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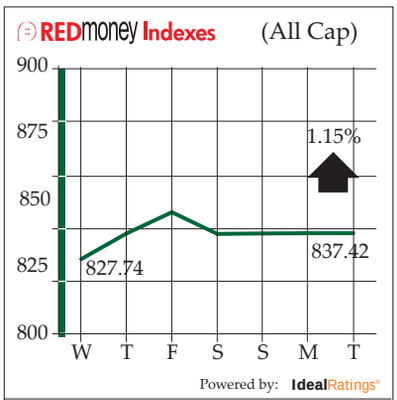

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Sukuk spreads: A bumper year for Islamic pricing

Islamic bond issuances are going through a period of exceptionally favorable pricing, with average yields on dollar Sukuk reportedly 50 basis points (bps) below conventional bonds, according to HSBC; as high demand crossed with limited supply drives the market to new heights. But what are the forces behind this phenomenon, and is such success sustainable?

Record performance

The Islamic capital market is set for a record year. Some sources predict that global Sukuk sales will top US$100 billion in 2012; and Sukuk indices have seen a steady rise over the last few months with the Dow Jones Sukuk Index (which measures the total return on US dollar-denominated Islamic bonds) ending up in May for the sixth consecutive month. The index has seen double the returns of the Barclays Capital Bond Composite Index (which tracks conventional bonds) over the past three years.

And not only are we seeing record levels of Sukuk but the new issuances this year are on the whole significantly oversubscribed, suggesting strong investor demand chasing limited supply; both for sovereign and corporate. The recent quasi-sovereign US$4 billion issuance from the General Authority of Civil Aviation in Saudi Arabia was three times oversubscribed, while the US$1.75 billion from the Saudi Electricity Company, the largest corporate Sukuk of 2012, was 10 times oversubscribed. Emaar Properties' seven-year US$500 million Sukuk Ijarah issued on the 12th July was 9.3 times oversubscribed, squeezing the expected price of 6.75% to just 6.4%, or 519.3 bps over seven-year US dollar midswaps. The Sukuk also saw 38% allocated to European investors, highlighting a strong demand for diversification away from the crisis-hit European region.

On the sovereign side, in July Qatar re-entered the market for the first time since 2003 with a US$4 billion dual-tranche sovereign Sukuk; the largest Sukuk deal from the region this year. Both the five-year and 10-year portions achieved tighter-than-expected terms due to exceptional investor orders totaling over US$24 billion, resulting in final profit guidance of 115 bps over midswaps for the five-year and 155 bps for the 10-year tranche. Akber Khan, director for asset management at Al Rayan Investment in Doha, commented that: "The Qatari sovereign has a history of being a savvy issuer and appears to be taking advantage of the extraordinary spread compression we've seen in GCC Sukuk over the last six months."

Tightening spreads

So what is driving this pricing trend? Primarily, it seems to be a case of exceptional demand chasing limited supply.

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A time to reflect

Editor's Note

The Islamic finance industry has reached dizzying heights this year, boosted by a record level of Sukuk issuances. The stunning performance of the global Sukuk market in 2012 has also been characterized by favorable pricing; and this week, our cover story looks at the drivers for Sukuk pricing and the sustainability of Sukuk spreads....

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DEALS

Central Bank of Bahrain sees strong demand for monthly Sukuk issuances

Indonesia aims to raise US$52.75 million in upcoming Sukuk auction

Orders for fourth series of **Pembinaan BLT**'s Sukuk exceed US$2 billion

Axiata Group sets up US$1.5 billion multi-currency Sukuk

Chemical Company of Malaysia cancels Sukuk

Development Bank of Kazakhstan issues debut sovereign Sukuk

SME Bank launches US$950.61 million government-guaranteed Sukuk program

IDB approves US$1.16 billion in development financing

NEWS

Sustainable Capital Luxembourg to launch Islamic forestry fund

Islamic banks in Pakistan disburse US$4.3 million in new mortgages in the quarter ended the 31st March 2012

Bangladesh Bank to probe local Islamic banks linked to **HSBC** money-laundering scandal

Al-Amanah Islamic Investment Bank of the Philippines in the red

Malaysia plans establishment of mercantile exchange and trading platform for unlisted companies

Citizens Development Business Finance to offer Islamic financing

Islamic Bank of Britain launches new Ramadan offering

Growing interest from western investors for Sukuk, says **HSBC**

Lessons from Sukuk sales

Bermuda delegation discusses Islamic finance opportunities with GCC representatives

Bank Muamalat Malaysia and **Bank of Shi Zui Shan** sign MoU to offer Islamic banking services in China

National Bank of Kuwait reports lower net profit for the first half of 2012

Southeast Asia's regulators help boost the Islamic funds industry

US$4 billion sovereign Sukuk to impact local liquidity positively, says **Qatar International Islamic Bank**

Dubai-linked Sukuk rally to record lows

National Industries Group requests four-year repayment extension for US$475 million maturing Sukuk

IDB in consortium bidding for Saudi Arabia's third airline license

Total nominal value of Sukuk listed on **Nasdaq Dubai** surpasses US$5 billion

Barclays to withdraw from Eibor rate-setting panel

Arab Banking Corporation reports quarterly decline in second quarter net profit

Qatar International Islamic Bank reports 5.5% growth in first half net profit

Emirates Islamic Bank records US$123.57 million in total income for the first half of 2012

Emirates NBD reports decrease in second quarter profits

Ahlibank seeks 15-20% market share of domestic Islamic banking sector

Central Bank of the UAE introduces more red tape for loans and financing

Qatar Islamic Bank launches auto financing scheme in tandem with Ramadan

ISLAMIC INVESTOR

Islamic income and money market funds help boost Pakistan's mutual funds industry growth

South Africa's domestic Islamic finance assets growing between 15-20% a year

Lembaga Tabung Haji has US$1.11 billion to spend on property investments

TAKAFUL

Abu Dhabi National Takaful launches offerings for **National Bonds Corporation**'s customers

Allianz Life Syariah on track to meet US$63.56 million gross premium target for 2012

StanChart Saadiq Malaysia signs bancaTakaful pact with **Prudential BSN Takaful**

RATINGS

RAM assigns rating to **Edaran SWM**'s proposed US$237.1 million Sukuk program

S&P assigns rating on **Axiata Group**'s multi-currency US$1.5 billion Sukuk program

CI affirms **Kuwait Finance House**'s long- and short-term foreign currency ratings

RAM assigns preliminary long-term rating to **Tanjung Bin Power**'s proposed US$1.42 billion Sukuk program

MOVES

Franklin Templeton makes three senior appointments

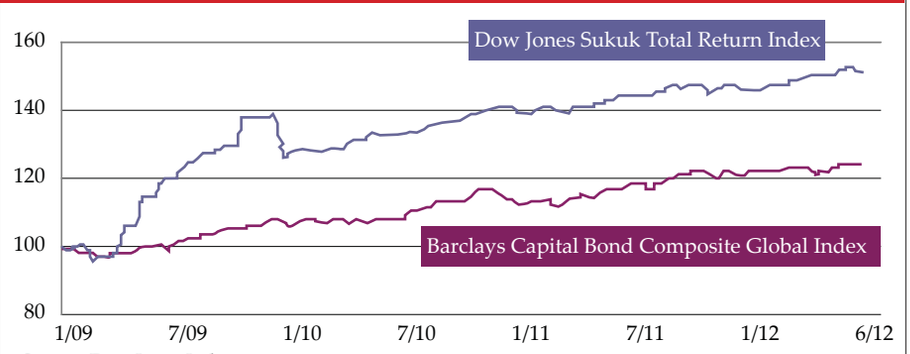
Securities Commission Malaysia announces members of Shariah Advisory Council

Abu Dhabi Islamic Bank appoints **Arif Usmani** as global head of wholesale banking

Sukuk spreads: A bumper year for Islamic pricing

Continued from page 1

Chart 1: Islamic v. conventional bond performance 2009-11



Source: Dow Jones Index

Banks seeking a safe haven from the shaky waters of Europe and the US are chasing a finite supply of Sukuk, which has resulted in a tightening of yields versus conventional bonds. In addition, Islamic banks in Malaysia and the GCC are flush with liquidity compared to their western counterparts, and with a limited number of instruments available to manage this liquidity, anything with cash-parking capabilities is greedily swallowed.

As a result, Sukuk yields are falling to record lows. On the 20th July, the average yield fell to 3.291% with a spread of 238.576, the lowest level since 2005, according to the HSBC/Nasdaq Dubai US Dollar Sukuk Index (SKBI).

Price drivers

Paul Bateman, a senior risk analyst at the Bank of London and The Middle East (BLME) asset management, speaking exclusively to Islamic Finance *news*, notes that due to the historic issue of liquidity in the Islamic capital market, "there is quite often a liquidity premium associated with Sukuk". However, he suggests that this may have eroded as investors become more comfortable with the asset class, and as larger issuances (such as the US$4 billion from Qatar) reach a wider investor base; thus achieving greater liquidity. "If an issue is more liquid you are likely to find more sellers if you hold some, and you are more likely to be able to get hold of some if you want to, so the liquidity premium is going to be lower, and this will drive prices down."

In addition, several big programs this year have disappeared, especially in terms of dollar-denominated Sukuk, which has reduced the available investment universe. "We've seen quite a few names disappear," says Bateman. "DIFC is gone, WINGS from Emirates is gone, and these have not been replaced. So the list of names that fixed-income Sukuk investors can access has been shrinking. If the list is getting smaller it means the demand for the remaining names will increase, so it drives down spread levels – or looking at it another way, it drives up prices for the remaining Sukuk."

Operation twist

Another key factor in the low yields has been the economic strategy from the US Federal Reserve. Dollar interest rates are low and have been falling for some time. Bateman notes that: "The typical dollar Sukuk issuance is issued with a five-year maturity and it would be priced off the five-year dollar swap rate. The swap rate has been falling in recent months so it is acting as an incentive for issuers to lock in cheap borrowing costs. The cheaper it is to borrow money, the keener issuers are to lock in the low rates for as long as possible before they go up again. So a lot of issuers are piling in while the going is good."

This has been exacerbated by Operation Twist, which the Federal Reserve has been operating since September 2011. Originally scheduled to sell US$400 billion of short-term government bonds and replace them with the same amount of longer-term treasuries in order to push down government yields and make it cheaper for companies to borrow long-term, the program was extended in June 2012 by

continued...

CLOSING BELL

Tanjung Bin Power proposes US$1.42 billion Sukuk program

MALAYSIA: Tanjung Bin Power proposed a Sukuk Ijarah program of up to RM4.5 billion (US$1.42 billion).

The proceeds will be used towards the refinancing of the outstanding RM3.53 billion (US$1.11 billion) from the company's existing RM5.57 billion (US$1.76 billion) Islamic medium-term notes program.

Sukuk spreads: A bumper year for Islamic pricing

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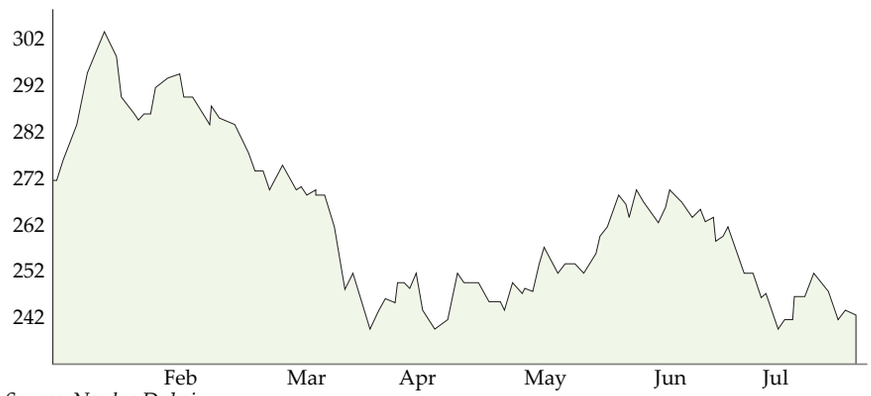
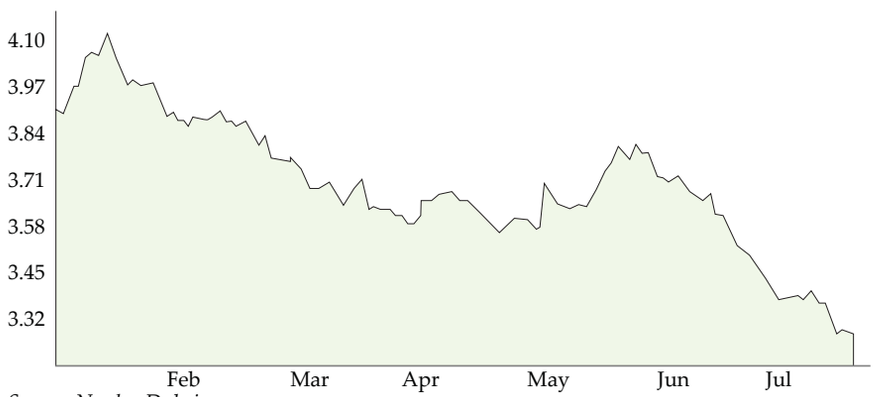
Chart 2: SKBI: Spread 2012 year-to-date



Source: Nasdaq Dubai

Chart 3: SKBI: Yield 2012 year-to-date



Source: Nasdaq Dubai

a further US$267 billion. The Bank of England and the European Central Bank have also enacted bond-purchase programs, while the Bank of Japan and the People's Bank of China have also taken steps to cut borrowing costs. Bateman explains that: "One side effect of that is that by pushing down the long-end of the yield curve it is making it cheaper for GCC Sukuk issuers to borrow money."

And the lower borrowing costs are resulting in longer-dated issues. Sukuk are most often five years, but in recent months we have seen several seven-year tenors (such as July's Emaar Properties' launch) and dual-tranche issuances (such as Qatar's dual-tranche five- and 10-year sovereign Sukuk). As long-term borrowing becomes more attractive, we can expect to see longer-dated maturities.

Sovereign surge

Not only are tenors lengthening, but supply is gradually growing. Particularly in the sovereign space, we are seeing a multitude of new issuances come to the market: led by major gulf issuances such as Qatar and the giant structures from Malaysia to fund its infrastructure requirements. DanaInfra Nasional, the vehicle set up to fund Malaysia's Mass Rapid Transit (MRT) project, issued the first series from its RM8 billion)US$2.5 billion government-guaranteed Sukuk program on the 10th July 2012. The RM2.4 billion (US$756.31 million) offering was oversubscribed 5.38 times and sold in tranches of seven years, with a profit rate of 3.62%, ten years (3.74%), 12 years (3.87%) and 15 years (4.04%).Kazakhstan recently launched its RM1.5 billion (US$472.8 million) maiden Sukuk on the Malaysian bourse, while Sudan recently tapped the market for the first time and new sovereign issuances from South Africa, Egypt and Turkey are also on the cards this year. So how will this influx affect pricing?

Bateman agrees that with more sovereigns coming to the market, increased supply will eventually push prices up. However, he caveats that: "In terms of the net effect, I'd be surprised if the supply is going to be enough to push spreads up because I think it will be accompanied by overwhelming demand, which will continue to exceed the effects of supply increase – especially from new sovereign issuers like Kazakhstan which will have an element of rarity value, especially for people trying to diversify risk geographically."

Sovereign versus corporate

In addition, sovereigns are always in high demand due to their favorable pricing. Corporate issuances are always more expensive, even for government-rated corporates such as Dubai World which are higher up the food chain.

BLME has two Sukuk funds: a high yield fund and a dollar income fund. While they have both performed well this year the dollar income fund (which has more sovereign issuers) has performed exceptionally strongly. However, Bateman notes that although yields are still quite attractive in the corporate issuance area, "one problem is that there is a shortage of supply in the corporate sector. There are not that many deals of a true corporate nature. There tend to be a lot of sovereigns, government-related issuance, or financial sector issuance." The recent Sukuk from Dubai's Majid al Futtaim, a mall developer and the sole franchise for Carrefour in the GCC, was one of the few truly corporate, non-banking issuances the industry has seen, but overall "they are very rare". The problem, according to Doug Bitcon, the head of fixed income funds at Dubai-based Rasmala Investment Bank, is that: "Shariah compliance reduces the depth and breadth of the investment universe, which remains skewed toward the financial sector."

Supply/demand mismatch

This leads us back yet again to the most important issue affecting pricing today: the disparity between levels of supply and investor demand. The first half of 2012 has seen over US$68 billion in Sukuk issuances, with US$13.7 billion emerging from the GCC, which saw six new launches in Q2 alone. Bitcon

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Sukuk spreads: A bumper year for Islamic pricing

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commented that: "We expect a steady supply of new issuances from both new and repeated issuers this year." However, he warned that: "Looking further ahead, a supply/demand imbalance will prevail." This affects pricing, and the imbalance means that Sukuk typically trades at lower yields than conventional bonds as well as experiencing lower volatility. Bitcon noted that: "Yields and credit spread levels of many global Sukuk remain attractive relative to similarly-rated peers", although "event risk surrounding the refinance of Dubai government-related entities and 2012 debt maturities remains".

Safe haven

Despite this concern, Sukuk spreads in 2012 are also benefiting from investors fleeing the European debt crisis amid the downgrades of multiple western banks. The BLME Asset Management Q1 2012 Viewpoint report notes that: "As with bond yields globally, Sukuk spreads were generally tighter on the year, with the HSBC spread index closing at 312 bps, having began the year at 363 bps. This partly reflects the overall improvement in sentiment in the creditworthiness of dollar Sukuk issuers, especially as the UAE has been viewed as a relative port of calm during the storm of the Arab Spring."

"In the future we expect new Sukuk issuances to continue to be over-subscribed and the yields at which they are issued to be commensurately low" elaborates Bateman. "The attraction of Sukuk is partly due to investors looking for alternative investments and turning to the GCC as a safe haven from the ongoing volatility in Europe. However, the consistent and positive performance in the Sukuk market should not be discounted as one of the key drivers of this increase in demand."

2012 outlook

So is this the year that the Islamic capital market could really come into its own? Bitcon thinks so. "The outlook for the Sukuk market remains positive, with an expanding investment universe, improved secondary market liquidity and strong institutional and retail investor demand. The supply-demand imbalance evident in the market continues to prevail, and issuance of well-priced investment-grade paper is easily absorbed. There is growing recognition and acceptance by investors that Sukuk play an important role within a diversified investment portfolio, and this bodes well for the future of the product. The regional backdrop remains constructive, with governments well placed to invest in their economies, and this is expected to support Sukuk prices."

Mohieddine Kronfol, the chief investment officer, fixed income/Sukuk, for Franklin Templeton Investments (ME) agrees: "From our perspective, technical factors are driving Sukuk and debt prices of GCC and Malaysian issuers. Specifically, strong macro-economic backdrops and liquid banking systems continue to support security prices and increased issuance. Both factors should persist in the medium-term which supports our constructive outlook for Sukuk and debt from the GCC and Malaysia."

Promising future

But are the tight spreads and low yields sustainable, and can we expect them to continue? "In the short-term", says Bateman, "I think so. Europe is not going to solve all its problems in the next six months. Therefore things in Malaysia and the Middle East will benefit commensurately."

In addition, the recent news from the US that Federal Reserve chairman, Ben Bernanke has pledged to keep interest rates low through to late 2014 is yet another indication that the current Sukuk valuations will be supported. At the moment, interest rates are lower than the historical average, suggesting that at some point they will start to go up. This will inevitably hit Sukuk prices, but due to the continuing structural imbalance between the supply and the demand of Sukuk, the margin of demand is high enough that without serious and significant supply increases of a level that we have not yet anticipated, valuations are likely to stay the same for the foreseeable future. — LM

A time to reflect

Editor's Note

The Islamic finance industry has reached dizzying heights this year, boosted by a record level of Sukuk issuances. The stunning performance of the global Sukuk market in 2012 has also been characterized by favorable pricing; and this week, our cover story looks at the drivers for Sukuk pricing and the sustainability of Sukuk spreads.

However, in spite of the industry's banner year, challenges remain and among these are new regulations impending under the Basel III framework. This week, Martin Engdal of Advent Software EMEA discusses this issue in a feature on risk management for institutions offering Islamic financial services, while Eckart Koerner and Maas Riyaz Malik of KPMG Management Risk and Consulting write on the Islamic banking industry's readiness for the new rules.

Our issue this week also casts its eye on developments in the industry in Europe, with JUDr Ivana Hrdlickova, a judge at the Appellate Court Pardubice, Czech Republic, contributing an article on the legal groundwork for Islamic finance in the republic and in central Europe.

Also Lhoucine Azirou and Dr Ludwig Stiftl of Munich Re contribute our Takaful feature on investment opportunities for re-Takaful companies; while Insider looks at Qatar's Barwa Bank.

Our IFN Reports include articles on the Shariah compliance of current Islamic finance products, Islamic finance in the Russian Federation and Shariah governance; and our IFN Correspondents contribute reports on markets spanning from Egypt to Ireland.

Finally, with the fasting month upon us once again, Islamic Finance *news* wishes our Muslim readers Ramadan Mubarak.

DEALS

Strong demand for monthly sales

BAHRAIN: The Central Bank of Bahrain announced that its monthly issue of short-term Sukuk Al Ijarah was fully subscribed.

The expected return for the BHD20 million (US$52.72 million) Islamic notes, which mature on the 17th January 2013, is 1.3%.

Meanwhile, its monthly issuance of Sukuk Al Salam was oversubscribed by 188%.

The expected return on the BHD18 million (US$46.96 million) issuance, maturing on the 24th October 2012, is 1.18%.

Aiming big

INDONESIA: The finance ministry aims to raise IDR500 billion (US$52.75 million) in an auction of Shariah compliant treasury bills.

The notes on offer will have maturities ranging from six months to long-term project-based notes of up to 25 years.

Strong demand for Sukuk

MALAYSIA: Pembinaan BLT (PBLT) saw its RM800 million (US$253.8 million) Sukuk, the fourth series from its RM1.35 billion (US$428.35 million) Islamic medium-term notes program, oversubscribed over nine times.

Orders for the issuance exceeded RM7.36 billion (US$2.34 billion). PBLT will pay a profit rate of 3.45% for a three-year tranche, 3.6% (five years), 3.7% (seven years), 3.9% (10 years), 4.08% (12 years) and 4.23% (15 years).

Sukuk for Axiata

MALAYSIA: Telecommunications firm Axiata Group established a US$1.5 billion multi-currency Sukuk program.

In a statement, Axiata said that the program has already been approved by Securities Commission Malaysia.

"Whilst Axiata has no immediate funding requirements, having the program in place will enable the group to remain nimble and able to move quickly in the event of any changes and demands of the marketplace. Ultimately, having the Sukuk program ready will allow Axiata to tap into the international debt capital markets in a timely and most cost-efficient manner," noted James Maclaurin, its group chief financial officer.

Axiata also noted that the Sukuk will allow it to tap into a more diverse investor base, including those from Europe and the Middle East.

The program will be backed by airtime vouchers, among other assets. The firm has not yet disclosed a timeline for the issuance.

CIMB Bank (Labuan), HSBC Amanah Malaysia and Merrill Lynch (Singapore) are joint lead arrangers of the program.

No need for Sukuk

MALAYSIA: Chemical Company of Malaysia cancelled two Sukuk programs amounting to RM750 million (US$237.79 million), stating that its existing facilities are sufficient for its requirements.

The facilities comprised a Musharakah commercial papers program of up to RM250 million (US$79.26 million) and a Musharakah medium-term notes program of up to RM500 million (US$158.53 million).

Kazakhstan debuts Sukuk

KAZAKHSTAN: The Development Bank of Kazakhstan issued the country's first sovereign Sukuk, in a RM240 million (US$76.07 million) offering yielding 5.5%.

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SME Bank launches Sukuk program

MALAYSIA: State-owned SME Bank established a RM3 billion (US$950.61 million) government-guaranteed Islamic medium-term notes (IMTN) program, with a tenor of up to 20 years.

The first tranche is expected to be issued by the end of July 2012, comprising a RM500 million (US$158.59 million) tranche with tenors ranging from seven to 10 years.

The Wakalah-structured program was tailored with the GCC in mind, as the bank is hopeful that it will be able to entice GCC-based investors with the offering.

"The establishment of the IMTN program represents a significant growth for SME Bank towards its mission to be a developed financial institution that nurtures the small and medium-sized enterprises (SME) which form the backbone of the nation's economy," said Mohd Radzif Mohd Yunus, its managing director.

The program, which forms part of the government's SME masterplan aimed at developing the country's SME sector, also marks SME Bank's maiden foray into the Malaysian Islamic capital market.

The proceeds will be used towards SME Bank's working capital requirements.

AmInvestment Bank, Kuwait Finance House (Malaysia) and Maybank Investment Bank are the joint lead managers for the transaction. KFH Malaysia is also lead Shariah advisor for the deal.

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The issuance, which matures on the 3rd August 2017, is part of its RM1.5 billion (US$475.51 million) Sukuk program.

AmInvestment Bank, Halyk Finance, HSBC, Kuwait Finance House and The Royal Bank of Scotland arranged the transaction.

Unprecedented funding

GLOBAL: The IDB approved more than US$1.16 billion in funds for development project financing for its member countries and Muslim communities in non-member countries.

According to the bank, this is the largest amount of funding approved by a single IDB board meeting since its inception. The approvals were provided at the 284th meeting of the bank's board of executive directors on the 16th July.

The funds include US$683 million for power generation and transmission projects in Iran, Morocco, Tajikistan, Tunisia and Uzbekistan; US$274.8 million for food security and rural development in Benin, Burkina Faso, Cameroon, Chad, Mali, Mauritania, Nigera, Togo and Uganda; and US$45 million to Indonesia Eximbank.

DEAL TRACKER Full Deal Tracker on page 39

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Kimanis Power	RM	365.55 million	16th July 2012
Syarikat Prasarana Negara	RM	1.26 billion	12th July 2012
Türkiye Finans Katilim Bankasi	US$	300 million	9th July 2012
Sudan sovereign	TBA	TBA	5th July 2012
Sudan sovereign	US$	758 million	5th July 2012

Sustainable Capital Luxembourg to launch Shariah compliant forestry fund

AUSTRALIA: The domestic Islamic finance industry has been slow to pick up pace, but investment advisory Sustainable Capital Luxembourg is set to launch its Shariah compliant forestry fund in the country.

The firm is reportedly looking to raise US$100 million for the fund, which will invest in the agricultural, biomass and forestry sectors. Michael Young, the investment advisor for the fund, is quoted as saying that Sustainable Capital aims to leverage strategic partnerships to access markets in Asia, Europe and the Gulf; while seeking at least two distributors in the Gulf.

The growth of Islamic finance has been slow in Australia; with MCCA Group the only local fully-fledged Shariah compliant institution so far to provide financial services. This year, news also emerged that National Australia Bank is considering issuing the country's first Sukuk.

Nonetheless, hurdles remain; particularly for firms such as Sustainable Capital aiming to develop the country's Shariah compliant investment market.

In Volume 9, Issue 28 of Islamic Finance *news*, Gerhard Bakker, our IFN Correspondent who is a director at Madina Village, wrote that: "With a large appetite for capital, Australia is an ideal destination for Islamic finance investment funds. However, tax laws are proving an impediment. The additional costs and potential legal challenges of a taxation system that does not recognize Islamic finance principles are impeding transactions."

He also noted that there is no federal taxation recognition of Islamic finance principles; although laws do recognize Murabahah contracts.

As noted by Young in a news report, Sustainable Capital's forestry fund may take anything from three months to three years to reach its US$100 million targeted fund size. With plans for the fund to ultimately raise US$250 million, the firm may have another long wait ahead to see its new fund taking off.

ASIA

New mortgage disbursements

PAKISTAN: Local banks disbursed PKR1.61 billion (US$17 million) in new mortgages to 766 borrowers in the quarter ended the 31st March 2012, according to the State Bank of Pakistan, the central bank.

Islamic banks extended PKR407 million (US$4.3 million) of the total disbursements, while together with other Shariah compliant institutions, the Islamic banking industry made PKR717 million (US$7.57 million) in new disbursements to 141 new borrowers.

Under scrutiny

BANGLADESH: The central bank will investigate allegations that two local Islamic banks were involved in terrorist financing linked to HSBC's money-laundering scandal.

A US Senate report named Islami Bank Bangladesh and Social Islami Bank as among banks suspected of helping to finance the illegal activities.

Saudi Arabia's Al Rajhi Bank, which owns 37% of Islami Bank, was also named in the report, which said that HSBC Bank USA provided US dollars and banking services to some banks in Saudi and Bangladesh "despite links to terrorist financing".

Islami Bank has denied allegations of terrorist financing, while Social Islami Bank said it was not involved in money-laundering or illegal transactions.

AAIIBP in the red

PHILIPPINES: Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP) posted a loss of PHP42.22 million (US$1 million) for the financial year ended the 31st December 2011, against a loss of PHP39.2 million (US$930,820) in the previous corresponding period.

According to state audit institution Commission on Audit, the bank has been unable to launch any new product as of late. The commission also confirmed that between 49-99.88% of the bank is up for sale.

Meanwhile, AAIIBP attributed its lack of financing assets to a shortage of technical experts to market its products.

Strengthening the capital market

MALAYSIA: The government is looking towards the establishment of a mercantile exchange and a trading platform for unlisted companies in a bid to strengthen the local capital market.

According to Najib Razak, the prime minister, a mercantile exchange will provide opportunities to invest and hedge in gold futures and other precious metals; while the trading platform will provide financing opportunities. Securities Commission Malaysia will prepare a proposal to the government and evaluate the appropriate regulatory framework for the initiatives.

Islamic financing from CDB

SRI LANKA: Citizens Development Business Finance (CDB) is set to launch CDB Meezan, its Shariah compliant independent finance unit.

RH Abeygoonewardena, its chief operating officer, noted that the establishment of CDB's Islamic financial services is timely given growing demand for the products.

EUROPE

IBB's Ramadan offering

UK: The Islamic Bank of Britain (IBB) launched a 4% expected profit rate for its 'two-year fixed term deposit' account, available throughout the month of Ramadan.

The minimum deposit for the limited offer rate is GBP1,000 (US$1,561).

GLOBAL

More interest from the west

GLOBAL: Western investors have shown growing interest in the Sukuk market as it has less exposure to the ongoing Eurozone crisis, said Souhail Mahjour, an emerging market syndicate manager at HSBC.

He noted that this past year has seen Sukuk investments from key hedge funds and markets such as London, adding that conventional investors now account for around 60% of the take-up in Sukuk, from 40% a year earlier.

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Lessons learnt from Sukuk sales

GLOBAL: With the Sukuk market expected to take a breather in tandem with Ramadan, which this year also coincides with the summer vacation period, perhaps it would be useful to look back on what this year's record level of issuances has shown us so far.

The first point to note is that issuers shouldn't be afraid to go big in terms of issuance size, as the financial system is flush with liquidity and investors are ripe for the picking. This was clearly seen from Qatar's US$4 billion sovereign Sukuk sale on the 11th July; which received US$24 billion-worth of subscriptions.

In further testament of robust demand for Sukuk, Emaar Properties, which sold a US$500 million Sukuk just a day after Qatar's issuance, attracted US$4.65 billion-worth of orders for its offering.

Another notable point is that conventional investors, especially those from Europe, are increasingly buying into Shariah compliant debt, signaling that Sukuk issuers are now able to tap into a more diversified investor base.

Emaar, which held investor meetings for its Sukuk only in London, saw 38% of its offering taken up by European investors; while Emirates Islamic Bank, which priced a US$500 million Sukuk on the 4th July, attracting a US$5 billion orderbook, saw 28% of its papers bought by European investors; 17% of which were from the UK.

A final lesson to be learnt from this year's Sukuk season is that issuers should stick to the basics, as demonstrated by Tamweel's aborted US$235 million asset-backed securitization; a transaction that would have been a rare showing of a securitization in the Gulf.

The Shariah compliant mortgage firm announced a postponement of the deal, expected in July 2012, following market feedback.

In comparison, the firm successfully sold a US$300 million plain vanilla Sukuk just at the start of 2012; proving that investors are keen on the Tamweel credit story; but uninterested in offerings that are too sophisticated.

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He also noted that 90% of the conventional investor base for Sukuk is from London; while the remainder comprises conventional banks based in the Gulf.

Exploring potential for Islamic finance

GLOBAL: Paula Cox, the premier and finance minister of Bermuda, led a delegation to the UK in the third week of July 2012, meeting representatives from the GCC in a bid to explore the development of Islamic finance opportunities.

The meetings, organized by the Bermuda government, PwC and the Arab Financial Forum, included talks with government and private sector representatives from Saudi Arabia, Qatar and the UAE.

"The visit was part of a Bermuda government initiative targeting further economic diversification. The goal is to expand Islamic finance opportunities and strategic partnerships in tourism development projects, while leveraging Bermuda's leading insurance and reinsurance platform," said Cox.

Islamic banking for China

GLOBAL: Bank Muamalat Malaysia signed an MoU with China's Bank of Shi Zui Shan aimed at setting up an Islamic bank in the Chinese province of Ningxia by 2014.

The banks will cooperate on the establishment of a framework for Islamic banking in China, with a target of offering Shariah compliant products in Ningxia via a window at Bank of Shi Zui Shan.

According to Mohd Redza Shah Abdul Wahid, CEO of Bank Muamalat Malaysia, the banks are aiming to set up the window by July 2013, followed by the set-up of a standalone Islamic bank by the end of 2014.

MIDDLE EAST

Lower profits for NBK

KUWAIT: National Bank of Kuwait (NBK) reported a net profit of US$431.2 million for the first half of 2012, against US$523.5 million a year earlier, as it booked a US$96.4 million judgmental provision charge.

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Southeast Asia's regulators help boost the Islamic funds industry

GLOBAL: Southeast Asia's regulators are making moves that are set to play a hand in boosting activity of the region's Islamic funds.

In Indonesia, the government announced plans to reinvest underutilized Hajj funds from the finance ministry into issuances of project-based Sukuk in a bid to raise infrastructure development financing.

The government, which regularly auctions project-based Sukuk and Shariah compliant treasury bills, sees the investment of the pilgrim funds into Sukuk as a more efficient way for the funds to generate revenue, said Anggito Abimanyu, the director general of Hajj pilgrimage management at the ministry of religious affairs, in a report.

Islamic funds are also set to take center stage in Malaysia, following the government-led implementation of voluntary private retirement schemes (PRS). The private pension funds are seen as a supplementary option to the mandatory Employees Provident Fund (EPF) retirement scheme; and are expected to boost growth momentum for Shariah compliant funds.

Zakie Ahmad Shariff, a board member of the PRS' governing body, the Private Pension Administrator, is quoted as saying that six Islamic funds will be included in the launch of the first 30 PRS products.

In a bid to entice the public into the new scheme, the Malaysian government is offering benefits such as personal tax relief, tax deductions for employers on their contributions to the scheme and tax exemption on income received by PRS fund management firms.

All eight of the approved PRS fund management firms, which include AmInvestment, CIMB-Principal and Public Mutual, already have existing Shariah compliant funds, while it was also reported that AmInvestment and another approved PRS manager, Hwang Investment Management, will introduce Islamic PRSs following the launch of their conventional schemes.

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Ibrahim Dabdoub, its group CEO, noted that the provision was necessary as the bank faces further potential deterioration in its operating environment due to a negative outlook on Kuwait's economic growth and pressure on local and regional economic activity as a result of geopolitical developments.

However, he highlighted that NBK's recent move to increase its stake in Boubyan Bank will strengthen its presence in the domestic Islamic banking market, while creating new growth prospects.

As at the end of June 2012, NBK's total assets amounted to US$51.1 billion.

Boosting liquidity

QATAR: The US$4 billion sovereign Sukuk sold by the country in July 2012 will create cheap liquidity for all sectors of its economy, said Abdulbasit Ahmed A Al-Shaibei, CEO of Qatar International Islamic Bank (QIIB).

QIIB was a co-manager of the issuance.

Optimistic on Dubai Sukuk

UAE: Yields on Dubai-linked Sukuk rallied to record lows in July 2012, boosted by a stabilizing property market and strong liquidity in the Gulf.

Dubai's US$1.25 billion sovereign Sukuk, issued at 6.4% in November 2009, yielded 3.2% on the 18th July; while Emaar Properties saw its 6.4%, US$500 million Sukuk sold in the second week of July bid at 5.78%.

The emirate's five-year credit default swaps have also tightened to 3.23%, close to the lowest level it has been in a year.

NIG seeks repayment extension

KUWAIT: National Industries Group (NIG) requested an extension for the full repayment of its US$475 million Sukuk maturing on the 16th August 2012.

The company will repay 30% of the total on the due date, but sought Sukukholders' consent to repay the remainder over the next four years to 2016.

In a statement to the London Stock Exchange, where the Islamic notes are listed, NIG proposed to repay 25% of the principal amount at the end of each of the four years. The profit rate will also be changed to a fixed rate of 450 basis points (bps) over a three-month Libor, from a floating rate of 105 bps over three-month Libor.

Creditors were given until the 9th August to agree to the new terms, although creditors who agree to the restructuring by the 6th August will receive a variable early consent fee.

Citigroup and Watani Investment Company have been mandated as solicitation agents for the transaction.

IDB-EGYPTAIR vying for Saudi air license

SAUDI ARABIA: The IDB, in partnership with Egypt-based carrier EGYPTAIR, is among seven consortia and firms shortlisted to submit their bids for the kingdom's third air carrier license, according to a report.

The winner of the license will be allowed to operate domestic and international services to and from Saudi.

Sukuk listings rise

UAE: The total nominal value of Sukuk listed on Nasdaq Dubai has increased to US$5.5 billion following the listing of Emaar Properties' US$500 million Sukuk on the exchange in July 2012.

The listing is Emaar's first on Nasdaq Dubai.

Barclays out of Eibor

UAE: The Central Bank of the UAE announced that Barclays requested to withdraw itself from the panel which determines the Emirates interbank offered rate (Eibor); following the bank's involvement in the manipulation of Libor rates.

Barclays will leave the Eibor panel after completing a mandatory 90-day notice period, following which the central bank will announce a replacement.

Lower profit for ABC

BAHRAIN: Arab Banking Corporation (ABC) announced a net profit of US$51 million in the second quarter of 2012, against US$54 million in the first quarter of the year.

continued...

RATINGS

Good start

MALAYSIA: RAM has assigned a preliminary 'AA3' rating to public-cleaning management company Edaran SWM's proposed RM750 million (US$237.1 million) Islamic medium-term notes program, with a stable outlook.

Proceeds from the proposed issuance will be used in the purchase of relevant assets pertaining to the company's needs.

Positive start

MALAYSIA: S&P has assigned a 'BBB-' long-term issue rating to Axiata Group's multi-currency US$1.5 billion Sukuk program.

The rating reflects the strength of the transaction documentation, under which an existing agreement has held the company accountable for all payments needed to ensure that the issuer has sufficient funds to pay the certificate holders in a timely manner.

Stable outlook

MALAYSIA: RAM has assigned a preliminary 'AA2' long-term rating to Tanjung Bin Power's proposed Sukuk Ijarah program of up to RM4.5 billion (US$1.42 billion), with a stable outlook.

The rating reflects the company's robust debt-coverage levels and minimum finance service coverage ratio.

KFH's strong ratings

KUWAIT: CI has affirmed Kuwait Finance House (KFH)'s long- and short-term foreign currency ratings at 'A+' and 'A1', respectively; and its financial strength rating at 'BBB+'.

The rating agency cited KFH's strong brand and domestic franchise as the main supporting factors for the ratings.

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Total operating income declined quarter-on-quarter to US$193 million from US$214 million.

As at the end of the first half of 2012, the banking group's total assets amounted to US$24.4 billion.

QIIB profits marginally higher

QATAR: Qatar International Islamic Bank (QIIB) posted a 5.5% year-on-year growth in net profit to QAR340.1 million (US$89.8 million) for the first half of 2012.

The bank's total assets grew 7% to QAR23.7 billion (US$6.26 billion), backed by a 13% increase in its financing portfolio to QAR11.4 billion (US$3.01 billion).

Higher income for EIB

UAE: Emirates Islamic Bank (EIB) reported a 20% year-on-year in total income to AED454 million (US$123.57 million) in the first half of 2012.

The bank's income also rose 20% in the second quarter, to AED231 million (US$62.88 million).

For the period ended the 30th June 2012, its customer accounts grew to AED19.9 billion (US$5.42 billion), while financing receivables rose 3% to AED14.6 billion (US$3.97 billion).

ENBD's profits decrease

UAE: Emirates NBD (ENBD) reported a 13% year-on-year decline in net profit to AED647 million (US$176.12 million) for the second quarter ended the 30th June 2012; its fourth consecutive drop in quarterly profits.

The losses were contributed by higher expenses from its takeover of Dubai Bank.

ENBD provided an update of its efforts to integrate Dubai Bank into the group, noting that it is in the process of ensuring interoperability of technology and re-skilling frontline and back office staff, while aligning Dubai Bank's product portfolio, rates and policies with that of the group's.

Ahlibank's Islamic growth plans

OMAN: Ahlibank plans to establish up to 10 branches of its newly-set up Al Hilal Islamic banking window in the next 12 months as it seeks a 15-20% market share of the sultanate's Islamic banking sector, said Abdullah al Jabri, its deputy general manager and head of operations.

In a report, he said that the bank will set aside OMR20 million (US$51.96 million) as start-up capital for its Islamic window, which will initially open four branches upon its launch.

Red tape for consumer financing

UAE: The Central Bank of the UAE sent out six new documents for banks to use in approving personal loans and financing, overdrafts and auto financing.

The forms, which include a 20-page document covering new terms for Islamic banking contracts, provide a general format of terms and conditions for financing contracts with banks, finance companies and Islamic banks.

Ramadan offering from QIB

QATAR: Qatar Islamic Bank (QIB) launched a new auto financing scheme in tandem with Ramadan, offering a five-month payment waiver and auto Takaful, among others.

The offer is only applicable to customers whose salaries are transferred to the bank.

Coming up...

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Meet the Head
Qasim M Qasim, senior advisor, Bain & Company Middle East

Special Report
Islamic banking and corporate social responsibility; By Emar El Sahhar, general manager, Islamic banking sector, Banque Misr.

Features
Further opportunities for Islamic finance in Russia; By Roustam Vakhitov, head of tax consulting department, International Tax Associates, UFS Investment Group.

Islamic securitization; By Nidhi Bothra, executive vice-president, Vinod Kothari Consultants.

To charge or not to charge interest: That is the question; By Suprio Bose, senior associate, Juris Corp.

MOVES

FRANKLIN TEMPLETON INVESTMENTS

GLOBAL: Franklin Templeton has appointed **Andrew Ashton** as the new head of its international consultant and research group based in California.

Ashton was previously a senior director at Franklin Templeton's central and eastern Europe and the Middle East division, based in Dubai.

Adam Quaife will replace Ashton in Dubai, while **Keri Pratt** will take up Quaife's seat as the head of institutional sales for Australia and New Zealand, effective immediately.

SECURITIES COMMISSION MALAYSIA

MALAYSIA: Securities Commission Malaysia has announced the members of its Shariah Advisory Council, who will serve for a two-year period.

The 11 members are: **Abdul Hamid Mohamad**, **Sheikh Ghazali Abdul Rahman**, **Dr Abdul Halim Ismail**, **Dr Mohd Daud Bakar**, **Dr Muhammad Syafii Antonio**, **Professor Mohammad Hashim Kamali**, **Professor Dr Ashraf Md Hashim**, **Dr Azman Mohd Noor**, **Dr Aznan Hasan**, **Professor Dr Engku Rabiah Adawiah Engku Ali** and **Dr Shamsiah Mohamad**.

ABU DHABI ISLAMIC BANK

UAE: Abu Dhabi Islamic Bank has appointed **Arif Usmani** as its global head of wholesale banking.

Outlook for UAE banks still uncertain

The IMF has released optimistic forecasts for economic growth in the MENA region this year, but in the UAE the domestic banking sector remains weighed down by corporate restructurings related to Dubai Inc.

Furthermore, it has emerged that the banks' accounting treatment of their exposure to restructurings differs; creating a hazy picture as to the actual financial performance of the banks.

In a report, Moody's, which believes that corporate restructurings continue to be credit negative for the emirates' banking system, noted that there are three different approaches in the banks' accounting treatment of their exposure to Dubai debt; affecting their reporting of non-performing loans and financing and profitability metrics.

"At US$25 billion, the distressed debt restructuring completed by Dubai World Group in June 2011 was the largest ever seen in the GCC. The impact of the restructuring was particularly pronounced for Dubai-based banks, triggering a sharp deterioration in their asset quality, which led to the downgrade of numerous banks and changes in the outlook for most rated Dubai-based banks to negative.

"Following the Dubai World restructuring, we have a divergence in the accounting treatment of these sizable exposures across banks in the UAE," said Moody's.

These approaches comprise maintaining the restructured financing as impaired at the original balance; and holding provisions equivalent to the net present value (NPV) loss, recording the financing as performing at a reduced balance and recognizing an NPV loss; or recording it as performing at the original balance and releasing associated provisions at their discretion.

"Where non-commercial restructurings have bullet repayment profiles, as is the case with the Dubai World restructuring, we believe that a declassification of these restructurings to the 'performing' category leads to loss of information and transparency, at least until there is strong and objective evidence of improvements in borrowers' repayment capacity," said the agency.

It also noted that many banks in the UAE do not include restructured financing in their financial reporting, reducing transparency and diminishing the ability to track the exposure and judge the banks' asset quality.

"We believe that corporate restructurings will affect the UAE's local banking landscape for the foreseeable future. Accordingly, regardless of reporting variations of restructured exposures, our analysis will focus on asset quality substance over reported form, with the additional aim of maintaining accuracy and consistency across the rated universe in the UAE and globally," it said.

According to the ratings agency, seven of the 12 banks it rates do not report restructured financings. Of these Dubai Islamic Bank is the only fully-fledged Islamic bank; while others which do not report restructured financings include Emirates NBD, Abu Dhabi Commercial Bank and Mashreq Bank.

Meanwhile, according to Moody's, some restructurings still in progress include Amlak's, whose debt under restructuring amounts to US$3.8 billion. — *EB*

Moving towards a true reflection

Islamic finance has come a long way since the establishment of modern-day Islamic banking through Dubai Islamic Bank in 1975. Fast forward to the present day, and Islamic finance has generated interest in countries that once were not even aware of its existence.

With the industry estimated to be around the US$1 trillion mark and growing fast, numerous products marketed as complying with Shariah principles have surfaced. Innovation, or so it seemed, could bring about even the most exotic kinds of Shariah compliant instruments: in the form of derivatives, hedging and swaps, among others.

The industry also introduced Bai al Inah, widely used in Malaysia, as well as organized Tawarruq and reverse Tawarruq — a common structure in the Middle East. Shariah scholars' views are divided on these structures but according to Dr Sami Al Suwailem, a senior economist at the Islamic Research and Training Institute of the IDB, the most respected bodies - namely The Fiqh Academy of the Organization of Islamic Cooperation and the Fiqh Academy of the Muslim World League — have made it clear that organized Tawarruq and reverse Tawarruq are not Shariah compliant.

Dr Sami is of the view there is now a widespread awareness that the way many Islamic financial products are structured do not adhere to the spirit and nature of Islamic finance as they simply "reproduce conventional products but with additional layers to make them formally consistent with Shariah requirements".

There are certain quarters that claim that the Islamic finance industry is still at a nascent stage and therefore is not ready to move towards a stricter interpretation. Furthermore there is also a lack of standardization. Dr Sami offers his perspective on the matter, saying that genuine Islamic products do not have to be stricter but they have to be innovative. He elaborates that Islamic finance has its own philosophy on how finance should be enacted; where finance must be fully integrated with trade and production. "This integration is not difficult in terms of legal contracting. The difficulty arises in implementation. Implementation depends on technology and systems. Once these systems and technologies are in place, finance becomes seamlessly integrated with trade and production, and genuine Islamic products will be the natural choice."

Asked whether ensuring products are Shariah-based is practical at this point in time, Dr Sami confirms this is the right time to develop the strategy to make financial products Shariah-based and ensure that they genuinely reflect the objectives of Islamic finance. He says that post the global financial crisis, many financial leaders and experts now believe that finance must be done in a different manner.

This includes Jean-Claude Trichet, the president of the European Central Bank, who called for a paradigm change in the global economy in early 2009. Mark Carney, the chairman of the Financial Stability Board, in a recent interview also insisted that banks "must be forced to serve the real economy", while Christine Lagarde, the then-French minister of finance and current managing director of IMF, has remarked that "the principles we're fighting for are very well inscribed in Islamic finance" and Willem Buiter, then at the London School of Economics and the current chief economist at Citigroup, has written in his blog that "Islamic finance principles can restore policy effectiveness".

"I don't think there is a better time to seriously revise the way Islamic finance is performed," Dr Sami responds. Despite not being a "big fan" of centralization, he views regulatory intervention as beneficial to help the Islamic finance industry more closely adhere to Shariah objectives.

The problems with this issue however, he believes lie in the lack of genuine and productive innovation. "While this deficiency is apparent, the way out of this 'imitation trap' is not as obvious. Industry leaders and experts have to re-think product development strategy to successfully take Islamic finance to the next phase."

The Arab spring, Dr Sami continues, was a catalyst which has placed younger generations in a better position to change the pace of the Islamic finance industry in a manner that reflects its true mission, whilst helping the financial industry in general to better contribute to human welfare.

As the industry grows in size, industry practitioners should be mindful of keeping products and services in line with the spirit of the Shariah principles. — *RW*

All quiet on the Russian front

With a considerably large Muslim population in comparison to other European countries, there is certainly significant potential for Islamic finance to grow within the Russian Federation. As of 2010, there were about 16.39 million Muslims in the federation with the number projected to grow to roughly 18.56 million by 2030, according to data by global non-partisan think tank, the Pew Forum.

Although Islamic finance in Russia has been slow to take off, the country has taken proactive steps to capitalize on the potential of the industry and by extension, to tap into the cash rich GCC.

"There are a lot of things in the pipeline; they are just not made known publicly. There are a large number of Muslims in Russia currently; and within this population, there are quite a number of entrepreneurs and business owners who would want to venture into Islamic financing," said Alberto Brugnoni, chairman of ASSAIF in an interview with Islamic Finance *news*.

The development of Islamic finance in the country, however, has progressed in baby steps. Rustam Minnikhanov, the president of Russia's Tartarstan region, has also been known to push amendments to federal legislation that will encourage Sukuk issuances from Tatarstan, while in 2010, the region saw the establishment of the Tatarstan International Investment Company, in partnership with the IDB. The investment company was set up as a vehicle to oversee Shariah compliant financial transactions in the Republic.

In June 2011, Tatarstan announced the planned issuance of a government-backed maiden Sukuk, proceeds of which would be used towards the country's construction projects estimated at US$200 million. Also in that year, a number of local financial institutions, namely Ellips Bank, IFC Linova, Al Shams Capital and Yumart Finance began offering products in compliance with Shariah.

Close to Russia, Kazakhstan recently issued its first sovereign Sukuk via a Malaysian ringgit-denominated US$76.07 million issuance sold by the Development Bank of Kazakhstan (DBK). The sale is part of DBK's US$475.51 million Sukuk program due in August 2017.

Apart from that, however, things have been quiet on the Russian front.

Brugnoni noted that while there is interest for Islamic finance, the road to its establishment is long and difficult as there is currently no legislation.

"Russia's Islamic capital market still has a long way to go without these legislations in place. Islamic finance is a long story; it needs a lot of understanding and frame-working. Even Malaysia took over 40 years to get 20-25% of the existing market. And Malaysia is a country where Islam is the main religion. So I think that in Russia it would take longer and [it will be] more difficult but still possible," he said.

Brugnoni further commented that sectors that would benefit most from Islamic finance are the small and medium-sized enterprises and infrastructure.

"Most Russian Muslim businessmen are running small operations and they are very attentive to the flows of their money. Russia is also big in infrastructure development. The GCC would be more interested in investing in Russia if they were to use Islamic finance," he noted.

He also remains optimistic of the potential growth of Islamic finance in Russia, due to the success of the industry in other markets; amid the current turmoil in conventional finance. "The (Islamic) capital market will also outweigh the conventional capital market through the issuance of the Sukuk for project finance. I also think at the grassroots level, companies will look at Islamic finance to finance regional projects," he added. — *LR*

Of Shariah governance and credibility

On the back of the recent turn of events at FNB Islamic Finance, which saw its entire Shariah board go packing in July 2012, industry players believe that such a case could potentially boost regulatory boards to adopt more stringent requirements in the hiring process of Shariah boards across jurisdictions.

Speaking to Islamic Finance *news*, Megat Hizaini Hassan, the head of Islamic finance at Lee Hishammuddin Allen & Gledhill, said that the move has direct repercussions on the integrity of the South Africa-based Islamic bank; and could have a much larger spillover effect in the industry in terms of perception. He noted that: "For an institution that calls itself 'Islamic', getting rid of its entire Shariah board was certainly not prudent and affects its credibility in a big way. The situation may also have an impact on the industry from the point of view of perception."

In an email response to Islamic Finance *news*, associate professor Dr Asyraf Wajdi Dusuki, the head of the research affairs department at International Shari'ah Research Academy for Islamic Finance (ISRA) commented that FNB Islamic Finance's situation highlights a deep inherent risk to the Islamic finance system. "A case like this would inevitably trigger prudential concerns should investors and depositors start to doubt or even lose confidence in the integrity of financial institutions claiming to adhere to Shariah principles in every aspect of their operations," he said.

He also added that the incident has strengthened the case for the need to put in place a robust and well-functioning Shariah governance system, where the regulator plays an active role in regulating and supervising the Shariah compliance of Islamic financial operations. "Shariah advisors or a committee is just part of the overall Shariah governance which should also include other organs of governance including Shariah secretariat, Shariah review and audit, management and of course ultimately the board of directors," said Dr Asyraf.

It remains to be seen how the Islamic investor pool will react to the case of FNB Islamic Finance; and whether the situation will remain insular or be a catalyst to stricter guidelines and more regulatory involvement in the operations of an Islamic bank. — *LR*

Islamic banking: Increasingly relevant in Egypt

EGYPT

By Dr Walid Hegazy, IFN Correspondent

The Egyptian Supreme Constitutional Court's decision to uphold the dissolution of parliament reflects the growing uncertainty not only pervading the country's political sphere, but also affecting the economic sphere. Specifically, the future of Islamic finance and banking practices in Egypt remains in doubt following the ruling. Prior to the dissolution of parliament, Islamists controlled 70% of the seats and began pressuring the central bank to increase the freedoms of banks to provide Islamic banking services. The Islamist-dominated parliament also encouraged banks to apply for licenses to provide Islamic banking services, which were routinely denied during former president Hosni Mubarak's rule.

The success and effectiveness of Islamic financial services are necessarily dependent upon the existence of strong supervisory bodies and underlying regulatory systems. Mohamad el-Beltagy, the president of the Egyptian Islamic Finance Association, highlighted the advantages of Islamic finance when he stated that Islamic banking supplements the economy and the banking sector regardless of any religious or political considerations. Nevertheless, Mohamad also emphasized that Islamic banking is one of the most important economic activities that still requires a regulatory framework.

Moreover, a few days before parliament was dissolved, the dominant Freedom and Justice Party proposed new legislation, which would have put in place a regulatory system for Islamic banking and simplified the process for banks to obtain licenses for offering Islamic financial instruments. However, the recent dissolution of parliament, the absence of a legitimate governing constitution, as well as the continuing tensions between political and military leaders will ultimately delay the progress taken towards establishing more Islamic compliant finance and banking policies in Egypt.

In July, the Egyptian government signed an agreement with the IDB for US$1 billion in funding for energy and food imports. The agreement represents a significant step forward in the rebuilding of Egypt's economy, which has suffered a fall in tourism revenues, a slump in foreign investment, a decline in foreign currency reserves, and a widening of the budget deficit after last year's popular uprising. Furthermore, the agreement with the IDB is important when considering the struggle for Egypt's military-backed government to secure aid promised by foreign donors after the uprisings.

The Islamic Financial Services Board (IFSB) announced a series of upcoming awareness programs, designed to provide participants with crucial information regarding the Islamic financial services industry. Additionally, the IFSB, World Bank, and Central Bank of Egypt will be hosting a seminar on Islamic finance and its future prospects in Cairo, Egypt on the 13-14th November 2012.

Thus, in light of both the current political trends favoring Islamists and the supplementary role Islamic financial services provide in diversifying economic options, Islamic finance and banking is nonetheless likely to assume a more significant role in Egypt's future economy.

Dr Walid Hegazy is the managing partner of law firm Hegazy & Associates in association with Crowell & Moring. He can be contacted at whegazy@hegazylaw.com.

Islamic finance in France: From theory to practice

FRANCE

By Kader Merbouh, IFN Correspondent

Islamic finance is nothing new to the French market. Many big players of the Islamic industry (Gulf Finance House, Qatar Islamic Bank and Kuwait Finance House) have been using contracts such as Murabahah or Ijarah to finance their real estate investments in France since the early 2000s.

In addition, for the 'big four' of the French market (BNP Paribas, Société Générale, Calyon, BPCE), Islamic finance is a well-known field, and has been so for the past decade.

However these banks have been facing many hurdles, among which can be highlighted an unfavorable tax system, making Islamic contracts more expensive than their conventional equivalent and less attractive for the customers.

But in 2008, the former French finance minister and current head of the IMF, Christine Lagarde, started a governmental drive to attract investment from Muslim countries, in a bid to turn Paris into the European capital of Islamic finance.

The government announced new tax legislation to make Islamic contracts more competitive and allow Sukuk issuance.

This was the real trigger to Islamic finance in France, as more leading Islamic financial institutions started studying the French market with the clear intention of setting up retail Shariah compliant banking operations.

Unfortunately, due to the economic downturn and to some legal issues, these GCC-based first-movers stepped down, and the true change came from where it was the least expected. Banque Chaabi, the European subsidiary of Group Banque Populaire du Maroc, announced the launch of the first French Islamic retail banking product (a Shariah compliant current account) in June 2011.

During the second edition of the annual conference on 'Islamic Retail Banking' held at Paris Dauphine University on the 7th June 2012, the co-head of strategy at Banque Chaabi announced that the objectives in terms of Shariah compliant account opening were met in only six months. It is obvious that demand is there.

Positive growth

This major step was followed by two other landmark events.

The first was the launch of the first Shariah compliant life insurance product

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in France by Group CFCI and SwissLife in June 2012. This product provides French Muslims with an option to save and invest their money in a way that complies with their religious principles.

Anouar Hassoune, the director of the Societe d'Investissement A Capital Variable (SICAV) hopes to attract EUR30-40 million (US$36.8 — 49 million) in savings by the end of 2013.

Hassoune also announced that the first French Sukuk are being structured and have reached their final preparation stage before the official launch this summer.

The second big move of the French Islamic financial market took place on the 14th June 2012, when Banque Chaabi announced that the first Murabahah mortgage contract had been signed with a customer, following the Murabahah tax regulation FE4/SE1/02 passed by the ministry of finance some time ago.

At the same time, several Islamic finance masters degrees are now being offered by some universities in France, such as the Paris-Dauphine University. These programs are aimed at training skilled new talents, to feed the industry with the next generation of Islamic financiers with a 'French touch'.

> ***"However, there is still a long way to go before Islamic finance in France comes of age"***

According to Anas Jaffal, a consultant in Islamic finance in France: "One can now consider that French Islamic finance [has] entered a new era, as French Muslims can now invest their cash surpluses and get a mortgage in a Shariah compliant way".

However, there is still a long way to go before Islamic finance in France comes of age.

The available products are offered by very small players in the French financial market. The capacity to fulfill the needs of the six million French Muslims is simply not there yet.

Conclusion

Islamic finance in France still lacks a large player. Given the recent success registered by niche initiatives, one can certainly hope that more established institutions will take the initiative to carry on with more ambitious goals.

Kader Merbouh is the co-head of the executive master of the Islamic finance at Paris-Dauphine University. He can be contacted at Kader.merbouh@dauphine.fr.

The Islamic capital market in Maldives turns one: What now?

MALDIVES

By Aishath Muneeza, IFN Correspondent

The Maldives capital market landscape was reshaped in 2011 to introduce the Islamic capital market. The gigantic task of creating an Islamic capital market in the Maldives officially began in May 2011, with the creation of the capital market Shariah advisory committee at the Capital Market Development Authority of the Maldives. It can be suggested that this first stepping stone towards the creation of Islamic capital market in the Maldives paved way towards the development of Shariah compliant products in the capital market of the Maldives.

The first type of Islamic capital market product introduced to the Maldives was Islamic equity. The first company in the Maldives which was screened to check for Shariah compliance was Amana Takaful Maldives, which is the only Takaful provider in the country operating under a conventional license which is now listed on the Maldives Stock Exchange.

During this one-year span, which can be considered as the infant stage of the Islamic capital market in the country, numerous efforts were made to create and establish a stable Islamic capital market. The regulator of the Islamic capital market in the Maldives, the Capital Market Development Authority, conducted a research project known as the 'Sukuk project' to enact a legal and regulatory framework for Shariah compliant equity products and Sukuk, which is yet to be introduced in the country.

This research revealed that there are many challenges facing the development of the Islamic capital market in the Maldives and the most critical challenge highlighted is education, awareness and the lack of expertise in the field.

The ambitions of the Capital Market Development Authority are not limited to the achievements that have been attained within this one year as the Capital Market Development Authority has a vision and a mission to strengthen the regulatory framework of the Islamic capital market, organize more education and awareness programs for the relevant stakeholders and the public as well to introduce new types of Islamic capital market products. It is only through these endeavors, synchronized with a modern technology and transparent market regulations, that a fully-fledged Islamic capital market in the Maldives will be developed in a sustainable manner.

The development of an Islamic capital market for the coming years is ambitious and proactive as it focuses on enhancing the position of the Maldives as a leading market in the region through reforms to the existing regulatory framework governing Islamic capital market activities.

Aishath Muneeza is the head of Islamic finance at the Capital Market Development Authority. She can be contacted at muneeza@cmda.gov.mv.

Sukuk listing: Why Ireland?

IRELAND

By Ken Owens, IFN Correspondent

The Irish Stock Exchange (ISE) operates the main securities market and the global exchange market (GEM) for listing Sukuk or any debt securities.

The main securities market of the ISE is recognized as a leading European regulated market for the listing of bonds and warrants. According to the ISE data, it has been estimated that the ISE is the market of choice for up to 80% of asset-backed security issues seeking a listing in Europe. There are approximately 22,000 debt securities from over 50 jurisdictions presently listed on the main securities market.

> *"The ISE is the world leader in the listing of investment funds"*

The GEM does not fall within the scope of an EU-regulated market. Regulatory requirements are therefore less onerous than the EU-regulated market requirements. The GEM is aimed at investors who are particularly knowledgeable in investment matters.

Why Ireland?

There are number of key reasons why the ISE would be an attractive listing venue for Sukuk issuance:

- The ISE has become the largest European exchange for the listing of asset-backed debt securities such as those issued by special purpose vehicles.
- Currently, the ISE guarantees comments within three days of receipt of the first draft of an offering circular and two days after subsequent drafts. Supplements are subject to quicker turnaround times.
- The procedures for listing have been simplified, particularly for debt issuance programs. The ISE provides stand-alone, user-friendly listing guideline booklets which contain all of the listing guidelines and procedures for obtaining a listing.
- Issuers can now publish investor reports, transaction documents and financials on the ISE website. Approved offering documents are automatically published on the ISE website.
- The total number of debt securities listed on the Irish Stock Exchange is in excess of 22,000.
- Notable corporate debt listings include the Fiat Finance & Trade, Walmart, Coca Cola, Proctor & Gamble Turkey, BASF Ukraine, Kellogg Europe and etc.
- Debt listings from the Gulf region include the following: NICBM Sukuk, Tamweel Residential ABS , UAE CMBS , Oasis Certificate Programme, Sun Finance and EFG-Hermes, JAFZ Sukuk and DIB Sukuk.
- The ISE is the world leader in the listing of investment funds. There are in excess of 3,000 funds and sub-funds listed with 8,000 securities listed in total.
- Notable UK investment managers choosing an ISE listing include GLG, Man Investments, Marshall Wace, Threadneedle, Schroders, Hermes BPK and Landsdowne Partner.
- Notable US investment managers choosing an ISE listing include Russell, BlackRock, Fidelity, Legg Mason, Vanguard and Paulson & Co.
- Funds listed from the Gulf region include; EFG-Hermes, Mashreq Funds and TNI Funds.

Conclusion

Given the expertise, global recognition and efficient and effective processes in place, the ISE is well placed to become an attractive listing venue for Sukuk issuance.

Ken Owens is a partner at PwC Ireland and he can be contacted at ken.owens@ie.pwc.com.

An enthusiastic approach to Islamic finance

MALTA

By Reuben M Buttigieg, IFN Correspondent

The pre-announced developments in funds and in the national special purpose vehicle came into existence in the last few weeks in Malta. In fact the Maltese government has launched a vehicle that is to operate in a Sukuk Ijarah manner.

The government of Malta took on board the structure, proposed to the minister of finance in 2009 by a prominent Islamic finance institution. It is laudable that the Maltese government has shown its appreciation of Islamic finance structures. With such initiative the government could have attracted even larger amounts of international capital if it only involved appropriate Islamic financial institutions on the international side.

Malita Investments was registered by the government of Malta to operate on an independent and commercial basis, in an initiative aimed at contributing towards long-term investment development in Malta.

> *"It is laudable that the Maltese government has shown its appreciation of Islamic finance structures"*

Since its incorporation, Malita Investments has been capitalized by the Maltese government through a EUR25 million (US$30.7 million) cash injection as well as through the transfer of the 'dominium directum' of the International Airport and the Valletta Cruise Liner Terminal sites. As a result of these transfers, ground rents payable on these two properties are now due to and receivable by Malita Investments.

Malita Investments will be issuing 20 million ordinary shares at a nominal value of EUR0.5 (61US cents) each to the public with a further over allotment of 10 million ordinary shares. Although it is a relatively small amount it could have attracted much more interest than the government planned and other projects could have been incorporated within this structure. This would have given Malta the foreign direct investment it needs to continue heading towards becoming one of the leading small EU member states.

Way forward

The next step that can be foreseen as a major step forward in Islamic finance is the use of its structures in giving another boost to activities such as the ship-building and the aviation industry in Malta. It will be interesting to see if the Maltese government will use once again an Islamic finance structure to take Malta to another level. Perhaps it will have the stamina to also involve some international Islamic banks.

Reuben M Buttigieg is the president of the Malta Institute of Management. He can be contacted at rbuttigieg@maltamanagement.com.

Tanzanian graduates in Islamic finance soon

TANZANIA

By Khalfan Abdallah, IFN Correspondent

The first course in Islamic finance in Tanzania which was launched by Zanzibar University through the Institute of Continuing Education in January this year has successfully completed the duration of study for its first batch of 26 students, who are due to graduate soon.

The course, which is called the 'Certificate of Islamic Banking and Finance', aims to equip bankers, lawyers, auditors, financial managers, strategic consultants and any person working in the financial industry with first-hand knowledge of the various aspects of Islamic banking. Students are required to learn in a classroom environment and study five modules of the course, which are: foundation of Islamic economics and finance; Islamic commercial law and contract; Islamic banking principles and operations; corporate governance; risk management and regulation in Islamic banking; and principles of the Islamic capital market (Sukuk) and Takaful. The duration of the course is four months and it is conducted on weekends only.

According to Dr Nsubugah Haronah, the director of the Institute of Continuing Education, arrangements are underway to upgrade this certificate course into a full diploma program.

In addition, the institute is seriously considering offering a post-graduate diploma in Islamic banking and finance. Despite the lack of research on the actual shortage of Islamic banking professionals in the country, it is clear that there is an acute shortage of experienced bankers who understand Islamic banking operations, which makes these programs an urgent need and a timely offering in order to fill the knowledge gap and spearhead the smooth growth of Islamic banking in the country.

Khalfan Abdallah is the head of product development and Shariah compliance at Amana Bank. He can be contacted at Khalfan.Abdallah@amanabank.co.tz.

Next Forum Question:
Should the Islamic finance industry be responsible for funding the global Halal sector? And if so, how should this be facilitated?

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 27th July 2012.

Is there moral hazard in our Islamic finance practices today?

WAN RIZAIDY believes that Shariah advisors should not only look at the structure of Islamic financing but also the economic values and any potential moral hazard related to it.

It has always been about 'back to basics'. Every time we attend an Islamic finance conference and symposium, we have always been told about the basics of Islamic finance. Most experts will define Islamic finance as a financial activity based on the principles stated in the Holy Quran and Sunnah.

Is there moral hazard in the current practice of Islamic finance? Are we heading towards such a hazardous environment? Do scholars give thought to the issue when reaching their decisions?

Modern Islamic finance was introduced to provide better alternatives to the existing conventional financing activity. Some agree and some disagree on Islamic finance being imitators of its conventional counterparts. I believe that there is nothing wrong in imitating conventional practices to produce a similar output via Shariah compliant means, but please do not copy the bad substance of conventional finance into Islamic practices.

Let's focus this time on one particular product in Islamic finance: Sukuk. Lately Sukuk has been used widely by corporate and sovereign to raise funds in Muslim and non-Muslims countries. It's becoming a trend now that everyone wishes to tap this niche market, hoping to obtain a new investor base in these particular growing Islamic funds.

> ***"It's becoming a trend now that everyone wishes to tap this niche market, hoping to obtain a new investor base in these particular growing Islamic funds"***

My main concern here is when people want to raise money 'Islamically' but not for Shariah compliant purposes. On this matter I wish to salute Malaysia's Shariah scholars' decision in limiting the fundraising to only for Shariah compliant purposes. Thus Sukuk raised in Malaysia can now only be used for Shariah compliant purposes. In this way it limits the number of issuers.

At least in Malaysia we have not up until now seen interest-based financial institutions tapping the Sukuk market, as in some parts of the world.

Lately we have witnessed Islamic finance being used as a tool or option by troubled companies to seek funds. No doubt it is advisable for companies to refinance their interest-based financing with Sukuk and Islamic finance. Some companies choose to go Islamic when they are no longer eligible for interest-based funding.

Now, back to basics: are debt and leverage good? What are the Shariah scholars' views on these issues? Why should highly geared companies be allowed to further raise their commitment?

It's time now for Shariah advisors to look at the whole picture: not only at the structure of the financing but also the economic values and any potential moral hazard behind it.

Wan Rizaidy is an Islamic finance practitioner and former head of product development, Islamic capital market at Bursa Malaysia. He can be contacted at wrizaidy@gmail.com.

The new style of a modern-day depression

By Shan Saeed

I have remained bearish on the US economy since the financial crisis which started in the fall of 2007, and now I share it in stark terms. We are all living in a modern-day depression. Never in the post-World War II experience have I seen a recovery languish as badly as this one.

Normally three years into the recovery, the average growth is well over 5% with far less government support. The US economy expanded 1.9% in the first quarter, slowing from 3% in the fourth quarter.

The economy will take several years — perhaps three to four — to truly recover. A depression is all about wealth destruction and credit contraction.

That's the cycle it is still working through now. Government intervention is actually slowing the recovery process and many economists agree. Let the free market function in the US.

> *"The White House can work with lawmakers to extend the timing of the oncoming fiscal adjustments"*

But others credit the Federal Reserve's massive easing for keeping the economy out of a true depression and view some of the deficit spending as positive for the economy. Indeed, some of these economists advocate more fiscal and monetary easing. The Federal Reserve intervention has dampened the confidence level in the market and has made consumer fearful about future.

Can the US avoid falling off the 'fiscal cliff'?

The US economy won't avoid falling over the edge of a fast-approaching fiscal cliff, when tax breaks expire at the same time automatic spending cuts kick in at the end of the year.

The outcome of the November presidential elections won't make any difference at all. If you actually play out the different scenarios here, whether the president or Mitt Romney wins, it's hard to see how the US economy will not tumble off this fiscal cliff, because I don't see how a compromise can be made.

Fortunately for the country, once the economy goes over the edge, the nation's political leaders will fix it at once, meaning the nation won't likely plunge into any sort of economic abyss. The White House can work with lawmakers to extend the timing of the oncoming fiscal adjustments. If it can reverse it in a matter of two or three weeks — and there is a scenario in which that can happen — that would do a lot less damage to the economy than if it stayed over the cliff.

The congressional budget office, multilateral organizations such as the Paris-based Organization for Economic Cooperation and Development and private financial institutions have all said that failure to deal with the fiscal cliff will derail recovery and possibly send the country back into recession.

Standard & Poor's, which downgraded the US in 2011 over its inability to raise its debt ceiling due to political brinkmanship, has said that the severity of the fiscal cliff is so great that politicians will likely put their differences aside and quickly find a way to avoid the retrenchment.

One thing I do expect Republicans and Democrats to agree on — given an unemployment rate of over 10% and continued risks to the US economic recovery — is avoiding sudden fiscal adjustment.

I expect that a sudden fiscal adjustment could occur if all current tax and spending provisions set to expire or take effect near the end of 2012, go forward in accordance with the current law.

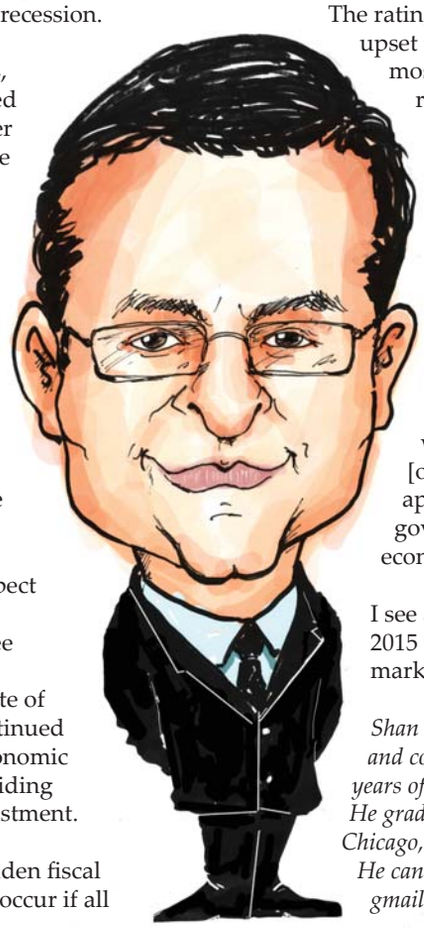
The ratings agency has assigned the US an 'AA-+' long-term rating with a negative outlook thanks to political finger-pointing that often delays key decision-making.

A negative outlook means more downgrades are possible.

However, ratings agencies have got it all wrong in the last 10 years.

Rating agencies should have downgraded the US in 2009. Finally last year on the 2nd August 2011, Standard & Poor's downgraded the US government from its 'AAA' rating, sparking a plunge in stocks.

But rating agencies have been behind the curve most of the time. All big banks / governments are the major clients of S&P, Moody's & Fitch.



The ratings agencies don't want to upset their big clients. Otherwise, most of the employees of these ratings agencies would be on the road carrying their resumes for jobs elsewhere. Ratings agencies are the puppets of the big banks and the governments.

They get their reports vetted by their clients before sharing with the press or media. All wordings of the reports [of rating agencies] are approved by the banks and governments of the advance economies.

I see a lot of uncertainty until 2015 in the global financial markets.

Shan Saeed is a financial economist and commodity expert with 12 years of financial market experience. He graduated from the University of Chicago, Booth School of Business, US. He can be contacted at saeedshan@gmail.com.

Barwa Bank's investment banking focus pays off

As one of just a handful of Islamic financial institutions in Qatar, Barwa Bank has emerged as a leading investment bank, participating in a number of high profile Shariah compliant financing deals, locally and abroad.

Among its biggest coups to-date is its involvement in Qatar's landmark US$4 billion Sukuk issuance earlier this month, positioning itself among global banking giants such as Deutsche Bank, HSBC and Standard Chartered. With Qatar's Islamic finance industry growing significantly and the country's development pipeline opening up room for hefty financing deals, Barwa Bank's investment banking focus appears set to pay off.

Investment banking focus

Established in 2009 as an associate of the Barwa real estate group, Barwa Bank quickly established its investment banking focus with the acquisition of local investment banking outfit The First Investor (TFI) in the same year.

In an earlier interview with Islamic Finance *news*, Steve Troop, Barwa Bank's CEO, noted that the bank will remain a niche banking player servicing a selective customer base. "We are never going to be a multi-branch, mass market network as those segments are already well provided for," he said.

This year, the bank has demonstrated its growing clout in the global Sukuk arranging space, ranking higher than QInvest, which has traditionally been Qatar's leading Islamic investment bank, in Dealogic's league tables for top managers of Sukuk.

Apart from the Qatar sovereign Sukuk deal, other notable deals Barwa Bank has been involved in 2012 include Emaar Properties' US$500 million Sukuk issuance and a QAR3.7 billion (US$1 billion) conventional and Islamic syndicated facility for Bawabat Al Shamal Real Estate Company, the developer of Doha Festival City. The syndicated deal has been touted as the largest private sector syndicated transaction in Qatar.

Diversified operations

In addition to Barwa Bank's own hive of activity, its unit TFI has also stayed busy, allowing Barwa Bank to diversify its business. In May 2012 alone, TFI advised on a deal involving an acquisition of a 50% stake in Qatar's Bin Omran Trading and Contracting Company by Hector Real Estate Investment; while its TFI-Hines Brazil Income Real Estate Fund, a joint venture with US real estate management and investment firm Hines, completed its first seed acquisition. The fund is Brazil's first Shariah compliant, closed-ended fund.

Also to complement Barwa Bank's business, the bank acquired local financing firms First Finance and First Leasing Company in 2010. With its diversified operations, the bank appears to have dotted its 'i's' and crossed its 't's' in its bid to offer a universal banking service.

Strong balance sheet

As an unlisted entity, Barwa Bank only discloses its annual financial results. In 2011, the bank reported an impressive set of results, posting an almost 882% year-on-year growth in profits to QAR244.34 million (US$66.09 million), as net income almost doubled to QAR665.72 million (US$180.07 million).

Its total assets also more-than-doubled to QAR19.11 billion (US$5.17 billion) during the period, with receivables and balances from financing activities amounting to QAR9.22 billion (US$2.49 billion). The bank also showed healthy asset quality, not booking any impairment for financing in 2011.

With a strong balance sheet and a focused approach to its operations, Barwa Bank may yet further surprise on the upside going forward. — *EB*

Emaar Properties' US$500 million Sukuk Ijarah

Government-linked developer Emaar Properties priced a seven-year, US$500 million Sukuk Ijarah on the 12th July 2012; its second global Sukuk offering following its first sale in January 2011. The latest issuance is Emaar's second drawdown from its recently updated US$2 billion trust certificate issuance program.

"The funds raised through the Sukuk will be used to implement our funding strategy and extend our debt maturity profile", said Mohamed Alabbar, its chairman.

Pricing

Following initial price talk of 6.75%, the company later set a price guidance of 6.5-6.63%. After just one day of investor meetings conducted only in London, the offering's orderbook was oversubscribed 9.3 times, receiving US$4.65 billion-worth of orders.

"Emaar's delegation at the investor meetings effectively communicated the credit story of the company and generated substantial interest in the offering. Finally, the company priced a seven-year US$500 million Sukuk with a yield of 6.4%, equivalent to 519.3 bps over seven-year US dollar midswaps," said the company in a statement.

The swift pricing of the Sukuk, in addition to its sizeable take-up by European investors, appears to show that investors from the region remain starved for good credits which also provide an opportunity to diversify from holdings in crisis-hit Europe.

It is also testament to the fact that European investors, who were allocated 38% of Emaar's offering, are increasingly open to buying into Shariah compliant investments.

> *"European investors are increasingly open to buying into Shariah compliant investments"*

Investors

Apart from the 38% taken up by European investors, the transaction also saw the participation of investors from the Middle East (48%), Asia (13%) and US — offshore (1%).

With regard to investor type, 47% of the offering was distributed to fund managers, banks (40%), private banks (7%) and others (6%). — *EB*

Emaar Properties US$2 billion trust certificate issuance program

US$500 million

EMAAR

12th July 2012

Issuer	Emaar Sukuk
Obligor	Emaar Properties
Issuance amount	US$500 million
Purpose of issuance	To implement funding strategy and extend debt maturity profile
Tenor	Seven years
Coupon rate / return	6.4%
Currency	US dollars
Maturity date	18th July 2019
Joint lead arrangers and bookrunners	Abu Dhabi Islamic Bank, Al Hilal Bank, Barwa Bank, Dubai Islamic Bank, Emirates NBD, HSBC, Noor Islamic Bank, Standard Chartered
Legal advisor(s) / counsel	Linklaters (for issuer) and Allen & Overy (for banks)
Rating	'B1' (Moody's) 'BB' (S&P)
Structure	Ijarah
Listing	Nasdaq Dubai

Islamic finance is a choice in Europe

ELEANOR DE ROSMORDUC and JEAN-NICHOLAS DURAND question why success in the retail market is necessary for Islamic finance to reach a viable scale in Europe.

One of the sensible things that emerged from the recent financial crisis is a more realistic approach to estimating the growth rate of Islamic finance. Indeed, the 2012 Global Islamic Finance Report foregoes the temptation to make any global predictions at all.

Clearly, Islamic finance was not impervious to the financial crisis in Europe, nor is every born Muslim is a client for Islamic finance. This is not to say that the industry is destined to fail in Europe: on the contrary. The financial crisis has led people to reassess the role of moral values in finance and this has had a beneficial impact on attitudes towards the Islamic finance sector.

> ***"France is the natural home for Islamic finance: an affluent Muslim population combined with very high concentration in the retail banking market should permit economies of scale"***

Moreover, Islamic finance experts have themselves contributed to the debate by fearlessly evoking moral values as a touchstone for financial transactions. In this sense, Islamic finance is a mainstream 21st century development, in line with the millennium goals and the sustainability movement: it's all about aligning our financial decisions with our inner convictions.

However, if Islamic finance is going to retain its current energy level in Europe, if it is going to move beyond being a niche product and become a viable, scalable business, then it cannot live on expectations of population growth. It must succeed in reaching and convincing the existing Muslim population and it has to succeed as an ethical choice (amongst others) for non-Islamic investors.

The UK market

The UK provides us with a litmus test. The UK was an early adopter and plays a leadership role in the European Islamic finance sector, with five Islamic banks and a number of Islamic finance windows offering innovative home financing plans and savings accounts.

However, two factors have so far prevented the UK from achieving viable scale. The first is relentlessly lukewarm demand from the retail public and the second is a lack of cross-border distribution into continental Europe. There are an estimated 44 million Muslims in the European economic space, which may be considered as a viable target group. However, populations are diffuse and for the most part well-integrated. Success will go to the financial center — or centers — that crack the nut of distribution.

Who is in the game?

Outside the UK, the cities that are contending for the title of a European Islamic finance center are more or less limited to Paris, Luxembourg and Dublin. Germany has a large Muslim population but the federal nature of the country acts as a break on the sort of rapid policy-making that we have seen in the cities cited above.

France is the natural home for Islamic finance: an affluent Muslim population combined with very high concentration in the retail banking market should permit economies of scale. However, despite political support as early as 2008 (including a number of tax rulings), the business ran into two barriers: legal opposition centered on the laïcity principle and concern by bank managers – presumably grounded in research – that promoting Shariah compliant products at the point of sale would be a public relations disaster.

It was therefore very encouraging to see the launch of a first Shariah compliant bank account, in June 2011, by the Moroccan-owned Chaabi Bank. This was followed, two months ago, by the launch of an independent unit-linked Takaful life assurance plan designed for third party distribution.

The plan is positioned as an ethical choice, reflecting the strategy of Malaysian companies that successfully sell Takaful savings plans to non-Muslim investors.

Luxembourg

Luxembourg arrived at Islamic finance by a different route. As a small, predominantly Catholic country the impetus for developing Shariah compliant products did not arise internally. Islamic finance promoters came to Europe in search of a stable political and economic environment, an appropriate legal framework, an internationally recognized stock exchange and a gateway to the single European market.

These factors brought the first Sukuk to Luxembourg in 2002. Within a few years business began to flood in, in the form of Sukuk listings and Shariah compliant mutual funds.

The Luxembourg government reacted to this development with characteristic efficiency. Within a couple of years tax circulars had clarified the treatment of various Shariah compliant vehicles, the best practice guidelines had been published by the investment fund industry, the banking institute had launched diploma programs to educate whole teams in Islamic finance and the Central Bank of Luxembourg had become the first EU central bank to be a member of the Islamic Financial Services Board (IFSB). A string of state visits and financial missions to Asia and the GCC countries can have left nobody in doubt that Luxembourg is open for business.

Dublin, Ireland

Dublin is putting up a spirited challenge to both London and Luxembourg for

continued...

Continued

the domiciliation of Shariah compliant investment funds and the listing of Sukuk. This competition is healthy for the industry and will keep costs down. Nevertheless, lacking a significant domestic Muslim population, like that of the UK; or the linguistic skills to challenge Luxembourg on cross-border distribution, Dublin is likely to remain the competitor.

Turkey

Leadership could also come from Turkey. With one foot in Europe and the other in Asia, there is an opportunity for Turkish institutions to set up business in the European Union and create the sort of economies of scale that most banks could only dream of.

However, though Islamic banking — under various names — has existed in Turkey since 1983, it has struggled to achieve market share. As at June 2011, the four 'participation banks' had just 6% of the bank branch network and 5% of deposits.

Moreover, since the financial crisis, the growth rate in Shariah compliant credit has slowed in comparison to the growth rate in traditional corporate loans.

On the bright side, the European Investment Bank reports that recovery in the Turkish small and medium-sized enterprises sector is very strong. Such an environment is ideal for the growth of Islamic finance. This will be further assisted if the government goes ahead with plans to reform the taxation of Sukuk and launch a sovereign issue.

Supply and demand

Why have governments and companies poured so much energy into a market niche for which demand – in Europe – is so sluggish?

Firstly, no financial center servicing a significant Muslim population, or providing international services to corporate, institutional or high net worth (HNW) clients from Muslim countries, would want to be behind in building capacity to handle such a visible cultural evolution.

Demand at the retail (mass affluent) end of the market may be latent, but anecdotal evidence suggests that it is there. At Luxembourg for Finance we receive a small but regular flow of enquiries for Shariah compliant house financing plans from people living in France, Belgium and Germany. As yet, there is no way of satisfying this demand but if the right products become available, there will be a natural snowball effect. This market is financially savvy: products will need to be priced and packaged in a way that is competitive and compelling, which implies a degree of streamlining in the product development process that is currently out of reach. This is where European skills can help: the single market has trained up a generation with the experience to solve some of these problems.

Clearly, it is inappropriate for a European financial center to position itself as knowing more about Islamic finance than the Islamic markets themselves. A desire – in itself legitimate – to project an image of readiness and competence can thus obscure the real message, which is potentially more valuable to Islamic finance promoters. Cities like London and Luxembourg have decades of experience in particular skills and services that can be useful to promoters from the MENA region. Luxembourg, for instance, can offer unmatched expertise in cross-border distribution, professional cost-effective outsourcing and highly developed skills in financial engineering.

Financial engineering

The success of Luxembourg in the competitive world of financial engineering has been built on a track record of innovation. With limited domestic demand, financial services professionals directed their efforts into designing structures that were flexible enough to meet the needs of the widest possible range of clients. In this, they were supported by a political establishment that was – and is — motivated by the dual ambition of creating an environment that is business friendly and safe.

The securitization company and the Specialized Investment Fund (SIF), a regulated, flexible investment vehicle designed for use by qualified investors, are examples of conventional structures that lend themselves perfectly to the needs of Islamic finance.

The Luxembourg securitization law was rapidly identified as a tool that met the need for a Shariah compliant vehicle that could be used both for structured products and for liquidity management. In recent years, this vehicle has been used to issue a comprehensive range of products linked to various underlying assets. For instance, it can hold a portfolio of white-labeled products for distribution through the EU passporting process. It is also worth noting that recent international initiatives designed to increase the number of short-term Sukuk available on the market will also use Luxembourg securitization vehicles.

If the Luxembourg UCITS structure (which benefits from the European passport) is the favorite vehicle of Islamic asset managers looking for international distribution, the SIF is a popular vehicle in family offices because it offers high net worth individuals and ultra high net worth individuals an efficient method for structuring a global estate in a Shariah compliant way.

The investor benefits from a vehicle that enjoys a robust legal and regulatory environment and can be tailored to hold any type of investment from real estate to works of art.

Conclusion

Moving forward, legislation in the pipeline may add two vehicles that are likely to be popular with the Islamic finance community: the Private Foundation and the Luxembourg Law Trust.

At the same time, Luxembourg's expertise in the design and distribution of unit-linked life assurance will sooner or later attract business in the under-developed Takaful market. Life assurance is a core holding of millions of European families.

European financial centers are ready for Islamic finance, not least, because they know that Muslim investors have a choice.

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Legal groundwork for Islamic finance in the Czech Republic and central Europe

The lack of knowledge about Islamic finance makes the practice much more difficult as people could misinterpret Shariah laws, especially in central Europe. JUDR IVANA HRDLICKOVA discusses.

The European market is witnessing growing Shariah compliant assets in western countries, especially in the last few years. The growing Muslim population in Europe is one of the reasons, but the opportunity for entrepreneurs for investment is also highly significant. We can see that the situation in Europe is changing and many countries have been trying to find a solution for their economic and financial crisis; and people are observing the Islamic finance practice in many countries.

The awareness about the basic principles of the Islamic finance is very low, especially in Europe, and even many Muslims don't know how Islamic finance really works.

Contractual and legal issues

Every contract, and Islamic finance contract is not an exception, should have a real possibility of execution, otherwise it cannot be used successfully.

Does the legal framework of the central European countries cover the practice of Islamic finance? If there is an Islamic finance contract made within the central European legal framework, can it also be successfully executed? And if yes, how?

Will the European judges explain Islamic law or shall we concentrate more on alternative dispute resolutions? This question has been on the mind of many European entrepreneurs, bankers and also lawyers, who are interested in Islamic finance practice, but still don't know how this way of financing works.

The central European countries have a lot in common regarding their legal history and legal culture, and are slightly different from common law countries and also from the other European countries.

If we can explore the possibilities of practicing Islamic finance in Europe, then we can take advantage of the similarity of the central European countries. Central Europe covers countries like Austria, Germany, Lichtenstein, Slovenia, Switzerland Hungary, Czech Republic, Slovakia and Poland.

There is no doubt that Islamic finance will attract more business entities and people living in central Europe. The lack of knowledge and awareness about Islamic finance makes the practice much more difficult however as these people could misunderstand or misinterpret Shariah laws. Unfortunately, the laws regarding Islamic finance have not been codified in any form.

> ***"Will the European judges explain Islamic law or shall we concentrate more on alternative dispute resolutions?"***

A clear understanding of the decisions, opinions and Fatwas given by the Shariah boards of each Islamic financial institution would help the European lawyers and bankers, who are not educated in Islamic law, to deal with the Islamic finance principles.

From an international point of view, particularly in central Europe, the legal structure has been quite conservative and based strictly on written law, which may be very useful, if the international Islamic finance organizations would express some clear rules concerning Islamic finance practice as the first step to possible later codification. And even if the rules cannot be codified, it would definitely help the European experts to be more familiar with the principles and the awareness of Islamic finance principle could then increase.

This wish or a silent request can be heard from many European financial and especially legal experts, who are intending to explore the Islamic finance field. When we study the decisions of the Shariah boards carefully, we can perceive many differences.

It is not an exception when two Islamic scholars do issue two different Fatwas. Although there may a reason for that, the worldwide globalization of Islamic finance practice would appreciate a greater congruence.

The Regulation Rome I has changed some principles, expressed in the Rome Convention concerning the choice of law. Nevertheless it did not make it clear enough whether it is possible to choose non-state law in the contractual obligations.

The well-known UK precedent delivered in case of Shamil Bank of Bahrain against Beximco Pharmaceutical in 2004, according to the Roma Convention, said that non-state law is not allowed in the contract. The legislation has been changed since then, nevertheless the jurisprudence relating to Regulation Rome I is still not unified.

Choice of law

The institute of choice of law in the Islamic finance contracts may be one of the positive solutions on how to start practice of Islamic finance within the central European legislation. The legislation of some European countries allows choosing non-state law for the arbitration.

The institute of choice of law, however, bears two ways of reasoning. The first one is to determine whether non-state law may be applicable in a contract or not. If we conclude that the non-state law cannot be applicable, then we will have to choose a state law and to consider public policy.

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But if the conclusion is that non-state law may be applicable in a contract, then we need to go further in determining if Islamic law may be chosen as a non-state law.

> ***"The legislation of some European countries allows choosing non-state law for the arbitration"***

It should be clear what Islamic finance law, if chosen as a non-state law, governs the contract means and also if public policy plays a significant role.

Generally, without any clarification and unification, it may not be easy to determine Islamic law as the law governing a contract in central European countries.

On the other hand, there may be a possibility in some contracts to use Shariah as a non-state law, if it is clear, internationally acceptable, offers guidance and is usable in Islamic finance contracts.

Enforcement of contracts

The enforcement of the Islamic finance contracts is also important. The alternative dispute resolution has started playing a significant role in the central European countries as well.

It may be very useful to settle the rules for the arbitration of Islamic finance contracts using the alternative dispute resolution.

The regulation of contractual obligations in the Czech Republic is governed by the Roma I Regulation (since the 18th December 2009), International private law Code Nr. 101/1963 Coll., Commercial and Civil Code.

The Czech Republic as a post-communistic country has amended all the legislation relating to civil and commercial transactions within the last 20 years and drafted completely new legislation: including Civil Code Nr. 89/2012 Coll., Company and Corporate law Code Nr. 90/2012 Coll and International private law code Nr. 91/2012 Coll.

This legislation has been adopted already and will come into force on the 1st January 2014. This new legislation makes much more transparent beneficial ownership of the legal entities, regulates usury and introduces a new institute 'laesio enormis' (disproportionate shortening), also known in the Austrian and German legislation (and known in the old Czech legislation, valid until 1964).

The new regulation will protect the parties of a contract from using usury or high interest more than the current legislation (where using high interest and even usury is not regulated by law and the only legal framework has been enacted by the jurisprudence of the Supreme Court). The new legal framework should be helpful for the practice of Islamic finance principles.

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Basel III: Is the Islamic banking industry ready?

Islamic banks in different jurisdictions will face the challenge of striking a balance between growth, profitability and capital requirements under Basel III. ECKART KOERNER and MAAS RIYAZ MALIK analyze.

A wave of new regulatory reforms

The subprime crisis perpetuated by the US has resulted in the regulators of the banking industry relentlessly working to minimize the impact of the ongoing global financial crisis and address the vulnerabilities in their own financial systems. Regulatory reforms are the new buzzword in the financial world, requiring financial institutions to closely monitor the multi-layer regulations that may have considerable impact on their organizations due to increasing inter-connectedness with the global financial system.

In addition to the widely discussed Basel III framework, Dodd-Frank Act in the US and the CRD IV enforced by the European Union will further tighten the regulatory framework for financial institutions. These reforms will be rigorously applied to global 'systematically important financial institutions' (too big to fail) due to the greater risks they pose to the financial system across borders.

The pinnacle of banking regulations, Basel III introduces a wide array of regulatory changes aimed to address the issue in the global financial system. The Basel III regulatory framework, endorsed by the G-20 leaders at the 2010 summit in Seoul, will require Basel member countries to introduce the regulations as early as the 1st January 2013. However, the recently concluded G-20 summit raised the eyebrows of many leaders as some member countries face significant challenges complying with the globally agreed deadlines.

The successor of Basel II, Basel III introduces a wide array of reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector and mitigating systemic risk, reducing spill over to the real economy.

In the capital frontier, Basel III raises quality, consistency and transparency of the capital base by requiring significant changes to the previous capital definition. In order to contain the growth of banks' exposure, i.e. on and off balance sheet, minimum capital requirements will be supplemented by a simple, transparent and non risk based leverage ratio. The Basel committee also reinforces internationally harmonized global liquidity standards, and has issued as part of Basel III an international framework for liquidity risk measurement, standards and monitoring.

Main components of Basel III

The above minimum regulatory capital boasted by conventional banks during good times seemed highly ineffective in the advent of banking crisis. Simply put, regulatory capital did not behave the way as it intended, raising serious doubts about sufficient loss absorbing capacity of capital required in times of crises.

In response to the inconsistencies in the definition of regulatory capital under the previous directives (Basel I & II), new reforms require banks to increase their common equity, the best albeit most expensive form of capital, by significant amounts. Basel III increases the 'Common Equity Tier 1' (CET 1), from the current 2% to up to 7% by 2019, including a so-called capital conservation buffer. Regulators also require banks to build up a countercyclical buffer comprising common equity of up to 2.5%. This latter will be imposed by national authorities individually to curtail the effects of pro-cyclicality.

Unlike conventional banks, Islamic banks are adequately capitalized with a major part of required capital components coming from common equity. The increase in quantity of capital is of little concern to the Islamic banking industry at this point in time, where Islamic banks preferably hold high levels of equity in their balance sheets.

Basel III capital requirements

Under Basel III, the remaining 1.5% of Tier 1 and 2% of Tier 2 can be met by issuance of hybrid capital. However these types of capital instruments need to be fully discretionary non-cumulative dividends or coupons and have neither a maturity date except for Tier 2, where a minimum tenor of five years has to be met, nor an incentive to redeem. Leading up to the crisis, bankers had developed imaginative forms of capital that qualify as both debt and equity for tax and regulatory purposes, with little capacity of absorbing losses as the debt character outweighs the equity character.

Though not an immediate concern, the obvious implication for Islamic banks is how the changes in regulatory definition of other forms of capital would affect their capital structure.

As an additional layer of compliance, Basel III definitions of capital instruments such as hybrids, subordinated debt and contingent capital first need to satisfy Shariah requirements.

As the Islamic banks' balance sheets grow, this is an area that they would need to consider where the issuance of common equity could be significantly more expensive in the current and future market conditions, due to expanded competition for this type of fund. Another implication for both Islamic and conventional banks is that significant changes to the features and terms of capital instruments leave appropriate tax treatment uncertain in many jurisdictions.

The non-risk based leverage ratio outlined in Basel III is intended to limit the size of banks' exposure and return the banks to more traditional activities. Leverage ratio mainly responds to the rapid financial innovation which has led to the fast expansion of banks' off balance sheet activities.

However when arriving at total exposure which is the denominator of the leverage ratio, the Basel committee assigns a 100% credit conversion factor for trade finance (an off-balance sheet exposure) activities similar to high risk derivatives. The impact could be from moderate to significant for Islamic banks that rely on trade finance activities despite the fact that trade finance activities are less risky than complex derivatives. New treatment of trade finance makes it relatively expensive as these exposures should

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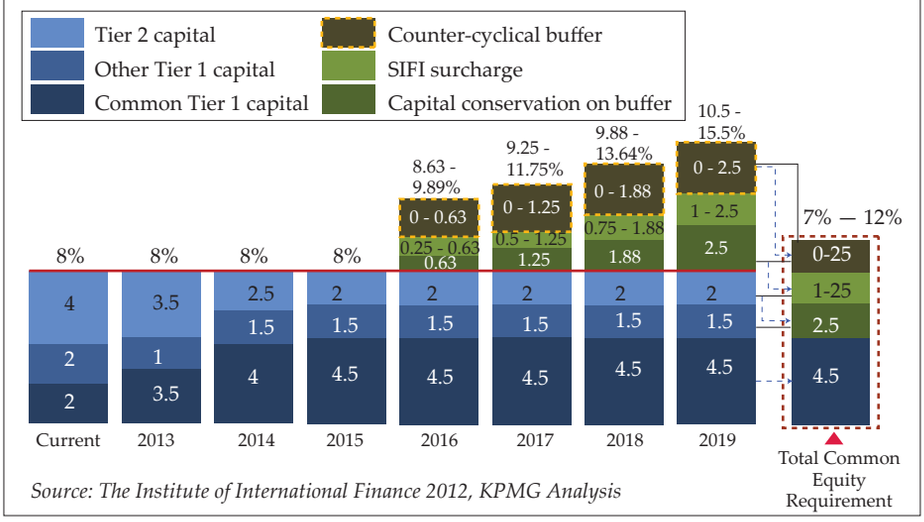
Basel III capital requirements



Source: The Institute of International Finance 2012, KPMG Analysis

be backed by more Tier 1 capital, the numerator for the Basel III leverage ratio.

The most important addition to the Basel III reforms is the detailed approach to liquidity risk management. Prior to the crisis markets were flushed with low-cost funds, where banks considered liquidity more as a free good failing to assess liquidity strains in a severe stress scenario. The two minimum standards, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) aim to promote short and long-term resilience of the bank's funding respectively.

Under the LCR, banks are required to maintain high-quality liquid assets to survive a significant stress scenario lasting for 30-days enabling them to cushion their regulatory stressed cash outflows in this period.

On the other hand, the NSFR ensures banks fund their long-term assets with a stable funding over a year horizon and also compliment the LCR. Unlike the capital reforms, the LCR and the NSFR are far from being finalized where regulators will continue to review and re-examine liquidity standards during the observation period before formally adopting them in 2015 and 2018 respectively. Regulators have expressed their willingness to make modifications to the liquidity standards if necessary, however the underlying approach will remain the same.

The strict liquidity requirements enforced by Basel III will create major difficulties for banks as many jurisdictions lack the required high-quality liquid assets, e.g. gilts and alike. For instance, in Asia lower levels of government debt than western markets will not be sufficient for largely disciplined and growing Asian banks to invest. The liquidity issue which has long plagued the Islamic finance industry will be further exacerbated with Basel III, is a matter of great concern to Islamic bankers. As the entire market search for assets with required quality, the impact on Islamic banks will be greater than their conventional counterparts due to the Shariah stipulations, with significant impact on profitability due to the low returns generated by these types of assets.

The readiness of Islamic banks to comply with such standards is questionable as the industry globally, clearly lacks a developed, robust and efficient liquidity management framework. For example, assets under the LCR not only require securities to be issued by sovereigns and alike but they also need to trade in deep secondary markets, an area where the Islamic capital markets have not addressed. Though countries like Malaysia and Bahrain have made tremendous efforts to provide the robust infrastructure, this may not be the case in many other countries where a globally functioning cross-border Islamic liquidity mechanism is almost non-existent.

Stifling growth

Basel III is largely designed to fix the deficiencies in the conventional banking system exposed by financial crisis, and avert large scale financial meltdowns in the future. The cumulative impact of Basel III on economy and financial sector could be severe, as the banks prepare to cut lending and further shrink their activities. The main concern of Islamic bankers and other practitioners is that Basel III has little regard for the specifications or the current state of Islamic finance. From the onset, the new directive may look trivial for the Islamic banking industry, where capital requirements will not create an urgency to raise fresh capital, as in the case of conventional banks.

However, Islamic banks going forward will face the challenge of striking a balance between growth, profitability and capital requirements. Basel III will certainly create an uneasy situation for Islamic banks, with its more trade-like relationship with the customers. For example, trade finance is one of the most popular and least controversial topics in Islamic banking due to its application on highly encouraged activities under Shariah. However, limitations on less risky trade finance activities under Basel III will inhibit Islamic banks' eagerness and ability to fund such activities. It may appear that it is quite early for the Islamic banking industry to endure such tough regulations with a growth story over little more than two decades, in contrast to centuries of evolution undergone by conventional banking system.

Conclusion

Islamic banks in different jurisdictions will face the brunt of Basel III, either by implementation of reforms domestically or spillover effects of conventional banks which would require significant raising of capital and liquid assets among other requirements. If the Islamic banking industry fails to execute a solution for proposed liquidity requirements by 2015, this may prompt Islamic banks to cut financing or hold-low yield deposits, by further eroding their profitability.

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Risk management in institutions offering Islamic financial services

MARTIN ENGDAL provides an overview of the principles which constitute specific guidance on risk management for Islamic financial institutions, building on the foundations of existing international regulation such as Basel III.

Institutions offering Islamic financial services (IIFS) have a growing market share globally and increasing interaction with other financial institutions. Their importance in the stability of the overall financial system, i.e. their systemic relevance, is therefore growing, and this means that it is important for the IIFS to have a robust risk management framework in place: at the industry, jurisdiction and institution level.

In light of this, the IFSB issued general guidelines on risk management as early as 2005, and last November it issued two more sets of guiding principles on liquidity risk management and on stress-testing for the IIFS.

2005 IFSB guidelines on risk management

The 2005 guidelines set out seven core principles and an additional note on reputational risk. The first principle advises the IIFS to put in place a comprehensive risk management and reporting process to monitor and control risks and adapt the level of capital held against them, taking into account appropriate steps to comply with Shariah principles.

The second and third principles recommend designing risk management strategies respectively for Islamic financing (credit risk reporting and management) and equity investments (investment risk management including valuation and exit strategies) which should be subject to the approval of the IIFS's Shariah board.

The IFSB also advises the IIFS to have a robust framework in place to manage market risk (principle 4) and liquidity risk (principle 5), only assuming a level of risk proportionate to their access of Shariah compliant funds to mitigate liquidity risk.

By the sixth principle, the IFSB advises firms to establish a comprehensive risk management and reporting process to monitor the return on assets versus rates of return committed to the investment account holders, to ensure that the firm is always in a position to pay the agreed returns on investments.

The seventh principle covers operational risk, which is the potential for loss resulting from inadequate or failed internal processes, people and systems or from external events such as natural disasters or terror attacks.

The IIFS are advised to establish robust systems and controls, including a Shariah board or advisor to ensure Shariah compliance and mechanisms to safeguard the interests of all investors and providers of funds. Effective IT infrastructures are a key component to reduce operational risk resulting from manual intervention, system outages, security breaches or technical errors.

The IFSB added a final note on the fact that the IIFS are also exposed to reputational risk arising from failures in governance, business strategy and process, particularly relating to Shariah non-compliance in their products and services, which could have an impact upon their market position, profitability and liquidity.

Given the particular nature of the business and the extent of risks faced by the IIFS, supervisory authorities are urged to adopt a risk-based approach when assessing and evaluating the IIFS's risk management activities.

Highlights from the guiding principles in liquidity management

The starting point for the IFSB's reflection on liquidity risk management for the IIFS is the particular difficulties these institutions face due to a variety of constraints specific to Islamic finance, such as the small number of Shariah compliant instruments, insufficient Shariah compliant mechanisms to mitigate liquidity risk or the lack of tools available to supervisory authorities to support the IIFS in need of liquidity.

Prior to setting out the 22 guiding principles for the IIFS and supervisory authorities for liquidity risk management, the IFSB reiterates the importance of having risk management systems that are fully integrated with enterprise risk management systems and overall stress-testing frameworks.

This is also repeated in principles one and five. The first 15 principles are addressed to the IIFS, and the last seven to supervisory authorities.

Principle 1 states that the IIFS should have in place a sound and comprehensive liquidity risk management framework, integrated into their enterprise risk process and one that ensures constant Shariah compliance. Supervisory authorities should have a rigorous process to evaluate the IIFS's liquidity risk management and to require prompt corrective action if need be.

Principle 2 sets out that the board of directors (BOD) has the ultimate responsibility for setting the acceptable level of liquidity risk and the liquidity risk management framework of the IIFS, and principle 3 advises the IIFS on adopting a governance structure with clearly defined roles and responsibilities and segregation between operational and monitoring functions.

Principles four to eight cover strategic framework requirements including the ability to identify the sources of liquidity risk (4), the integration of liquidity risk management to an overall enterprise risk management framework (5), the capacity to measure and forecast cash flows along with stress-testing, scenario analysis and appropriate strategies (6), and the need for a diversified funding base in line with the IIFS's business (7), principle 8 stating that if an IIFS is part

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of a financial group with a centralized liquidity risk management structure, the board and senior management at the group level should define a strategy, policies and procedures specifically for the Islamic operations of the firm, giving due consideration to the particular constraints in liquidity transfers on a Shariah compliant basis between entities.

Principles nine to 11 cover preparation and contingency planning, such as holding a liquidity buffer, defining a contingency funding plan, and identifying present as well as projected Shariah compliant collateral needs.

Principle 12 highlights the need for a close cooperation between the IIFS to develop Shariah compliant agreements for liquidity management, given the lack of dynamic Islamic interbank markets.

Principles 13 and 14 respectively cover short-term liquidity management and currency exposure monitoring and management, and principle 15 reiterates the importance of having a fully integrated IT system providing clear, timely and accurate liquidity risk reporting to relevant teams and senior management.

Principles 16 to 22 are addressed to supervisory authorities, advising them to conduct regular audits of the IIFS's liquidity positions and risk management frameworks at both group and Islamic entity levels, to develop locally relevant guidelines and regulations for liquidity risk management, to require appropriate reporting from the IIFS in their jurisdiction and to develop tools for corrective action, but also to collaborate with other jurisdictions on transnational the IIFS positions, to develop a specific plan for the IIFS as part of their macro-prudential liquidity contingency framework, and to work with other relevant bodies to facilitate the development of Shariah compliant instruments and increase their market liquidity.

Highlights from the IFSB stress-testing guiding principles

The IFSB highlights that stress-testing is a key risk management tool within financial institutions, as it alerts management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses if large shocks should occur.

The IFSB therefore sets out 22 principles for the IIFS on stress-testing, the first five stating that stress-testing should form an integral part of the overall governance of the IIFS, and an integral part of their risk management framework, supported by a robust infrastructure, with a structured program including written policies and procedures and allocated resources, to identify and control risks in a complementary way to other risk management tools. The IIFS are advised to review this framework regularly and independently.

Principles six to nine cover the types of risks and scenarios the stress-testing program should include, such as the relevant material risks the IIFS are likely to be exposed to in all business areas, system-wide interactions and correlations, "exceptional but plausible events" and "low-frequency high-impact events which may not be reflected in historical data" with varying levels of severity, "second-round effects" and "fat tails extreme events" with respect to the unique risk factors threatening the viability of the IIFS, and specific scenarios to account for profit-sharing investment account holders (IAHs), unrestricted IAHs and restricted IAHs where relevant.

Principles 10 and 11 cover capital requirements and credit risk. The IFSB recommends the IIFS to be able to demonstrate their ability to remain above the regulatory minimum capital requirements during a stress situation that is consistent with their stated risk appetite, to take into account various aspects of credit risk reflecting changes in future credit exposures or credit quality among others, and to systematically test the effectiveness of Shariah compliant risk mitigation tools.

Principles 12 to 16 further detail some of the risks specific to Shariah compliant institutions, urging the IIFS to take into account their positions in various Shariah compliant instruments and specific risk scenarios associated with those, to stress-test specific Shariah compliant portfolios, to give particular attention to liquidity risk to ensure the firm's ability to meet its obligations, and to include scenarios gauging the legal and reputational risks deriving from a Shariah non-compliance risk and off-balance sheet exposures.

Principles 17 and 18 advise the IIFS to deploy comprehensive stress-testing methodologies addressing all material risks from portfolio to firm levels, as well as reverse stress-tests.

Principles 19 and 20 highlight the importance of regular reviews and updates of the stress-testing program to reflect changes in the firm's environment, and of course the importance of regularly conducting stress-testing exercises at all levels of the IIFS.

The IFSB concludes with two principles covering the "next steps" of a stress-testing program, namely using results to support decision-making to ensure the IIFS is able to withstand a range of difficult conditions, should they arise, and finally disclosing the results of the firm's stress-testing program as appropriate.

Following the guidance for the IIFS, the document then addresses six principles to supervisory authorities, advising authorities to develop skills so they can conduct regular audits of the IIFS's stress-testing programs and to conduct these audits, also reviewing firms' contingency plans, to design and implement system-wide and macro-level stress-test exercises and work with the industry to identify systemic risks within the sector, and provide a standardized reporting format for the IIFS on stress-testing reports.

Conclusion

As these IFSB guidance documents clearly show, there is a host of particular considerations to take into account to set up a comprehensive and efficient risk management program for Islamic financial services institutions.

All aspects and scenarios of stress-testing exercises should bear special attention to the positions of the IAHs and the implications this has on the firm's overall risk management.

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Islamic Investor

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The power of the small

Cover Story

Small cap stocks are defined as stocks that have a relatively small capitalization. Although this definition differs between bourses, it generally encompasses companies that have a market capitalization of between US$300 million and US$2 billion.

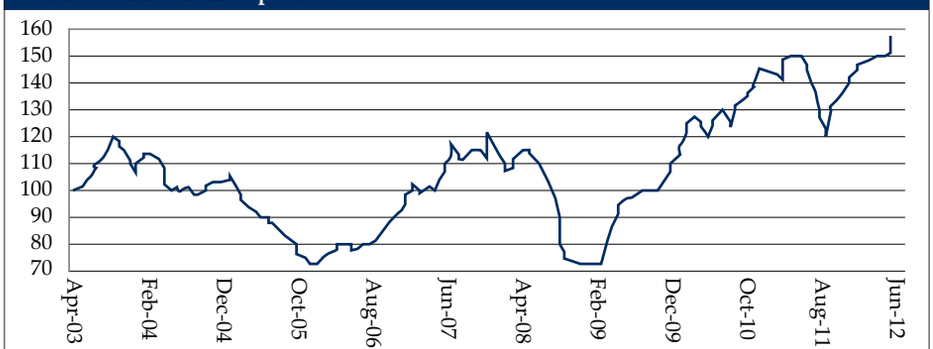
While small cap funds are more visible in the conventional funds space, Islamic small cap funds are extremely rare. In Malaysia, there is the CIMB Islamic Small Cap Fund while there is also the AlAhli Small Cap Trading Equity Fund domiciled in Saudi Arabia. The CIMB Islamic Small Cap Fund invests principally in emerging companies with strong potential growth and hands on policies that have market capitalizations of up to RM3 billion (US$945.6 million). Launched in April 2003, its assets under management (AUM) stood at US$46 million as at the 30th June 2012.

The graph above shows that the fund was hard hit by the global financial crisis, falling about 41% to the 70% range, but surged as market conditions improved in line with better economic data. The FTSE Bursa Malaysia Small Cap Index, which is benchmarked against the fund, also picked up during the same period. The fund has since climbed 128.84% to surpass the 150% mark.

According to the fund factsheet, despite a slight dip of 2% in May, the fund outperformed its benchmark by 2.38% due to its defensive positioning and stock selection. The fund's yield-to-date as at the 31st May is up 8.09%, outperforming the benchmark by 7.31%.

NCB Capital's AlAhli Small Cap Trading Equity Fund, on the other hand, invests in US and non-US small cap companies

CIMB Islamic Small Cap Fund



Source: Eurekahedge

that comply with the fund's Shariah and investment strategy. It is benchmarked against the S&P Developed Small Cap Shariah Index. However the fund, which was launched in 1998 and had an AUM of US$71 million as at the 30th June, has not shared the same good fortune as its CIMB Principal counterpart.

The fund was charting over 170% returns prior to the global financial crisis that caused it to plunge 45.85% in 2008 but recouped its losses in 2009 and rose in 2010 with a total increase of 74.12%. However, this upturn was halted with last year's negative return of 17.61% while its current yield-to-date had a deficit return of 6.74% as at the 30th June, according to Eurekahedge.

In the US, little is known of Lightstone Capital Management which manages three Islamic small cap strategies: namely the Islamic Small Cap Growth, GARP (growth at a reasonable price) as well as value. These strategies together with four other large cap strategies are used in the MIZĀN Islamic fund, launched in 2009. According to the fund factsheet, the small cap strategies make up 30% of the funds' portfolio composition. The MIZĀN Islamic fund is a collective investment trust administered by Hand Benefits & Trust Company (HB&T), a Texas state-chartered trust company that deals with collective investment funds only – akin to pension funds.

According to one research source, small cap stocks have suffered from a reputation as "risky, frequently fraudulent and lacking in quality that investors should demand in a company". However, although these are valid concerns for any company, it should be noted that several large cap companies have also fallen victim to issues of internal fraud that have virtually destroyed shareholder interest.

Despite the volatile conditions these funds have endured due to the nature of small cap stocks, there is potential for such stocks to rise as global market conditions improve. Savvy investors who seize the opportunity to invest into these funds at the right time are predicted to be able to reap higher benefits than funds which solely invest in large cap funds.

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In this issue...

Strong growth of mutual funds

PAKISTAN: The domestic mutual funds industry rose 51% year-on-year to PKR379 billion (US$4.01 billion) in the 2012 fiscal year, contributed by strong growth in Islamic income and money market funds.

The country's fiscal year begins on the 1st July of the previous year and ends on the 30th June.

According to a report by financial management and advisory firm Invest Capital and Securities (InvestCap), Islamic income and Islamic money market funds grew 43% and 22%, respectively.

However, growth in the Shariah compliant funds lagged behind that of conventional income and money market funds, which surged 124% and 95%, respectively.

Room for rapid growth

SOUTH AFRICA: Islamic finance remains in its infancy stage in the country, but there remains potential for rapid growth, said industry experts.

Yusuf Dukander, an Islamic finance specialist at the South African Institute of Chartered Accountants, said that while Islamic financial services assets in the domestic market are growing between 15-20% a year, there is still a long way to go in terms of growth.

Meanwhile, Imraan Jakoet, an analyst at Glacier, the investment unit of financial services firm Sanlam, said that: "We believe Muslims in South Africa are underinvested in financial products that comply with Shariah laws."

The country currently sees 12 Shariah compliant unit trusts, from five in 2007; while total assets in Islamic funds stand at ZAR12 billion (US$1.47 billion).

Imraan also noted that growth for the balanced fund segment is well below potential, due to a shortage of Sukuk in the country.

More funds available

MALAYSIA: Lembaga Tabung Haji has another RM3.5 billion (US$1.11 billion) to spend on domestic and overseas property acquisitions, said Ismee Ismail, group managing director/CEO in a news report.

The funds are part of its RM7 billion (US$2.22 billion) allocated for real estate investments. However, Ismee said that the remaining RM3.5 billion may not be spent in 2012.

Eurekahedge North America Islamic Fund Index

Top 10 Annualized Returns for ALL Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	17.79	Pakistan
2	ETFS Physical Gold	ETFS Metal Securities	16.95	Jersey
3	Public Islamic Select Enterprises	Public Mutual	16.37	Malaysia
4	Old Mutual Albaraka Equity	Futuregrowth Specialist Asset Management	15.58	South Africa
5	Danareksa Syariah Berimbang	Danareksa Investment Management	14.95	Indonesia
6	Kagiso Islamic Equity	Kagiso Asset Management	14.85	South Africa
7	AlAhli Saudi Trading Equity	The National Commercial Bank	14.58	Saudi Arabia
8	Danareksa Indeks Syariah	Danareksa Investment Management	14.34	Indonesia
9	Saudi Equity Fund - (Al Raed)	Samba Financial Group	13.39	Saudi Arabia
10	BNP Paribas Pesona Amanah	BNP Paribas Investment Partners	13.20	Indonesia
	Eurekahedge Islamic Fund Index		**2.43**	

Based on 74.16% of funds which have reported Jun 2012 returns as at 24th Jul 2012

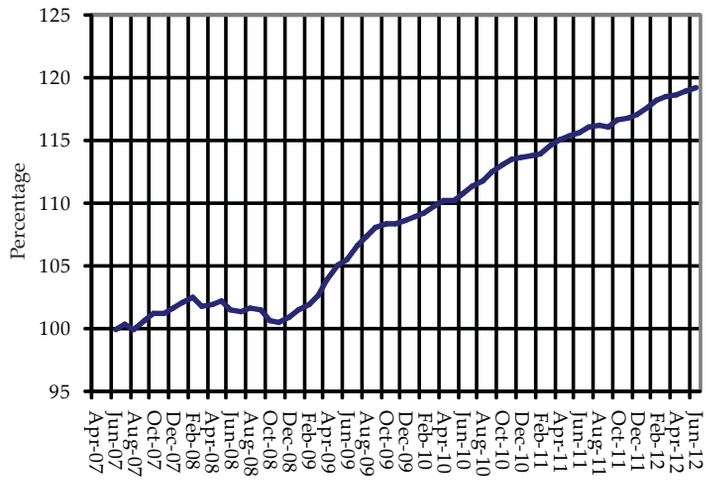
Top 10 Annualized Standard Deviation for ALL Funds since Inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	RHB Islamic Income Plus 1	RHB Investment Management	0.08	Malaysia
2	Public Islamic Money Market	Public Mutual	0.14	Malaysia
3	PB Islamic Cash Management	Public Mutual	0.15	Malaysia
4	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.18	Malaysia
5	CIMB Islamic Deposit	CIMB-Principal Asset Management	0.23	Malaysia
6	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.24	Saudi Arabia
7	PB Islamic Cash Plus	Public Mutual	0.25	Malaysia
8	Emirates Islamic Money Market Limited Institutional Share Class I USD	Emirates NBD Asset Management	0.27	Jersey
9	AlAhli Euro Murabahat	The National Commercial Bank	0.32	Saudi Arabia
10	Euro International Trade Finance - (Al Sunbula)	Samba Financial Group	0.35	Saudi Arabia
	Eurekahedge Islamic Fund Index		**8.85**	

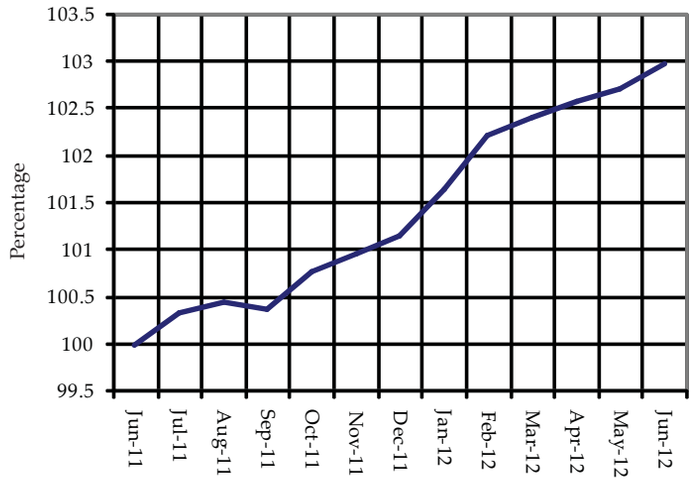
Taking into account funds that have at least 12 months of returns as at 30th June 2012

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 Fixed Income Index over the last 5 years



Eurekahedge Islamic Fund Fixed Income over the last 1 year



Top 10 Islamic Fixed Income by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	2.31	Pakistan
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	1.96	Pakistan
3	BIG Dana Muamalah	Bhakti Asset Management	1.70	Indonesia
4	PB Islamic Bond	Public Mutual	1.50	Malaysia
5	Meezan Islamic Income	Al Meezan Investment Management	1.28	Pakistan
6	Jadwa Global Sukuk	Jadwa Investment	1.22	Saudi Arabia
7	CIMB Islamic Sukuk	CIMB-Principal Asset Management	1.21	Malaysia
8	ASBI Dana Al-Fakhim	BIMB UNIT Trust Management (BUTM)	1.20	Malaysia
9	RHB Islamic Bond	RHB Investment Management	1.18	Malaysia
10	Public Islamic Bond	Public Mutual	1.10	Malaysia
	Eurekahedge Islamic Fund Fixed Income Index		**0.55**	

Based on 64.71% of funds which have reported June 2012 returns as at 24th July 2012

Top 10 Annualized Sortino Ratio for ALL Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	13.42	Pakistan
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	12.85	Pakistan
3	Commodity Trading - SAR	Riyad Bank	8.23	Saudi Arabia
4	PB Islamic Bond	Public Mutual	3.59	Malaysia
5	Public Islamic Bond	Public Mutual	3.54	Malaysia
6	Kagiso Islamic Equity	Kagiso Asset Management	2.87	South Africa
7	Emirates Global Sukuk Limited USD Institutional Share Class (Acc)	Emirates NBD Asset Management	2.75	Jersey
8	Public Islamic Select Enterprises	Public Mutual	2.69	Malaysia
9	Mashreq Al-Islami Income	Mashreq Capital (DIFC)	2.67	UAE
10	Public Islamic Select Bond	Public Mutual	2.60	Malaysia
	Eurekahedge Islamic Fund Index		**0.06**	

Based on 74.16% of funds which have reported June 2012 returns as at 24thJuly 2012
Based on reporting funds with at least 12 months of returns till June 2012 as at 24th July 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

Takaful news

Brought to you by Takaful IKHLAS

25th July 2012

Circumventing regulatory hurdles in the GCC

Cover story

The GCC, a natural hub for Islamic insurance and reinsurance due to its high levels of liquidity and population demographic, is still unable to achieve the momentum it needs to create a thriving Takaful sector. The main hurdle behind this, many believe, is the regulatory and legal framework itself.

A report by Dome Advisory on the Shariah and legal analysis of the Takaful and re-Takaful sector elucidated that the legal and regulatory landscape in the GCC is still highly fragmented, with no single set of laws and regulations applicable to Takaful and re-Takaful, as well as a lack of a "passporting" concept which enables licensed entities in the GCC to crossover to other states within the region.

This has significantly impacted the associated costs and expenses in establishing and licensing an operator in each GCC state, and can also be a significant deterrent to the establishment of a regional Takaful or re-Takaful operation.

The report states that due to the prolific growth rate of Takaful and insurance in the GCC, which currently has the most number of Takaful operators in the world — 77 out of the existing 195 globally, some regulators in these jurisdictions have begun to proactively discourage new entrants into the market.

This includes the UAE, where the Insurance Authority has placed a moratorium on applications to establish new insurance and Takaful companies since 2008. The Saudi Arabian Monetary Authority, although not actively discouraging new participants, is currently encouraging applicants to consider the acquisition of existing insurance operators in the kingdom.

> *"The establishment of Islamic windows by secular insurance companies is also not allowed in most jurisdictions in the GCC, including the UAE"*

The establishment of Islamic windows by secular insurance companies is also not allowed in most jurisdictions in the GCC, including the UAE, which under Law no.4 of the Insurance Authority Board of Directors Resolution 2010, it clearly states: "Conventional insurers are not permitted to operate Islamic windows for the sale of Takaful products." Similarly in Bahrain, the Takaful/re-Takaful module of the Central Bank of Bahrain rulebook states: "Insurance firms must operate on either conventional insurance principles or on Takaful principles, and cannot combine the two."

In order to surpass these regulatory hurdles, it has been recommended that foreign entities looking to set up in the GCC take either the acquisition route or via the establishment of a fronting arrangement.

Acquisitions have already been used as a means of entry into the GCC market without having to establish and license a new insurer or Takaful operator, however, the commercial considerations which have to be taken into account include the ability to accurately assess the value of a new business, and obtaining sufficient due diligence to back the acquisition process.

Due to the relatively lax restrictions for re-Takaful operations, fronting arrangements are encouraged, whereby a partnership is established with a local insurer or Takaful company.

The re-Takaful operator will then provide a range of services for its partner company, including product development, provision of underwriting and claims advice, outsourcing of back office functions, and licensing of intellectual property rights, amongst others. — *NH*

In this issue...

Takaful for NBC customers

UAE: Abu Dhabi National Takaful has launched a range of Family Takaful products tailored exclusively for National Bonds Corporation (NBC)'s existing customer base.

The new offerings comprise: the NBC Child Education Plan, NBC Family Protection Income Plan, NBC Female Care Protection Plan and NBC Maid Protection Plan.

On track for income target

INDONESIA: Allianz Life Syariah, the Shariah compliant life insurance arm of Allianz Life Indonesia, is on track to meet its targeted IDR600 billion (US$63.56 million) in gross premium income by the end of 2012.

This is after recording gross premium income of IDR269 billion (US$28.5 million) for the first half of the year.

The income is 44% higher than in the previous corresponding period. seventy percent of the increase was contributed by new premiums, of which unit-linked products contributed IDR260.93 billion (US$27.64 million), said Kiswati Soeryoko, a director at Allianz Life Syariah.

The firm's gross premium income also contributed to 35% of Allianz Life Indonesia's revenue in the first half of 2012.

During the period, Allianz Life Syariah sold 23,000 policies, 40% more than a year earlier. It is targeting to sell 17,000 more policies in the second half of 2012.

Its revenues comprised income from agents (89%), bancaTakaful (9%) and direct marketing and telemarketing (2%). Revenue from bancaTakaful rose almost three-fold to IDR23.9 billion (US$2.53 million) from a year earlier.

Kiswati also said that the firm also plans to hire 300 more Takaful agents and partner with more banks to boost income growth.

It currently employs 6,300 licensed agents and is in partnership with Bank Muamalat Indonesia, Bank ANZ Indonesia and HSBC.

She added that the firm expects to see a 50% increase in sales during Ramadan.

New bancaTakaful deal

MALAYSIA: Standard Chartered Saadiq Malaysia has signed a bancaTakaful agreement with Prudential BSN Takaful (PruBSN) to offer Takaful protection and savings plans.

The plans include three new investment-linked products underwritten by PruBSN, namely: SmartEdu-i, FirstHorizon-i and LifeLink-i.

Investment opportunities for Takaful and re-Takaful companies

LHOUCINE AZIROU and DR LUDWIG STIFTL take a look at existing Takaful and re-Takaful companies as the Islamic capital markets provide enough investment opportunities for constructing well-diversified Shariah compliant portfolios.

A financially strong Takaful/re-Takaful industry is essential for the sustainability of the Islamic economy. When responding to the need for Shariah compliant re/insurance protection, Takaful/re-Takaful companies, like conventional insurers, have to ensure that their funds are soundly managed and provide at least stable returns.

This said, among the most distinguishing features of Takaful/re-Takaful investments, which arise from the requirement of Shariah compliance, are the limited choice of manageable assets and the volatility of the returns.

Whereas the conventional reinsurance industry invests in fixed-income products (debt-based), derivatives and government bonds, a re-Takaful asset manager is not allowed to do so.

Conventional Gulf issuers are increasingly using the Islamic bond market to take advantage of the current low dollar-borrowing rates and favorable prices on the Islamic bond market.

Expansion of the Islamic financial markets

For example, the sales of Sukuk in the GCC region are off to a record start this year, with companies and governments raising more than US$12.3 billion with Shariah compliant investments, according to market data. And the market could absorb even more Sukuk issuances.

A further example of current tendencies is the fact that Malaysia's Islamic mortgages are growing at three times the rate of non-Shariah compliant home loans, boosted by tax incentives and flexible repayment requirements.

With the continued expansion of Islamic financial markets, there are more opportunities for Shariah compliant investment instruments, and Shariah compliance is becoming much less of a constraint. In addition to the established financial equity instruments such as the Islamic equity indices (e.g. the Dow Jones Islamic Market Index and the FTSE Global Islamic Index Series), the Islamic asset management industry has expanded significantly and broadened the acceptance of new Shariah compliant asset classes such as hedge funds, private equity and asset-backed securities. The application of Shariah principles to these alternative investments offers broader portfolio diversification and more attractive risk-reward potential, while also ensuring that the underlying investments are structured to satisfy governance and compliance requirements to the same extent that they satisfy Shariah investment specifications.

> ***"Conventional Gulf issuers are increasingly using the Islamic bond market to take advantage of the current low dollar-borrowing rates and favorable prices on the Islamic bond market"***

What appears to be a challenge at the moment is how to achieve congruence of risk and investment in terms of the period, since institutional investors struggle with a shortage of asset classes with a medium to long-term investment horizon.

One possible asset class with a sufficiently long-term and stability of returns could be developed in the renewable energy sector by using underlying Sukuk vehicles. Regarding volatility of returns, which were said to be generally higher with Islamic assets, the situation changed with recent developments of conventional markets.

That fact may also have an impact on the Shariah discussions on certain asset classes that are to function as replacement for specific conventional asset types. As for the volatility of asset value, we observe that Sukuk-vehicles are considerably more immune to volatility as investors tend to typically buy and hold these investments to maturity.

At the same time, for an institutional investor, pitfalls like inflated prices of collateral assets, high implementation costs and major Sukuk restructurings (e.g. Nakheel's US$3.5 billion Sukuk Ijarah) make the Islamic capital markets less attractive in the context of an efficient asset allocation process.

Conclusion

All in all, at the current, comparatively early stage of development of the Takaful/re-Takaful industry, the Islamic capital markets provide enough investment opportunities for constructing well-diversified Shariah compliant portfolios although the Takaful/re-Takaful industry is still at an early stage of development.

And chances are good that the supply can keep up while the Takaful/re-Takaful industry grows and starts to make demands comparable to the Islamic banking industry. But while the weight of Islamic insurers as buyers of assets grows, they should use their influence to actively initiate the development of new products that fit the needs of (re-)insurers, and thus increase their capability to grow further.

Lhoucine Azirou manages reinsurance investments at Munich Re´s asset management company MEAG (MUNICH ERGO AssetManagement) and is an investment specialist of the re-Takaful competence team within Munich Re. Dr Ludwig Stiftl is the head of center of competence for re-Takaful at Munich Re and they can be contacted at LAzirou@MEAG.com and LStiftl@munichre.com, respectively.

Dr Djibril Seck, director, Research Group on Islamic Finance in Africa (GREFIA)

As a director, Dr Djibril Seck's role is to boost relations with the academic, public and private institutional partners of GREFIA. He also has a PhD in Comparative Literature.

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

My career has been built around three basic concepts as an object of science and analysis: religion, ethics and cross-culturalism. And I have chosen three channels to convey these concepts: research across GREFIA communication through different involvements in the media and international non-governmental organizations and finally university education through particular lectures at the Islamic finance university degree at the Strasbourg Management School (France).

The journey has obvious links with my training since after a PhD in Comparative Literature, I turned to information science and communication with a particular interest in ethical issues in business. This interest led me to embark on a PhD on relationships between ethics of Islamic finance and socio-cultural contexts of its implementation at the University of Sorbonne Nouvelle, Paris.

I didn't want to limit myself to fundamental research. Thus I organized all my professional activities around Islamic finance that involve teaching at universities, consulting in different companies and various studies. It's all these aspects that GREFIA helps to conduct and move forward.

What does your role involve?

My role consists of identifying areas of research, coordinating the work of various researchers within GREFIA, developing programs and training seminars to prepare colloquia that we organize or in which GREFIA participates during the year.

In addition, as part of my consulting activities, I define and accompany the communication policy of the Independent Company of Islamic Finance in Africa (CIFIA) and assume the responsibilities of leading its academy business unit.

What is your greatest achievement to date?

Our greatest achievement is a major survey conducted by a multi-disciplinary team of GREFIA on the state of Islamic finance in eight countries in sub-Saharan Africa. This study, entitled 'Issues of the introduction of Islamic finance in the West African Economic and Monetary Union (WAEMU) zone: Status and prospects', has enabled us to:

- Identify the different Islamic financial institutions existing in each member of the WAEMU;
- Understand the positions of the political authorities on the issue of Islamic finance.

Which of your products/ services deliver the best results?

Our information and documentation service, especially our website which records the visitors. And many structures and professionals working in the area of Islamic finance have created their blogs in this website to share their news.

What are the strengths of your business?

The primary strength of GREFIA lies in the multidisciplinary nature of its research teams. Our teams are made up of economists, sociologists, lawyers, professionals of communications, professionals in banking and insurance with solid experience validated both in Europe, the Middle East and Africa.

The second strength is its specialization on the articulation of Islamic finance and social sciences which is a major and distinctive feature since Islamic finance is often studied either in financial terms or in legal terms.

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

Among the factors contributing to the success of GREFIA is the quality of the latest and regularly updated information it offers not only to professionals but also to the general public. GREFIA has an information portal in sub-Saharan Africa, the first site of information and documentation dedicated to Islamic finance.

What are the obstacles faced in running your business today?

GREFIA is a research group, and as such requires a lot of funding that is fully supported through its consulting activities. Therefore, GREFIA is always looking for sponsors and people interested in issues related to the introduction of Islamic finance in Muslim and non-Muslim societies.

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

The assets managed by Islamic financial institutions are estimated at over US$1.2 trillion with an annual growth rate of over 14%. This growth is 33% over the level of US$826 billion in 2010. Based on these figures, we can only be optimistic about the development of Islamic finance industry in the next five years globally.

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

At this stage of its development, we must work towards a democratization of Islamic finance to reach out to a more general public beyond this elitist sphere.

ISSUER	SIZE	DATE ANNOUNCED
Kimanis Power	RM1.16 billion	16th July 2012
Syarikat Prasarana Negara	RM4 billion	12th July 2012
Türkiye Finans Katilim Bankasi	US$300 million	9th July 2012
Sudan sovereign	TBA	5th July 2012
Sudan sovereign	US$758 million	5th July 2012
South Africa sovereign	TBA	4th July 2012
Indonesia sovereign	IDR500 billion	3rd July 2012
National Treasury South Africa	US$500 - 700 million	3rd July 2012
Qatar sovereign	US$4 billion	2nd July 2012
Standard Chartered	TBA	2nd July 2012
Indosat	IDR300 billion	20th June 2012
Sadara	SAR1.4 billion	13th June 2012
UEM Group	RM2.2 billion	13th June 2012
Danainfra	RM8 billion	31st May 2012
General Authority of Civil Aviation	TBA	24th May 2012
Morocco sovereign	TBA	23rd May 2012
Amer Group Holding	EGP2.7 billion	14th May 2012
Emirates NBD	US$500 million	7th 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
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

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

CZECH REPUBLIC: JUDr Ivana Hrdlickova,
judge, Judiciary, Appelate Court Pardubice

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

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

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

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Farouk A Alwyni
chairman, Center for Islamic Studies in Finance, Economics, and Development

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president, Japan Islamic Finance

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partner, Lee & Ko

KUWAIT: Alex Saleh
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LUXEMBOURG: Marc Theisen
partner, Theisen Law

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

MALDIVES: Aishath Muneeza
head of Islamic finance, Capital Market Development Authority

MALTA: Reuben Buttigieg
president, Malta Institute of Management

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

NEW ZEALAND: Dr Mustafa Farouk
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NIGERIA: Hajara Adeola
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OMAN: Anthony Watson
senior associate, Al Busaidy Mansoor Jamal & Co

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

QATAR: Amjad Hussain
partner, K&L Gates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

SENEGAL: Abdoulaye Mbow
Islamic finance advisor, Africa Islamic Finance Corporation

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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

TURKEY: Ali Ceylan
partner, Baspinar & Partners

UAE: Moinuddin Malim
CEO, Mashreq Al Islami

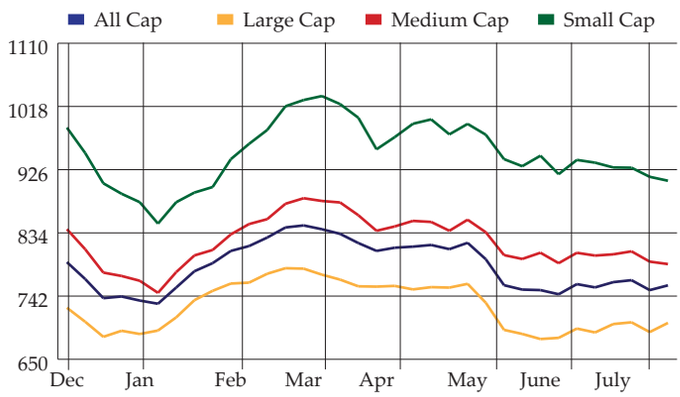
UK: Siraj Ibrahim
associate, Credit Agricole CIB

US: Saeid Hamedanchi
CEO, ShariahShares

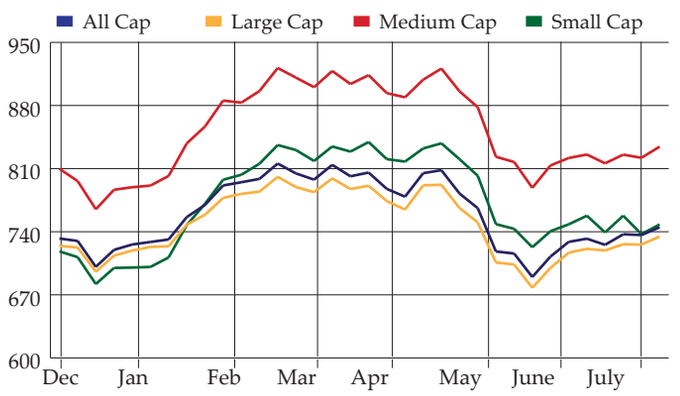
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

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

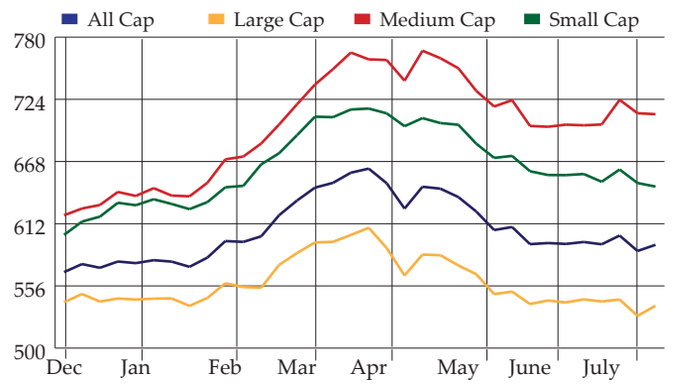
REDmoney Asia ex. Japan *6 Months*



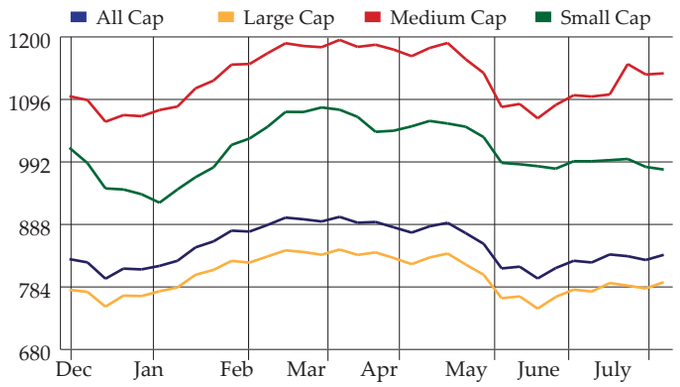
REDmoney Europe *6 Months*



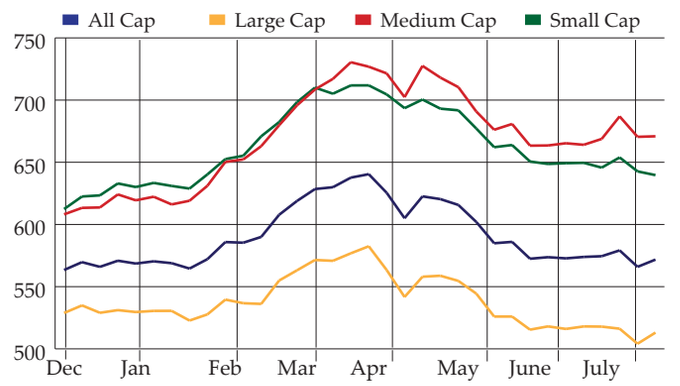
REDmoney GCC *6 Months*



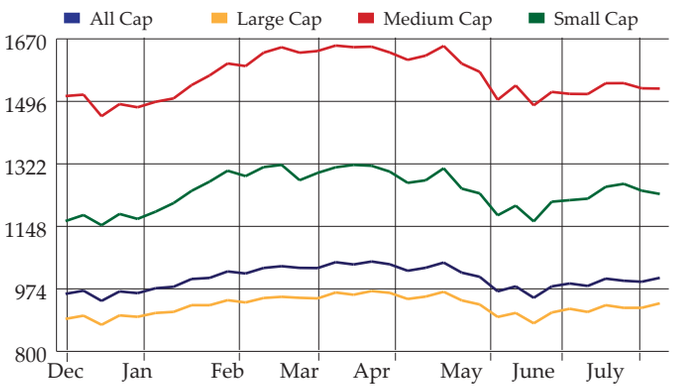
REDmoney Global *6 Months*



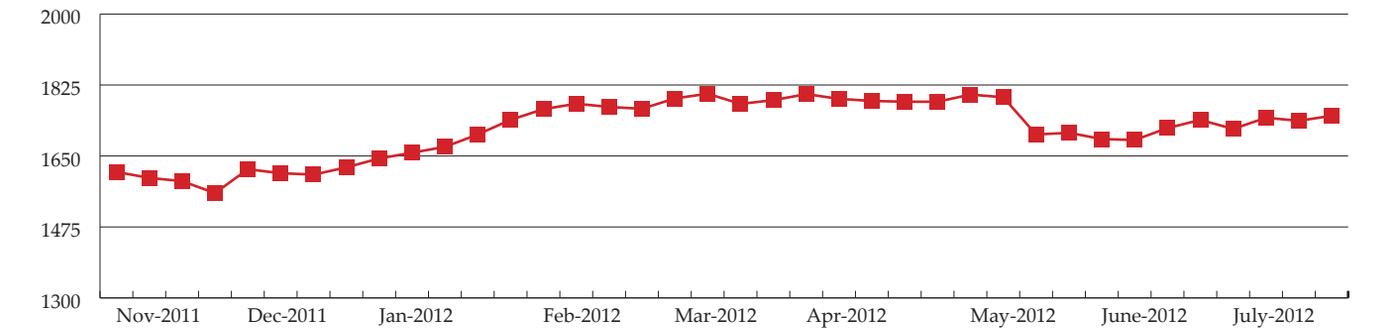
REDmoney MENA *6 Months*



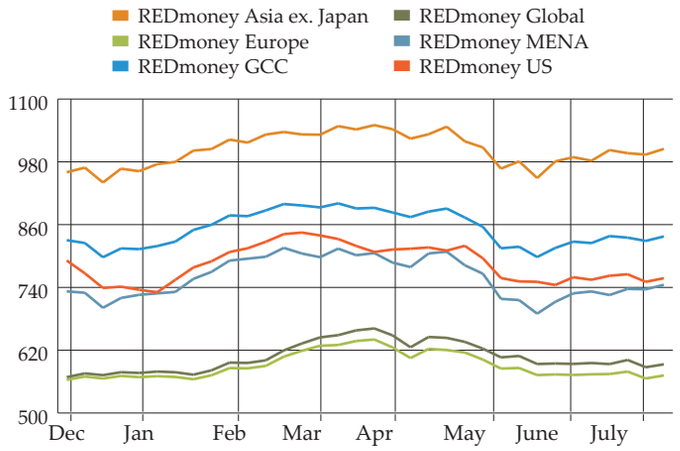
REDmoney US *6 Months*



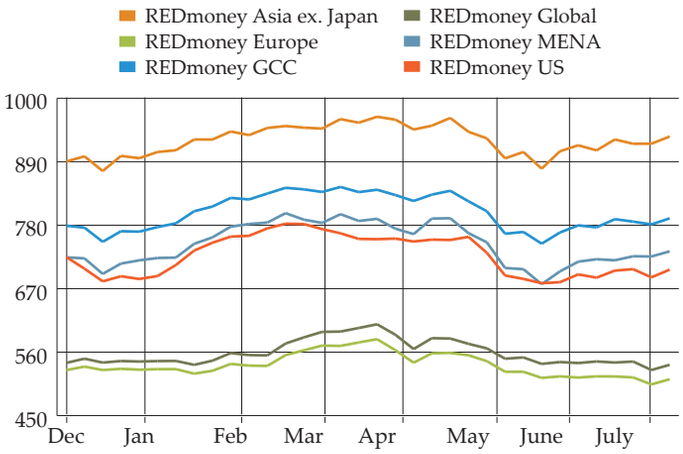
SAMI Halal Food Participation (All Cap) *6 months*



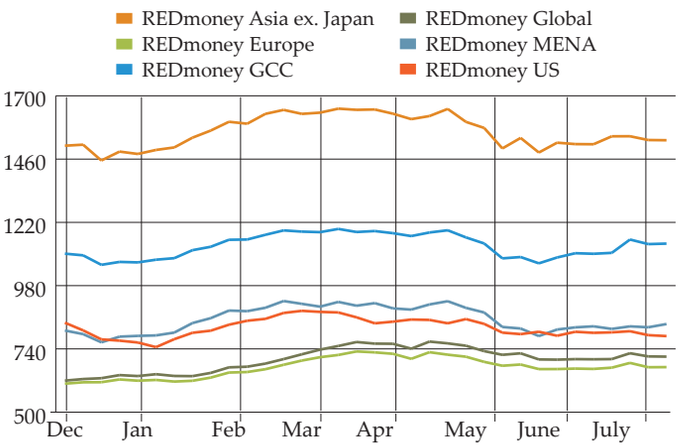
REDmoney Global Shariah Index Series (All Cap) *6 Months*



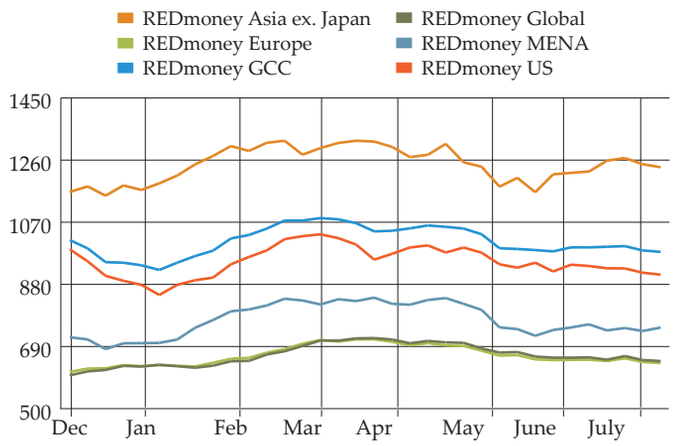
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



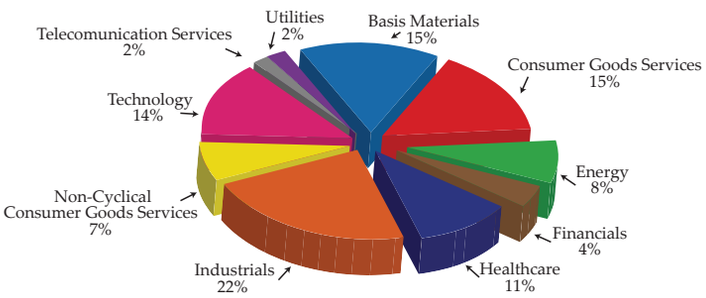
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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®

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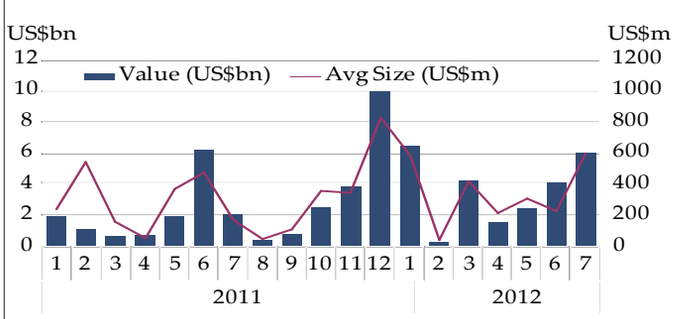
Tel +603 2162 7800

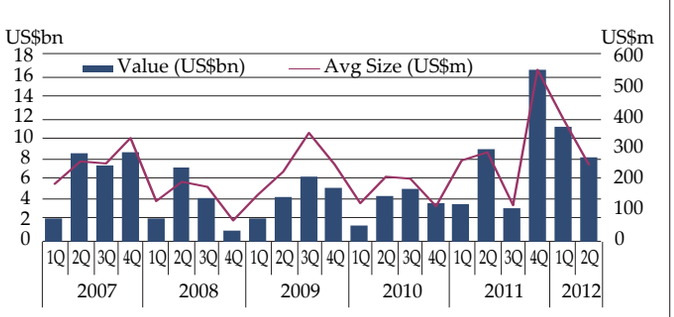
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
13th Jul 2012	First Resources (Singapore)	Indonesia	Sukuk	Domestic market public issue	189	OSK, RHB Capital
12th Jul 2012	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Noor Islamic Bank, Al Hilal Bank, Barwa Bank
11th Jul 2012	State of Qatar	Qatar	Sukuk	Euro market public issue	4,000	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest, Barwa Bank
10th Jul 2012	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	753	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
6th Jul 2012	Cagamas	Malaysia	Sukuk	Domestic market public issue	158	RHB Capital
4th Jul 2012	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Emirates NBD, Credit Agricole
25th Jun 2012	NUR Power	Malaysia	Sukuk	Domestic market private placement	157	Maybank Investment Bank
25th Jun 2012	Olayan Real Estate Company	Saudi Arabia	Sukuk	Domestic market public issue	173	HSBC, Riyad Bank
19th Jun 2012	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	800	Saudi National Commercial Bank, Standard Chartered Bank, BNP Paribas, HSBC, CIMB Group
12th Jun 2012	Jafz Sukuk	UAE	Sukuk	Euro market public issue	650	Standard Chartered Bank, Abu Dhabi Commercial Bank, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
12th Jun 2012	Malaysian Airline System	Malaysia	Sukuk	Domestic market private placement	316	Maybank Investment Bank
11th Jun 2012	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	789	CIMB Group, Maybank Investment Bank
6th Jun 2012	Johor Corporation	Malaysia	Sukuk	Domestic market public issue	939	CIMB Group, Affin Investment Bank, AmInvestment Bank, Maybank Investment Bank
29th May 2012	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market private placement	103	AmInvestment Bank
22nd May 2012	DIB Sukuk	UAE	Sukuk	Euro market public issue	500	Deutsche Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
15th May 2012	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	Deutsche Bank, Citigroup, Credit Agricole
10th May 2012	Encorp Systembilt	Malaysia	Sukuk	Domestic market public issue	514	Hong Leong Bank, Kenanga Investment Bank, CIMB Group
1st May 2012	TASNEE	Saudi Arabia	Sukuk	Domestic market private placement	533	HSBC
25th Apr 2012	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
13th Apr 2012	AJIL Cayman	Saudi Arabia	Sukuk	Domestic market private placement	133	Riyad Bank, Gulf International 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	21.4	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	State of Qatar	Qatar	Sukuk	Euro market public issue	4,000	8.9	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest, Barwa Bank
3	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	8.9	HSBC
4	Saudi Electricity	Saudi Arabia	Sukuk	Euro market public issue	1,750	3.9	Deutsche Bank, HSBC
5	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	3.4	Lembaga Tabung Haji, CIMB Group
6	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	2.8	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
7	Tanjung Bin Energy Issuer	Malaysia	Sukuk	Domestic market private placement	1,089	2.4	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
8	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	2.2	Standard Chartered Bank, HSBC, Citigroup
8	EIB Sukuk	UAE	Sukuk	Euro market public issue	1,000	2.2	Standard Chartered Bank, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
10	Johor Corporation	Malaysia	Sukuk	Domestic market public issue	939	2.1	CIMB Group, Affin Investment Bank, AmInvestment Bank, Maybank Investment Bank
11	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	811	1.8	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	800	1.8	Saudi National Commercial Bank, Standard Chartered Bank, BNP Paribas, HSBC, CIMB Group
13	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	1.8	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
14	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	789	1.8	CIMB Group, Maybank Investment Bank
15	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1.8	CIMB Group, Maybank Investment Bank
16	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	753	1.7	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
17	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1.7	Standard Chartered Bank, BNP Paribas, Citigroup
17	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1.7	Deutsche Bank, Citigroup, Credit Agricole
19	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1.5	CIMB Group, Maybank Investment Bank
20	Jafz Sukuk	UAE	Sukuk	Euro market public issue	650	1.4	Standard Chartered Bank, Abu Dhabi Commercial Bank, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
20	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1.4	Standard Chartered Bank, HSBC, Citigroup
22	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	561	1.3	Maybank Investment Bank
23	TASNEE	Saudi Arabia	Sukuk	Domestic market private placement	533	1.2	HSBC
24	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	1.1	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup
24	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1.1	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Noor Islamic Bank, Al Hilal Bank, Barwa Bank
24	DIB Sukuk	UAE	Sukuk	Euro market public issue	500	1.1	Deutsche Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
24	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1.1	Standard Chartered Bank, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
24	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1.1	Standard Chartered Bank, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
29	Encorp Systembilt	Malaysia	Sukuk	Domestic market public issue	470	1.0	Hong Leong Bank, Kenanga Investment Bank, CIMB Group
30	MAF Sukuk	UAE	Sukuk Wakalah	Euro market public issue	400	0.9	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank
	Total				**44,992**	**100**	

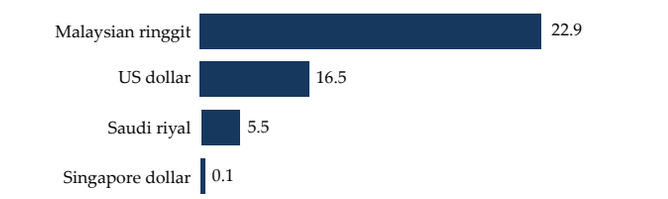
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	9,011	24	20.0
2	CIMB Group	6,811	31	15.1
3	Maybank Investment Bank	5,982	33	13.3
4	AmInvestment Bank	4,195	19	9.3
5	RHB Capital	2,762	28	6.1
6	Standard Chartered Bank	2,708	16	6.0
7	Deutsche Bank	2,025	4	4.5
8	Citigroup	1,847	10	4.1
9	Lembaga Tabung Haji	1,085	4	2.4
10	Dubai Islamic Bank	868	7	1.9
11	Barwa Bank	863	2	1.9
12	QInvest	800	1	1.8
13	National Bank of Abu Dhabi	797	6	1.8
14	Affin Investment Bank	468	4	1.0
15	Emirates NBD	439	5	1.0
16	JPMorgan	425	2	0.9
17	Kenanga Investment Bank	422	2	0.9
18	BNP Paribas	410	2	0.9
19	Abu Dhabi Islamic Bank	409	5	0.9
20	Credit Agricole	350	2	0.8
21	OCBC	303	5	0.7
22	Hong Leong Bank	252	2	0.6
23	DRB-HICOM	237	6	0.5
24	Abu Dhabi Commercial Bank	218	2	0.5
25	Saudi National Commercial Bank	160	1	0.4
26	Riyad Bank	153	2	0.3
27	Bank of America Merrill Lynch	125	1	0.3
28	RBS	121	2	0.3
29	OSK	110	4	0.3
30	KFH	109	2	0.2
	Total	**44,992**	**119**	**100.0**

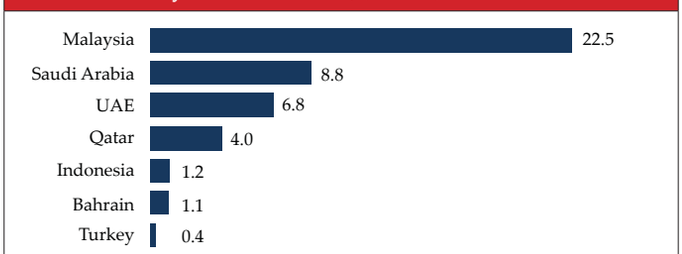
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Samba Financial Group	525	3	6.1
2	Arab National Bank	463	2	5.4
2	Public Investment Fund	463	2	5.4
4	HSBC Holdings	447	3	5.2
5	Sumitomo Mitsui Financial Group	404	2	4.7
6	Banque Saudi Fransi	386	2	4.5
7	KfW Bankengruppe	369	2	4.3
8	Mitsubishi UFJ Financial Group	360	1	4.2
9	SABB	324	1	3.8
10	Standard Chartered	317	3	3.7

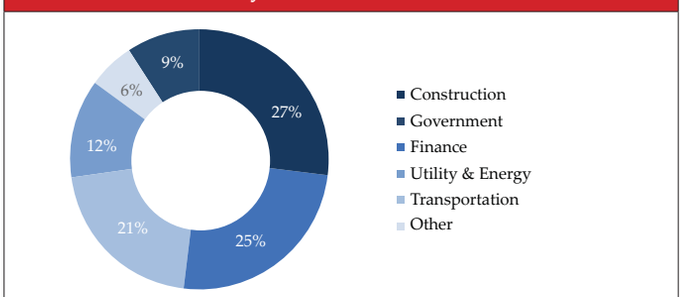
Sukuk Volume by Currency US$ (billion) *12 Months*



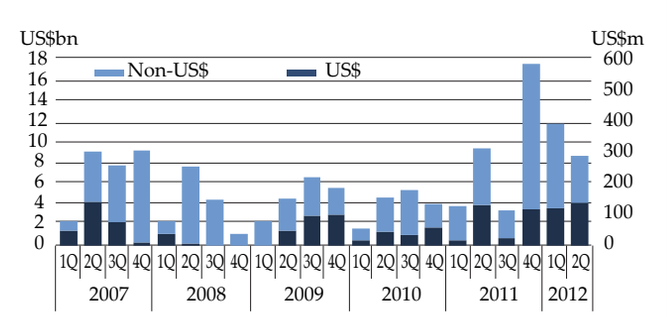
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	25.1
2	Skadden Arps Slate Meagher & Flom	3,281	1	19.6
2	White & Case	3,281	1	19.6
4	Al-Jadaan & Partners Law Firm	1,200	1	7.2
4	Baker & McKenzie	1,200	1	7.2
4	Clifford Chance	1,200	1	7.2
7	Baker Botts	917	1	5.5
7	Chadbourne & Parke	917	1	5.5
9	Rizvi, Isa, Afridi & Angell	164	1	1.0
9	Shearman & Sterling	164	1	1.0

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	1,093	5	8.1
2	SABB	997	4	7.4
3	Banque Saudi Fransi	944	4	7.0
4	Maybank Investment Bank	819	5	6.0
5	Al-Rajhi Banking & Investment	753	3	5.6
6	CIMB Group	731	3	5.4
7	AmInvestment Bank	704	3	5.2
8	RHB Capital	631	1	4.7
9	Saudi National Commercial Bank	593	4	4.4
10	Saudi Hollandi Bank	538	2	4.0
10	Riyad Bank	538	2	4.0
12	Standard Chartered Bank	458	9	3.4
13	Noor Islamic Bank	447	5	3.3
14	Citigroup	412	6	3.0
15	Abu Dhabi Islamic Bank	400	7	2.9
16	Emirates NBD	315	4	2.3
17	Barwa Bank	266	2	2.0
18	HSBC	233	3	1.7
19	Arab National Bank	219	1	1.6
20	Qatar Islamic Bank	213	1	1.6
20	Qatar International Islamic Bank	213	1	1.6
20	Masraf Al Rayan	213	1	1.6
23	Arab Banking Corporation	209	4	1.5
24	Dubai Islamic Bank	203	2	1.5
25	Mashreqbank	185	2	1.4
26	National Bank of Abu Dhabi	175	2	1.3
27	Deutsche Bank	160	3	1.2
28	Al Hilal Bank	121	4	0.9
29	Islamic Development Bank	108	2	0.8
30	DRB-HICOM	100	2	0.7

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

	Bookrunner	US$ (mln)	No	%
1	Abu Dhabi Islamic Bank	420	5	12.9
2	Standard Chartered Bank	384	7	11.8
3	Citigroup	370	5	11.4
4	Emirates NBD	283	3	8.7
5	Noor Islamic Bank	254	2	7.8
6	Dubai Islamic Bank	243	2	7.5
7	National Bank of Abu Dhabi	211	2	6.5
8	Samba Capital	171	1	5.3
9	Maybank Investment Bank	166	3	5.1
10	HSBC	160	2	4.9

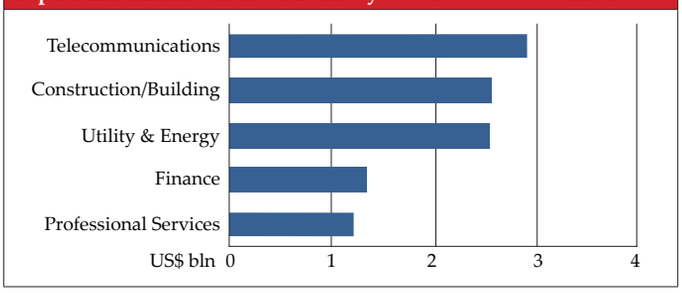
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2011	Barzan Gas	Qatar	5,442
12th Feb 2012	Mobily	Saudi Arabia	2,667
11th Jun 2012	DanaInfra Nasional	Malaysia	2,525
2nd Dec 2011	Hajr for Electricity Production	Saudi Arabia	1,981
14th Feb 2012	Power & Water Utility for Jubail & Yanbu	Saudi Arabia	1,200
13th Jun 2012	Jebel Ali Free Zone	UAE	1,198
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World	UAE	850
27th Feb 2012	Government of Dubai	UAE	675
19th Mar 2012	Boustead Naval Shipyard	Malaysia	674

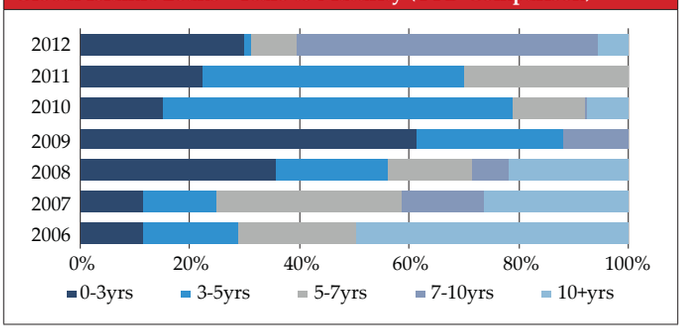
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	5,703	6	42.0
2	Malaysia	2,971	5	21.9
3	UAE	2,350	7	17.3
4	Turkey	1,107	5	8.2
5	Qatar	850	1	6.3
6	Pakistan	227	6	1.7
7	Sri Lanka	175	1	1.3
8	Indonesia	130	2	1.0
9	Russian Federation	60	1	0.4

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

4th September 2012
IFN Roadshow Pakistan
Karachi, Pakistan (*REDmoney Events*)

6th September 2012
IFN Roadshow Sri Lanka
Colombo, Sri Lanka (*REDmoney Events*)

17th — 18th September 2012
3rd Middle East SME Forum 2012
Abu Dhabi, UAE (*Fleming Gulf*)

18th – 19th September 2012
Iraq Finance 2012
London, UK (*Symexco*)

25th September 2012
The 2nd Annual International Summit on Islamic Corporate Finance
Abu Dhabi, UAE (*MEGA Events*)

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

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

17th — 18th October 2012
The SME Africa 2012
Johannesburg, South Africa
(*Fleming Gulf*)

17th — 18th October 2012
Middle East Takaful Forum
Manana, Bahrain (*MEGA Events*)

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

6th – 7th November 2012
Islamic Banking Summit: Africa
Djibouti, Africa (*MEGA Events*)

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

20th November 2012
IFN Roadshow Bangladesh
Dhaka, Bangladesh (*REDmoney Events*)

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

28th — 29th November 2012
2012 International Real Estate Finance (IREF) Summit
London, UK (*ICG Events*)

3rd December 2012
IFN Roadshow Brunei
Brunei *(REDmoney events)*

6th December 2012
IFN Roadshow Turkey
Istanbul, Turkey *(REDmoney events)*

9th — 11th December 2012
The 19th Annual World Islamic Banking Conference
Manama, Bahrain (*MEGA Events*)

17th — 18th December 2012
The 3rd Global Islamic Marketing Conference: Africa Rises
Cairo, Egypt *(International Islamic Marketing Association)*

IFN Roadshow Thailand
Bangkok, Thailand (*REDmoney Events*)
(To be confirmed)

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