereby shielding the industry from risks of financial distress associated with excessive leverage and speculative investments that have frustrated the conventional financial system.

Name one thing you would like to see change in the world of Islamic finance.

Harmonizing and simplifying the procedures of processing, approving and certifying Shariah compliant transactions will undoubtedly give a big boost to the Islamic finance industry.

ISSUER	SIZE	DATE ANNOUNCED
Emirates NBD	US$500 million	7th May 2012
Malaysian Airline System	TBA	3rd May 2012
Dana Infra	RM2 billion	2nd May 2012
Epmex	RM1.35 billion	25th April 2012
Noor Islamic Bank	US$1 billion	19th April 2012
Encorp	RM1.58 billion	18th April 2012
Banque Saudi Fransi	US$2 billion	18th April 2012
Islamic Development Bank	RM400 million	17th April 2012
Indosat	IDR2.5 trillion	17th April 2012
Johor Corp Group	RM3 billion	13th April 2012
Citra Marga	IDR1.2 trillion	12th April 2012
Nakheel	AED240 million	11th April 2012
State Bank of Pakistan	TBA	2nd April 2012
Saudi Aramco	TBA	2nd April 2012
Development Bank of Kazakhstan	US$500 million	30th March 2012
Ethical Asset Management	TBA	30th March 2012
National Australia Bank	US$500 million	29th March 2012
Jebel Ali Free Zone	AED2.4 billion	21st March 2012
Indonesia sovereign	TBA	20th March 2012
Yemen sovereign	US$232 million	20th March 2012
Saudi Electricity Company	TBA	19th March 2012
Noble Group, Hong Kong	RM3 billion	15th March 2012
Kiler Group	US$100 million	12th March 2012
Dubai Investments	US$200 million	12th March 2012
Kazakhstan sovereign	US$1 million	8th March 2012
First Community Bank	KES2 billion	8th March 2012
Pakistan sovereign	TBA	7th March 2012
Syarikat Prasarana Negara	RM4 billion	6th March 2012
CIMB Singapore	SG$100 million	2nd March 2012
Kingdom Holding	TBA	1st March 2012
Qatar Petroleum	TBA	27th February 2012
Acwa Power	US$800 million	27th February 2012
South Africa sovereign	US$500 million	23rd February 2012
Maybank	RM7 billion	22nd February 2012
Oman Arab Bank	OMR10 million	20th February 2012
Yemen sovereign	TBA	20th February 2012
Kuwait Finance House, Turkey	TBA	18th February 2012
Maxis	RM2.45 billion	17th February 2012
Egypt sovereign	TBA	6th February 2012
Development Bank of Kazakhstan	TBA	6th February 2012
Turkey sovereign	TBA	3rd February 2012
Musteq Hydro	RM80 million	24th January 2012
General Authority for Civil Aviation	TBA	24th January 2012
Indonesian finance ministry	IDR2 trillion	24th January 2012
Albaraka Turk Katilim Bankasi	US$200 million	23rd January 2012
AirAsia X	US$200 million	17th January 2012
1Malaysia	TBA	16th January 2012
HSBC Amanah	TBA	12th January 2012

IFN Correspondents

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

AUSTRALIA: Gerhard Bakker
director, Madina Village

BAHRAIN: Dr Hatim El-Tahir
director, Islamic Finance Knowledge Centre, Deloitte & Touche

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BERMUDA: Belaid A Jheengoor
director of asset management, PwC

BRUNEI: James Chiew Siew Hua
senior partner, Abrahams Davidson & Co

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

HONG KONG & CHINA: Anthony Chan
partner, Brandt Chan & Partners in association with SNR Denton

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

IRAQ: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

JORDAN: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LUXEMBOURG: Marc Theisen
partner, Theisen Law

MALAYSIA: Nik Norishky Thani
head special projects (Islamic), PNB

MALTA: Reuben Buttigieg
President, Malta Institute of Management

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

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

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

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

QATAR: Jaime Oon
solicitor, Eversheds

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

SINGAPORE: Yeo Wico,
partner, Allen & Gledhill

SRI LANKA: Roshan Madewala
director/CEO, Research Intelligence Unit

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

TANZANIA: Khalfan Abdallah
head of product development and Sharia compliance, Amana Bank

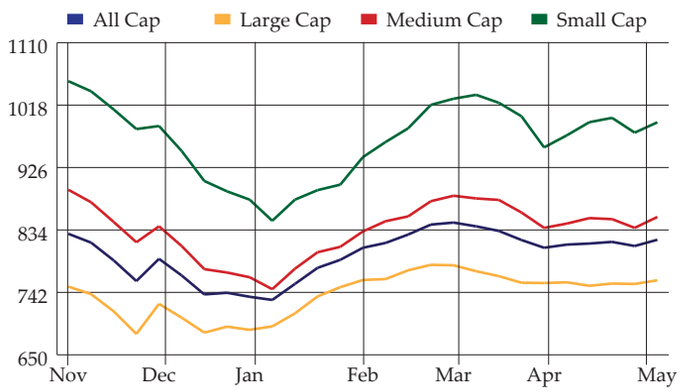
UK: Dr. Natalie Schoon
principal consultant, Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

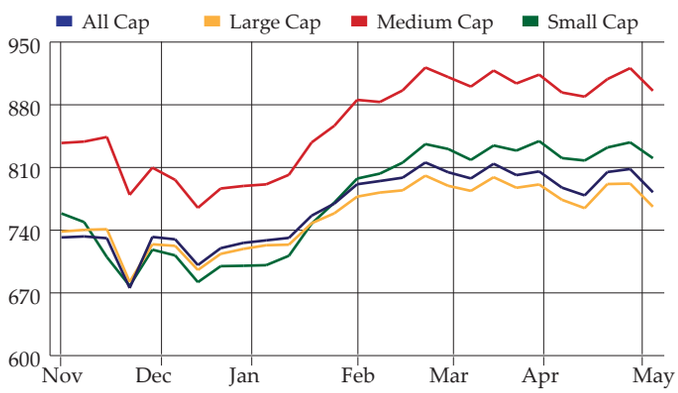
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

For more information about becoming an IFN Correspondent please contact sasikala@redmoneygroup.com

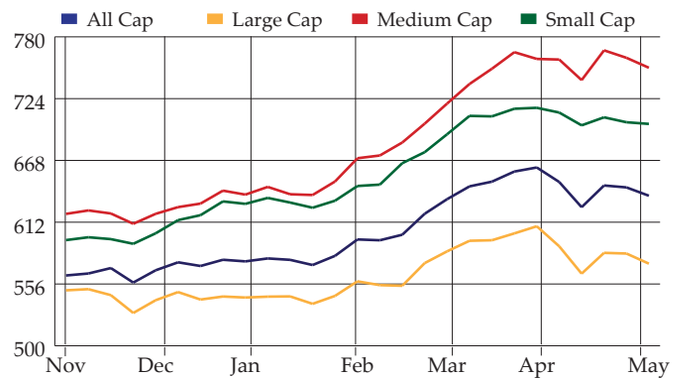
REDmoney Asia ex. Japan *6 Months*



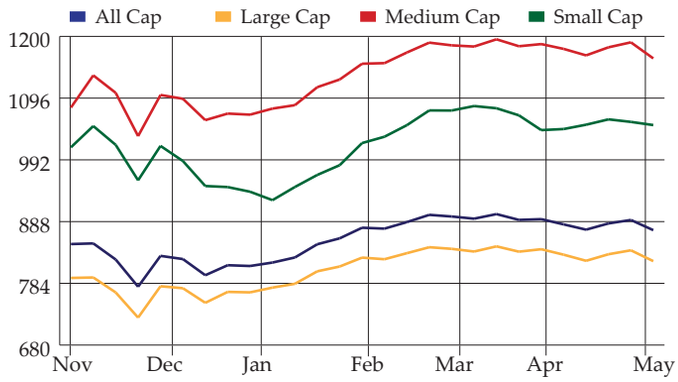
REDmoney Europe *6 Months*



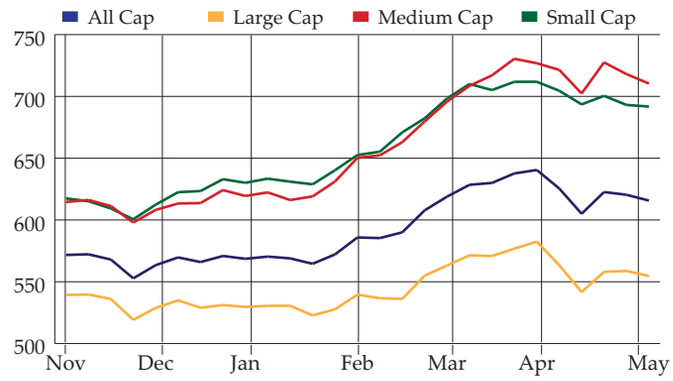
REDmoney GCC *6 Months*



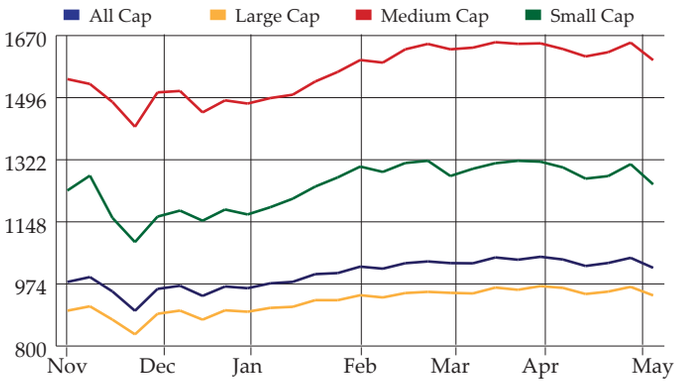
REDmoney Global *6 Months*



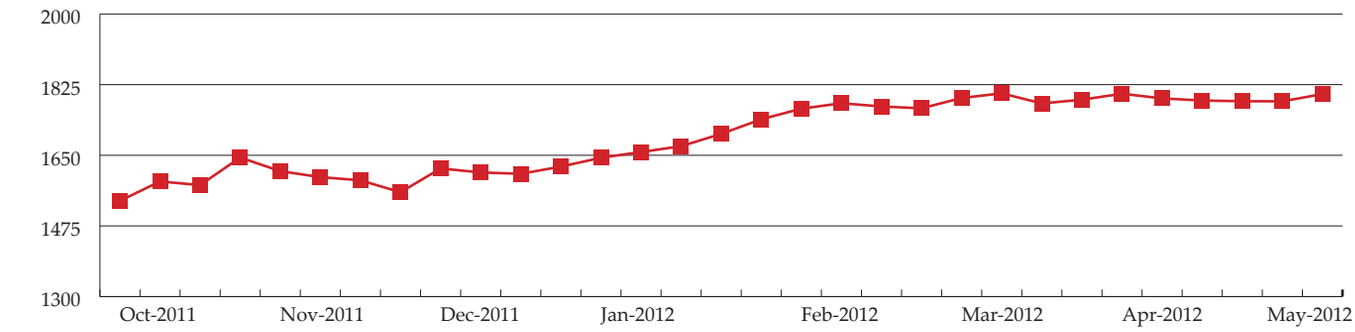
REDmoney MENA *6 Months*



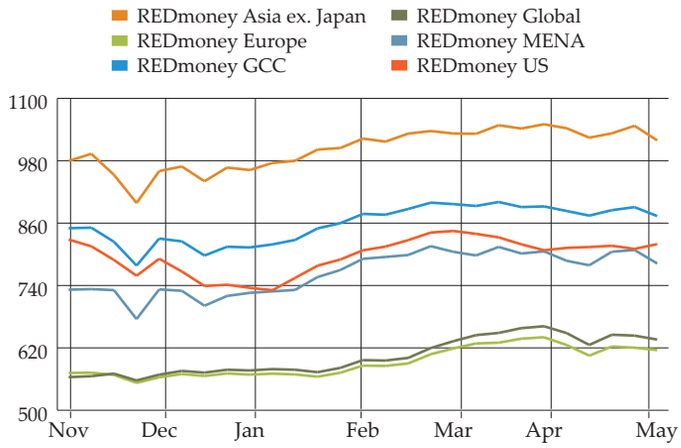
REDmoney US *6 Months*



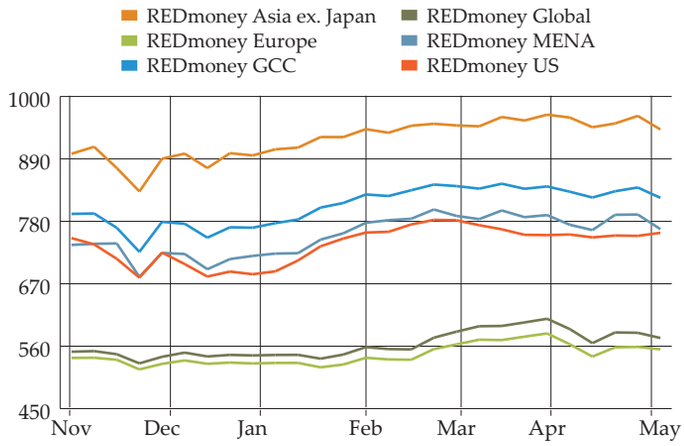
SAMI Halal Food Participation (All Cap) *6 months*



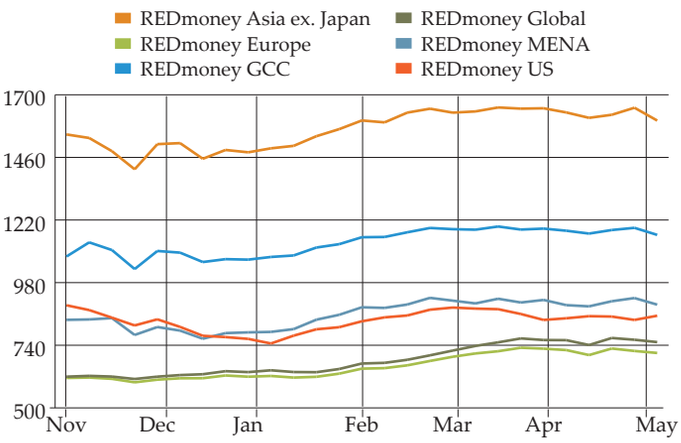
REDmoney Global Shariah Index Series (All Cap) *6 Months*



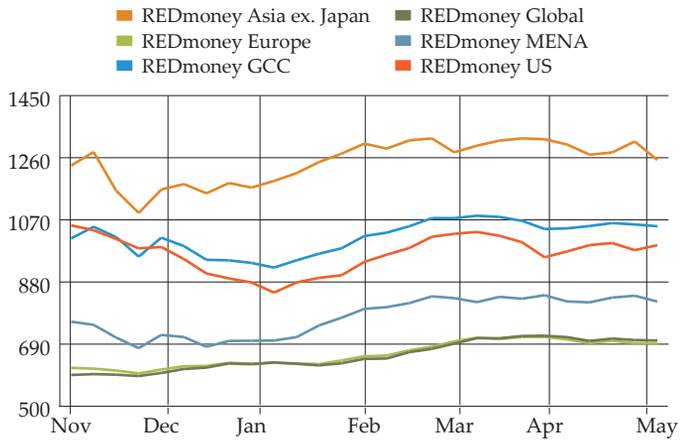
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



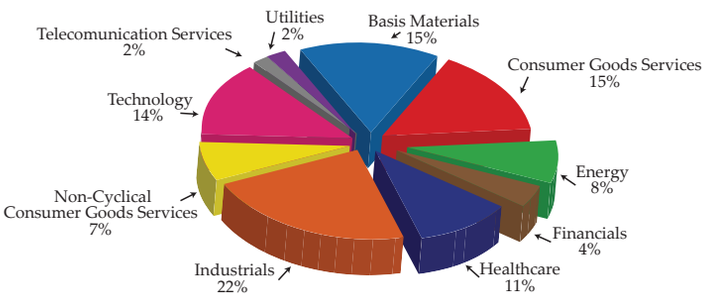
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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®

For further information regarding REDmoney Indexes contact:

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Managing Director, REDmoney Group

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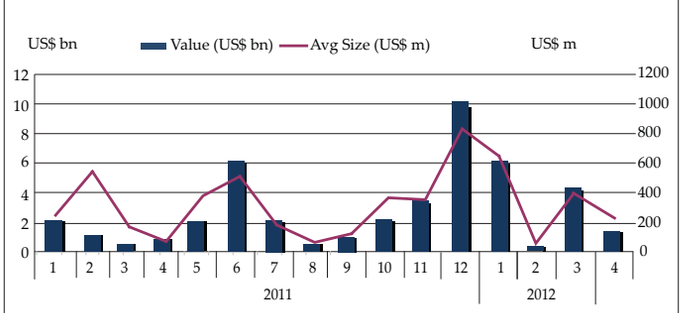
Tel +603 2162 7800

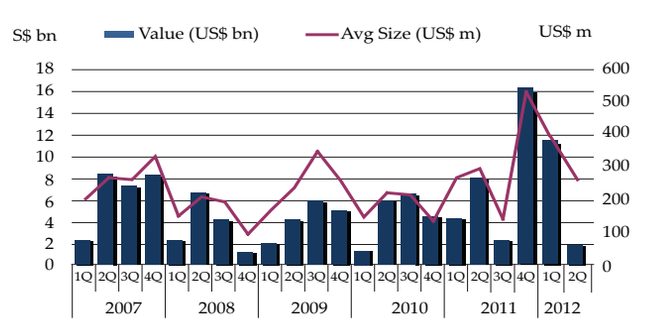
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
25th Apr 2012	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
28th Mar 2012	Saudi British Bank	Saudi Arabia	Sukuk	Domestic market private placement	400	HSBC
28th Mar 2012	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	441	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
27th Mar 2012	Saudi Electricity	Saudi Arabia	Sukuk	Euro market public issue	1,750	Deutsche Bank, HSBC
21st Mar 2012	Cagamas	Malaysia	Sukuk	Domestic market public issue	163	RHB Capital, AmInvestment Bank
12th Mar 2012	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	123	Maybank Investment Bank
7th Mar 2012	Almarai	Saudi Arabia	Sukuk	Domestic market private placement	267	HSBC
7th Mar 2012	Tanjung Bin Energy Issuer	Malaysia	Sukuk	Domestic market private placement	1,089	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
22nd Feb 2012	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	232	Maybank Investment Bank
31st Jan 2012	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	Standard Chartered, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
17th Jan 2012	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	HSBC
12th Jan 2012	Tamweel	UAE	Sukuk	Euro market public issue	300	Standard Chartered, Dubai Islamic Bank, Citigroup
11th Jan 2012	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
11th Jan 2012	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
10th Jan 2012	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	6,155	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	3,455	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Dec 2011	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	JPMorgan
28th Nov 2011	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	132	Maybank Investment Bank
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	786	CIMB Group, Maybank Investment Bank

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	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	9,610	2	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	1	HSBC
3	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	2,057	2	CIMB Group, Maybank Investment Bank
4	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
5	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	1,783	2	RHB Capital, AmInvestment Bank, Kenanga Investment Bank
6	Saudi Electricity	Saudi Arabia	Sukuk	Euro market public issue	1,750	1	Deutsche Bank, HSBC
7	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
8	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	1	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
9	Tanjung Bin Energy Issuer	Malaysia	Sukuk	Domestic market private placement	1,089	1	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
10	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
11	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	812	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1	CIMB Group, Maybank Investment Bank
13	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
13	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
15	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
16	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
17	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	561	4	Maybank Investment Bank
18	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
18	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	1	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
18	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
18	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
18	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
23	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
24	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
24	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	1	Standard Chartered, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
26	Saudi British Bank	Saudi Arabia	Sukuk	Domestic market private placement	400	1	HSBC
27	Cagamas	Malaysia	Sukuk	Domestic market public issue	393	3	CIMB Group, Maybank Investment Bank, RHB Capital, AmInvestment Bank
28	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	360	3	CIMB Group, AmInvestment Bank, Maybank Investment Bank
29	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
30	Tamweel	UAE	Sukuk	Euro market public issue	300	1	Standard Chartered, Dubai Islamic Bank, Citigroup
30	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	1	JPMorgan
	Total				**40,844**	**107**	

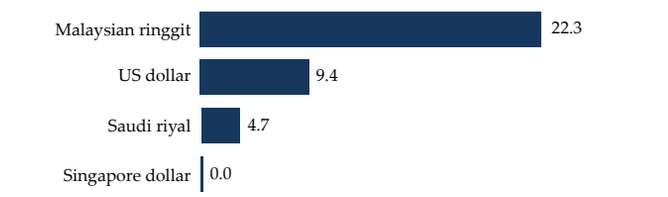
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	8,496	18	20.8
2	Maybank Investment Bank	7,197	34	17.6
3	CIMB Group	6,902	28	16.9
4	AmInvestment Bank	4,827	22	11.8
5	RHB Capital	2,787	23	6.8
6	Citigroup	2,004	9	4.9
7	Standard Chartered Bank	1,874	12	4.6
8	Deutsche Bank	1,302	3	3.2
9	Lembaga Tabung Haji	935	3	2.3
10	National Bank of Abu Dhabi	604	4	1.5
11	Dubai Islamic Bank	513	3	1.3
12	BNP Paribas	438	2	1.1
13	JPMorgan	425	2	1.0
14	OCBC	313	6	0.8
15	Kenanga Investment Bank	265	1	0.7
16	Abu Dhabi Islamic Bank	253	3	0.6
17	DRB-HICOM	250	5	0.6
18	Affin Investment Bank	243	4	0.6
19	Riyad Bank	240	1	0.6
20	Bank of America Merrill Lynch	125	1	0.3
20	Abu Dhabi Commercial Bank	125	1	0.3
22	KFH	109	2	0.3
23	Public Bank	108	3	0.3
24	Hong Leong Bank	108	3	0.3
25	RBS	83	1	0.2
25	Nomura	83	1	0.2
25	Emirates NBD	83	1	0.2
28	Commerzbank Group	70	1	0.2
29	Malaysian Industrial Development Finance	40	1	0.1
30	Alliance Investment Bank	22	1	0.1
	Total	**40,844**	**107**	**100.0**

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

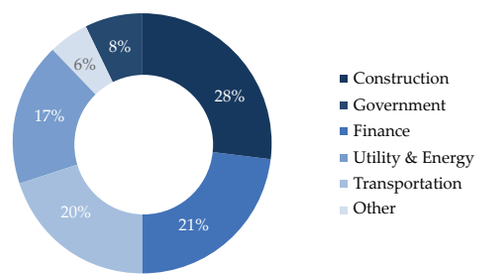
	Mandated Lead Arranger	US$ (million)	No	%
1	Samba Financial Group	592	4	6.2
2	Public Investment Fund	463	2	4.9
3	Arab National Bank	463	2	4.9
4	HSBC Holdings	447	3	4.7
5	Sumitomo Mitsui Financial Group	404	2	4.2
6	Banque Saudi Fransi	386	2	4.1
7	KfW Bankengruppe	369	2	3.9
8	Mitsubishi UFJ Financial Group	360	1	3.8
9	Saudi British Bank	324	1	3.4
10	Australia & New Zealand Banking Group	289	1	3.0
10	Mizuho Financial Group	289	1	3.0

Sukuk Volume by Currency US$ (billion) *12 Months*

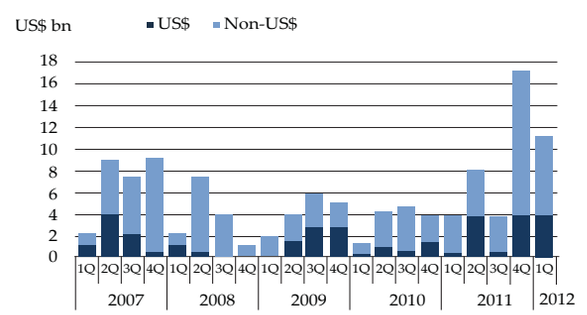


Sukuk Volume by Issuer Nation US$ (billion) *12 Months*

Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisors Ranking *12 Months*

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	4,198	2	23.9
2	Skadden Arps Slate Meagher & Flom	3,281	1	18.7
2	White & Case	3,281	1	18.7
4	Al-Jadaan & Partners Law Firm	1,200	1	6.8
4	Baker & McKenzie	1,200	1	6.8
4	Clifford Chance	1,200	1	6.8
7	Baker Botts	917	1	5.2
7	Chadbourne & Parke	917	1	5.2
9	Afridi & Angell	267	1	1.5
9	Herbert Smith Gleiss Lutz Stibbe	267	1	1.5
9	Latham & Watkins	267	1	1.5

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	1,156	5	10.8
2	SABB	1,054	4	9.9
3	Banque Saudi Fransi	904	3	8.5
4	Al-Rajhi Banking & Investment	753	3	7.1
5	HSBC	554	5	5.2
6	Saudi National Commercial Bank	459	2	4.3
7	Saudi Hollandi Bank	444	1	4.2
7	Riyad Bank	444	1	4.2
9	Deutsche Bank	321	4	3.0
10	Citigroup	316	8	3.0
11	Barwa Bank	266	2	2.5
12	Maybank Investment Bank	264	2	2.5
13	Noor Islamic Bank	236	2	2.2
14	RBS	233	1	2.2
15	Arab National Bank	219	1	2.1
16	Abu Dhabi Islamic Bank	219	5	2.1
17	CIMB Group	216	2	2.0
18	Qatar Islamic Bank	213	1	2.0
18	Qatar International Islamic Bank	213	1	2.0
18	Masraf Al Rayan	213	1	2.0
21	Standard Chartered Bank	199	4	1.9
22	RHB Capital	164	1	1.5
22	Lembaga Tabung Haji	164	1	1.5
22	AmInvestment Bank	164	1	1.5
25	Emirates NBD	160	3	1.5
26	Bank of America Merrill Lynch	126	3	1.2
27	Arab Banking Corporation	111	3	1.0
28	Bank of China	93	1	0.9
29	Al Hilal Bank	70	2	0.7
30	Bank Al-Jazira	68	1	0.6
30	Alinma Bank	68	1	0.6

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Citigroup	309	6	2.9
2	HSBC	305	2	2.9
3	Abu Dhabi Islamic Bank	267	5	2.5
4	Samba Capital	233	1	2.2
4	RBS	233	1	2.2
6	Standard Chartered Bank	165	3	1.6
7	Emirates NBD	122	2	1.1
8	Maybank Investment Bank	100	1	0.9
9	Bank of China	93	1	0.9
10	National Bank of Kuwait	87	1	0.8

Top Islamic Finance Related Loans Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2011	Barzan Gas	Qatar	5,442
12th Feb 2012	Mobily	Saudi Arabia	2,667
2nd Dec 2011	Hajr for Electricity Production	Saudi Arabia	1,981
14th Feb 2012	Power & Water Utility for Jubail & Yabbu - Marafiq	Saudi Arabia	1,200
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World	UAE	850
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
17th May 2011	Emaar Properties	UAE	699
27th Feb 2012	Government of Dubai	UAE	675

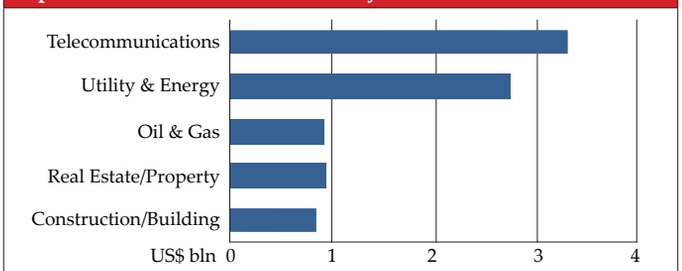
Top Islamic Finance Related Loans by Country

12 Months

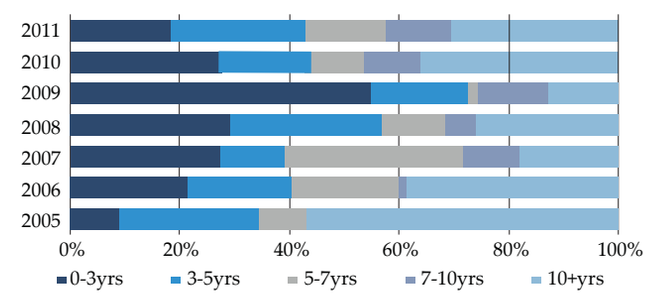
	Nationality	US$ (mln)	No	%
1	Saudi Arabia	5,377	5	50.4
2	UAE	2,048	8	19.2
3	Malaysia	926	2	8.7
4	Qatar	850	1	8.0
5	Indonesia	601	4	5.6
6	Turkey	384	3	3.6
7	Pakistan	203	4	1.9
8	China	93	1	0.9
9	Kuwait	87	1	0.8
10	Russian Federation	60	1	0.6

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: Jennifer Cheung (Media Relations)
Email: Jennifer.Cheung@Dealogic.com Tel: +852 2804 1223

9th — 10th May 2012
The 7th Asia Takaful Conference
Singapore (*Asia Insurance Review*)

15th — 17th May 2012
The 9th Islamic Financial Services Board Summit
Istanbul (*IFSB*)

17th — 18th May 2012
KAZANSUMMIT 2012
Kazan, Russia (*Linova-Media*)

21st — 22nd May
The 4th International Islamic Venture Capital & Private Equity Conference 2012, Kuala Lumpur

21st — 22nd May 2012
The 8th Annual World Islamic Funds and Financial Markets Conference
Bahrain (*MEGA Events*)

28th — 30th May 2012
Islamic Finance East Africa
Crowne Plaza Nairobi, Kenya (*IIR*)

29th — 30th May 2012
The 8th Annual Middle East Project Finance Forum, Dubai (*Fleming Gulf*)

5th — 6th June 2012
The 3rd Annual World Islamic Banking Conference: Asia Summit
Singapore (*MEGA Events*)

6th — 7th June 2012
2012 London Sukuk Summit
London (*ICG-Events*)

11th June 2012
IFN Roadshow Thailand
Bangkok *(REDmoney events)*

11th — 12th June 2012
The 3rd Annual World Takaful Conference: Family Takaful Summit
Kuala Lumpur (*MEGA Events*)

13th — 14th June 2012
The 1st International Forum for Islamic Banks and Financial Institutions
Amman, Jordan (*Strategy for Business Development & CIBAFI*)

21st June 2012
IFN Roadshow Japan
Tokyo *(REDmoney events)*

27th June 2012
IFN Roadshow Hong Kong
Hong Kong *(REDmoney events)*

29th June — 1st July 2012
International Conference of Islamic Economics and Business
Melaka, Malaysia (*UiTM (Johor) & Universitas Indonesia*)

10th — 11th July 2012
The 3rd Annual Asia Islamic Banking Conference, Kuala Lumpur (*Fleming Gulf*)

10th — 12th July 2012
The International Takaful Summit
London (*Afkar Consulting Ltd*)

17th July 2012
The 4th Sri Lanka Islamic Banking & Finance Conference (SLIBFC)
Sri Lanka *(UTO EduConsult)*

1st – 2nd October 2012
IFN Asia Forum 2012
Kuala Lumpur *(REDmoney events)*

10th – 11th October 2012
The 2nd Annual International Summit on Islamic Corporate Finance
Abu Dhabi (*MEGA Events*)

14th — 16th October 2012
The International Islamic Finance Conference 2012
Abu Dhabi (*UAE Emerad Group*)

30th – 31st October 2012
IFN Europe Forum 2012
London, UK *(REDmoney events)*

12th – 13th November 2012
IFN Saudi Arabia Forum
Riyadh *(REDmoney events)*

20th — 21st November 2012
International Islamic Accounting and Finance Conference 2012
Kuala Lumpur (*Accounting Research Institute)*

26th November 2012
IFN Roadshow Brunei
Brunei *(REDmoney events)*

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