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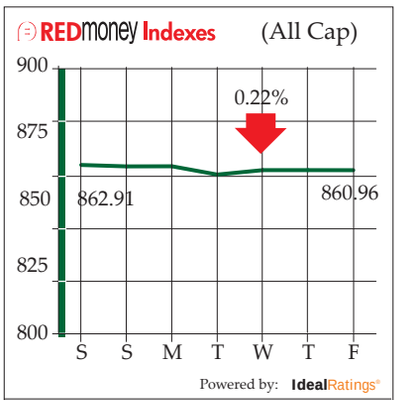

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All that glitters: The rise of gold

Gold has long held an awkward place in Islamic finance — can it be traded, does it count as currency, how can we avoid interest in gold-based funds? We take a look at the available options for gold in the Islamic space.

Gold has always been a blessing and a curse in Shariah compliant finance. Gold has shown a consistent price increase over the last decade with a significant spike in the five years as investors fled to safe havens during the financial crisis. As a real asset that keeps its value it is highly attractive as a physical investment, buying physical gold poses no problem for Shariah-conscious investors. But not everyone has the means to stockpile gold, and banks have struggled to meet demand. Some have taken the straightforward route — in March 2011 Turkish participation bank Kuveyt Turk launched a range of gold deposit accounts, accompanied by gold-dispensing ATM machines, to tap into the country's TRY1.2 billion (US$665.9 million) gold savings, of which it already held around a 20% share (compared to just 1% of the total banking assets). Clearly, gold is a big seller.

Gold funds

However, buying physical gold poses a number of obvious security risks, and few other banks have as yet moved into gold deposit accounts. As an alternative, several Islamic gold exchange-traded funds have been launched; which allow investors to purchase shares of an equity fund which invests in physical gold for them. ETF Securities in the UK claimed to have launched the first Shariah compliant precious metals exchange-traded commodity (ETC) in 2008, based on a basket of physical platinum, palladium, silver and gold. According to a spokesperson for the structure, this enabled the firm to bypass the common difficulty of structuring a commodity Murabahah for gold and silver. "Conceptually, an ETC offers investors a simple, efficient and cost-effective way to access commodities via a priced security listed on a regulated exchange. ETCs trade and settle the same as equities. ETCs are open-ended and can be created and redeemed to demand. In purchasing the security, the investor obtains an allocated physical entitlement to the underlying bullion and his return is tied directly to the spot price of that precious metal less the management fee."

This solves many of the common problems that prevent Islamic investors from accessing gold funds, and the fund was followed by several others: including the Dubai Gold Securities gold ETF in March 2009, which offered investors certificates traded on the Nasdaq Dubai, each of which represented 0.1oz of actual gold held by custodian HSBC in London, and could by physically redeemed at any time. Also in 2009, Dubai Shariah Asset Management (DSAM, a joint collaboration between Shariah Capital and Dubai Commodity Asset Management (DCAM), a wholly-owned division of the Dubai

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Safe havens amid the storm

Editor's Note

Even as we come back from a quiet spell following Eid, global markets have ploughed on; unfortunately displaying much of the same activity witnessed throughout this year — equity markets remain volatile, investors continue to wait for Europe to manage its financial woes and global growth looks to be on the cusp of stalling.

Amid these developments — or stagnation, depending on how you look at it – gold has maintained its safe haven status as a sound investment; ...

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Development Bank of Kazakhstan swaps funds raised from ringgit Sukuk to US dollars

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RAM reaffirms ratings on **Danga Capital**'s US$3.19 billion Sukuk program

CI reaffirms ratings on **National Industries Group**'s US$475 million Sukuk

Fitch affirms ratings on **Qatar Islamic Bank**

All that glitters: The rise of gold

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Gold price performance, 1999-2012

Source: Moneyweek

Multi Commodities Center Authority [DMMCA]) launched the DSAM Kauthar Gold Fund, claiming to be the only Shariah compliant gold equity fund in the world: "Whose aim is to achieve absolute returns and long term capital growth resulting from the investment returns of gold mining and precious metal related shares." It achieves this aim by investing exclusively in units of its sub-trust, which "invests in gold mining companies, in all stages of development, throughout the world". As of July 2012 the fund reached US$32.49 million, with assets under management (AUM) of US$12 billion, with a total return since inception of 9.7%. And although initially available only to wholesale investors, in February 2012 the fund completed its three-year track record and opened to retail investors for a minimum investment of US$5,000. Although it is initially targeting only UAE customers, the fund hopes to find another distribution partner and expand into other countries such as Bahrain, Kuwait, Indonesia, Malaysia, Qatar and Saudi Arabia.

Shariah compliance

However, many Islamic investors are rightly wary of gold trading, especially in equity and hedge funds, as the compliance is still a somewhat hazy area. In the most recent ruling on gold (Fiqh of Transactions and Inheritance, Fatwa No. 173393, the 13th February 2012) Islamweb notes that: "It is permissible to purchase gold in order to trade with it and sell it when its price increases; indeed, this is included in the Saying of Allah The Almighty, which means: 'But Allah has permitted trade and has forbidden interest' [Quran 2:275]." However, it is generally accepted that when buying or selling gold the completion of the contract should be accompanied by a physical transaction. According to Fatwa 173393: "This should either occur tangibly (i.e. cash in return for the product) or something that serves and takes the ruling of receiving cash and exchanging hand to hand (like a bank draft or check)."

> ***"Many Islamic investors are rightly wary of gold trading, especially in equity and hedge funds"***

Obviously the most risky compliance issue with gold trading is that of Riba: Islamic investors must be wary of leveraged funds that promise amplified returns and do not tie investment to commodity allocation. However, this is not the only factor to be aware of. One of the key Shariah compliance issues

continued...

CLOSING BELL

Aceh identified as next Islamic finance center

INDONESIA: The Aceh region has been identified as a promising center for the establishment and growth of Islamic finance as it has a large Muslim community, say industry experts.

Islamic pawnbroking on the rise

INDONESIA: Local pawnbroking chain, Pegadaian, is targeting to develop its Shariah compliant pawnbroking business, which has contributed up to IDR2.6 trillion (US$273.83 million) to its revenue.

According to Suhardjo, its general manager, the Shariah compliant business has grown 65-70% annually, compared to its conventional business that grows 40%.

Pegadaian will increase the number of its Shariah compliant pawn shops to 70, he said.

All that glitters: The rise of gold

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> ***But the continued rise of gold prices and its security as an asset class have made it highly attractive and as a result, a new type of gold financing has recently emerged***

in gold trading is that of currency risk. Currency trading in Islam is another gray area, which many countries (including the National Fatwa Council of Malaysia in February 2012) have declared Haram. All money transactions in Islamic Fiqh are covered under the contract of Sarf, based on the Hadith of 'like of like'. According to the Prophet: "If the (traded product) types differ, then sell as you wish if payment is made hand to hand." This is usually interpreted as meaning that if traded at spot with full settlement, foreign currency trading is permissible. However if traded with margin (which amounts to currency speculation) or deferred delivery (due to the interest rates assigned to swap trades) it is Haram. The same problem occurs with gold investment. Funds which trade gold can be liable for Shariah compliance risk if they do not trade at spot.

The rise of Ar-Rahnu

But the continued rise of gold prices and its security as an asset class have made it highly attractive and as a result, a new type of gold financing has recently emerged. Although usually held as an investment for capital appreciation, Islamic pawn-broking instead uses gold to provide an interest-free, Shariah compliant, short-term cash borrowing scheme that offers a low-cost alternative to conventional borrowing methods.

The word Ar-Rahn literally means a pledge or security for a loan, and under the Ar-Rahnu concept the borrower pledges physical redeemable capital (in general only gold) in return for a guaranteed interest-free cash loan. The concept is based on four key Islamic concepts: Qard Hasan (benevolent loan); Wadiah Yad-Amanah (trustworthiness); Al-Ujrah (safekeeping); and Wadiah Yad-Dhamanah (safekeeping with guarantee). The concept has rapidly grown in popularity over the last few years due to its key advantages of speed (immediate loan redemption), availability (with no questions or stipulations as to use), low-cost (rates are usually around 1% per month compared to 2-20% from conventional brokers, with no extra fees or charges such as stamp duty or legal fees). In addition the scheme offers a valuable long-term option, as borrowers pay a safe-keeping fee rather than an interest rate, and the duration of the credit can be extended indefinitely as long as the safekeeping fees are paid.

Ar-Rahnu has seen exceptional growth in Malaysia in particular, driven by demand from the ground up as a means to fill a vital short-term credit gap with loans based on a real commodity. Several banks have already entered the market including Agrobank (which offers small short-term loans starting from just RM100 (US$32.04) with a 70% margin of financing); and Bank Rakyat, which already offers Ar-Rahnu services at all of its 125 branches (as well as 20 specialized Ar-Rahnu exchanges) and controls 25% of the total market with annual loan disbursements of around RM1.2 billion (US$384.5 million), with the aim of capturing a further 25%. In 2011 Bank Rakyat saw record profits of RM2 billion (US$640.8 billion), up 49.5% from 2010, which is attributed in part to the growth in income from its pawn-broking venture.

continued...

All that glitters: The rise of gold

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Other institutions are also now entering this lucrative market. The Foundation for Islamic Development Malaysia (YaPEIM) recently raised funds for Ar-Rahnu financing from RM800 million (US$256.3 million) in 2011 to RM1 billion (US$320.4 million) in 2012, along with 24 new branchs with an investment of RM8 million (US$2.5 million) per branch, due to the rise in demand from small traders. And the country's national mail service Pos Malaysia in June 2012 announced a joint venture with Bank Muamalat to launch a new Islamic pawn-broking scheme across its 700+ branches nationwide.

Regional prospects

And although Malaysia has been at the forefront of the Ar-Rahnu revolution, the ripples are already spreading across Southeast Asia and beyond. The recent Regional Ar-Rahnu Secretariat Conference 2012, held in Pattaya, Thailand in July, was attended by delegations from Malaysia, Thailand, Indonesia, Brunei, Timor Leste and Cambodia. The secretary-general of the Secretariat, Dr Abdul Malek Awang Kechil, announced that the Ar-Rahnu program has already benefited more than 7.8 million people in the region, with loans over US$5.4 billion disbursed to lower income groups. Pracha Prompok, Thailand's minister of justice, noted that the scheme was: "A good way to strengthen the economy." Ar-Rahnu already has a firm place in Indonesia's Islamic banking system, and according to Harisman Sidi, the director of Shariah banking at the Indonesian Banking Development Group (LPPI), speaking at a 2011 workshop on Islamic pawn-broking financing held by LPPI collaboration with Bank Nagari: "In 2008, Islamic pawn-broking increased to 67.7%. In 2009, it increased to 90%. The climax was reached in 2010, when Islamic pawn-broking increased to 158%." CIMB Islamic already has a thriving pawn-broking business in Indonesia, which it plans to extend to Malaysia in the second half of 2012. And continuing the theme of regional expansion, YaPIEM also recently announced plans to expand its Ar-Rahnu business abroad: especially to other OIC countries. Abdul Malek announced that: "We are giving priority to Islamic countries besides China, which have an area of a big Muslim population where we can develop a financial center," such as India, Pakistan, Bangladesh, Saudi Arabia, Turkey, Bosnia and Albania.

> ***"It is clear that gold offers a rewarding and secure asset class for all ranges of investors"***

Going for gold

It is clear that gold offers a rewarding and secure asset class for all ranges of investors. Whether a sizeable investment in a capital appreciation fund or a short-term loan in an Ar-Rahnu scheme, the commodity offers stable, Shariah compliant access for everyone across a wide range of investments. And as demand evolves, so too do the available options. As long as investors manage to steer clear of the obvious pitfalls of interest and speculation, gold looks set to remain one of the most enduring of available commodities during these troubled times. — *LM*

Safe havens amid the storm

Editor's Note

Even as we come back from a quiet spell following Eid, global markets have ploughed on; unfortunately displaying much of the same activity witnessed throughout this year — equity markets remain volatile, investors continue to wait for Europe to manage its financial woes and global growth looks to be on the cusp of stalling.

Amid these developments — or stagnation, depending on how you look at it – gold has maintained its safe haven status as a sound investment; and this week, our cover story explores where the commodity stands in the Islamic finance industry.

Like gold, Sukuk has always held a special place in the hearts of investors and issuers alike; and our issue also features the first in a three-part series on the rating approach for Sukuk, contributed by Malaysian rating agency, MARC.

Following our look at asset classes, we also have an article on the asset management industry in Saudi Arabia, where Naif Abdul Mohsen Al-Rasheed of Al-Khair Capital Saudi Arabia writes on its development. Still on the subject of investing, Saeid Hamedanchi, the founder and CEO of ShariahShares, highlights Shariah compliant exchange-traded funds.

Meanwhile, Dr Askar Konakbayev of Karaganda Economical University in Kazakhstan contributes his thoughts on the role of Islamic finance in the country's economic, industrial and social development; while Mohamed Kettani of Capital Management House writes on risk management in Shariah compliant private equity.

Hans De Cuyper, CEO of Etiqa Insurance & Takaful sits down with us in a Q&A for our Takaful feature; and Insider interviews Behnam Gurbanzada of the International Bank of Azerbaijan on the bank's growing Islamic banking business.

Our IFN Reports cover the Association of Shariah Advisors in Islamic Finance's efforts towards accrediting scholars; and a plan by Affin Holdings to acquire a stake in Bank Muamalat Malaysia, while our IFN Correspondents write on developments in the industry in Bahrain and the Maldives.

Meet The Head talks to Zahid Hussain, the group general manager and head of Islamic banking at Banque Saudi Fransi-Riyadh.

DEALS

Government sells short-term Sukuk

BAHRAIN: The Central Bank of Bahrain received orders worth BHD29 million (US$76.92 million) for its monthly issue of short-term Sukuk Ijarah amounting to BHD20 million (US$53.05 million).

The papers, issued on behalf of the government and maturing on the 14th February 2013, are expected to return 1.36%.

Swapped for US dollars

KAZAKHSTAN: The Development Bank of Kazakhstan (DBK), which sold the country's inaugural Sukuk via a ringgit-denominated issuance in July this year, swapped proceeds from the RM240 million (US$76.66 million) offering for US dollars.

In a filing to the Kazakhstan Stock Exchange, DBK said that the papers, which offer a profit rate of 5.5%, were swapped into US$76 million at a yield of 4.95%.

The swap, which is due in August 2017, is part of an agreement with The Royal Bank of Scotland, which jointly managed the Sukuk sale.

Al Baraka in social development deal

EGYPT: Al Baraka Bank Egypt has teamed up with the World Bank to provide EGP200 million (US$32.91 million) in financing for the Social Fund for Development, which helps to fund sustainable development projects in the country.

The financing will be used to provide Islamic finance facilities for new and existing small projects in areas including machinery, new spare parts and working capital. It will also channel funds towards healthcare facilities.

The funds will be made available through Al Baraka Egypt's branches; and is expected to contribute to the establishment of around 4,400 projects and create over 22,000 employment opportunities.

Syndicated financing deal for Saudi

SAUDI ARABIA: Sumitomo Mitsui Banking Corporation has announced that it arranged a US$750 million syndicated financing facility to fund the expansion of the kingdom's Medina Airport.

The Istisnah facility involved three Saudi banks, which were not disclosed.

Approval received

MALAYSIA: Securities Commission Malaysia has approved a plan by independent power producer Malakoff Corporation to sell up to RM1.8 billion (US$576.29 million)-worth of Sukuk.

Proceeds from the Sukuk, maturing in 2042, will be used towards repaying its debt and for its working capital requirements.

DEAL TRACKER Full Deal Tracker on page 33

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Malakoff Corporation	RM	576.29 million	17th August 2012
Putrajaya Holdings	RM	960.63 million	13th August 2012
Indonesia sovereign	US$	1 billion	10th August 2012
Indonesia sovereign	US$	750 million	10th August 2012
Tanjung Bin Power	RM	1.44 billion	7th August 2012

Celcom Transmission (M) sells US$1.59 billion-worth of Sukuk

MALAYSIA: Celcom Transmission (M) (CTX), a unit of Celcom Axiata which is in turn owned by telecommunications group Axiata Group, has issued RM5 billion (US$1.59 billion)-worth of Sukuk.

In a response to Islamic Finance *news*, which reported on the 10th August that CTX was looking at issuing the papers by the end of the month, Celcom said that the Sukuk, of which RM3 billion (US$956.65 million) was sold via a public issuance, was priced at 3.45%, 3.6% and 3.75% for its three, five and seven-year tranches, respectively.

The final pricing of the papers are below initial guidance of 3.5-3.65%, 3.65-3.8% and 3.8-3.95%, it said.

The remainder of the papers were privately placed in tranches of eight, nine and 10 years.

The Sukuk is also touted as the largest rated Sukuk Murabahah based on a Tawarruq agreement offered in the Malaysian debt capital market to-date.

According to a statement, the RM3 billion tranche received over RM10 billion (US$3.19 billion)-worth of orders from asset management firms, financial institutions, insurance companies and corporates.

Proceeds from the offering will be used to refinance CTX's existing debt and to fund its capital expenditure and working capital requirements. "The successful refinancing is part of Axiata Group's active capital management efforts and is estimated to save over RM350 million (US$111.64 million) over the remaining tenor of the existing unrated Sukuk," said Celcom in the statement.

CTX sold a landmark RM4.2 billion (US$1.34 billion) Sukuk Ijarah in 2010.

The company's latest offering saw the participation of CIMB Investment Bank and HSBC Amanah Malaysia as joint principal advisors and joint lead arrangers. The banks were also joint lead managers and joint bookrunners for the Sukuk, together with Maybank Investment Bank.

AFRICA

Raising more funds

NIGERIA: Jaiz Bank is looking into tapping the capital market to raise funds to finance its nationwide expansion, said Zainab Ahmed Maska, its chairman and co-founder.

Zainab also clarified that Jaiz Bank will not have to shut down as a result of a recent court ruling in Abuja declaring Islamic banking illegal, noting that it is not affected by findings that the country's banking act does not provide for Islamic finance.

Seeking financing aid

NIGERIA: Mohammed Namadi Sambo, the country's vice-president, has called on financial aid from the IDB to help fund measures to eradicate Poliomyelitis, a viral disease, in the country.

ASIA

Profitable results for Meezan

PAKISTAN: Meezan Bank reported a 33% year-on-year growth in net profit to PKR1.84 billion (US$194.38 million) for the first half of 2012.

Total assets rose 12% to PKR224 billion (US$2.37 billion) while deposits increased 14% to PKR194 billion (US$2.05 billion).

Staying put in Malaysia

MALAYSIA: AMMB Holdings, which owns AmIslamic Bank, does not harbor any plans to acquire stakes in banks outside the country, said Ashok Ramamurthy, its group managing director.

The decision not to venture out of the country is largely attributed to the group's existing partnership with the Australia and New Zealand Banking Group (ANZ), which according to Ramamurthy, is adequate for AMMB to create a presence overseas. In 2011, AMMB signed an agreement with ANZ which expands the Malaysian banking group's network across 27 countries.

Nonetheless, Ramamurthy did not rule out the possibility that AMMB would consider value-adding acquisitions.

Meanwhile, earlier reports have however suggested that ANZ, which owns 24% of AMMB, is open to disposing some of its interests in banks in Asia in an effort to meet the Australian central bank's strict rules on capital. Apart from AMMB, ANZ also owns 39% of Panin Indonesia Bank and 17.6% and 20%, respectively, of China's Bank of Tianjin and Shanghai Rural Commercial Bank.

However, analysts said that ANZ will likely retain its stake in AMMB, given its existing active participation in managing the banking group's operations.

Slight increase for AMMB Holdings

MALAYSIA: AmBank Group's holding company, AMMB Holdings, announced an increase in pre-tax profits to RM622.52 million (US$199.75 million) for the second quarter ended the 30th June 2012, against RM587.92 million (US$188.65 million) in the previous corresponding period.

The group's revenues rose to RM2 billion (US$641.75 million), from RM1.93 billion (US$619.28 billion) in 2011.

According to Ashok Ramamurthy, its group managing director, profit after tax at its Islamic banking business rose 23.1% to RM71.5 million (US$22.94 million) due to strong asset growth and higher fee income.

Pakistan's first Islamic debit card

PAKISTAN: Burj Bank, in collaboration with MasterCard Worldwide, has launched the country's first Islamic debit card.

The debit card provides customers full access to cash and banking solutions at ATMs in more than 210 countries, in addition to online and telephone banking.

Zakat and Waqf funds for development

BANGLADESH: Proceeds from Zakat and Waqf contributions could be injected into a pool of funds to be used as an alternative to government funding for the country's economic development projects, said associate professor Dr Kabir Hassan of the economics and finance faculty of the University of New Orleans, US.

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Uganda's Islamic banking agenda

UGANDA: Yoweri Kaguta Museveni, the country's president, has thrown his weight behind the development of Islamic banking in the country, directing his officers to complete discussions on Shariah compliant financial services by the end of September this year.

He also said that he will hold talks on Islamic banking with the ministry of finance and Shariah scholars, with an aim of rolling out Islamic banking in Uganda.

The president noted that Islamic banking's popularity, particularly in the African region, is undeniable and as such, Uganda should also jump on the interest-free bandwagon.

The country's previous attempt at dipping its toes into Islamic finance proved unsuccessful. In July last year, a group of Gulf investors, under the ambit of the Emirates Link for Strategic Alliance, were given approval by Uganda's central bank to takeover up to 75% of the National Bank of Commerce (Uganda); with plans to convert the bank into an Islamic financial institution.

However, those plans were thrown into disarray following legal action by the Gulf investors against the bank for failing to transfer ownership to the investors; despite the investors already paying for a 48% share in the bank.

With Museveni, who has been president since 1986, pushing for the rollout of Islamic finance in Uganda, the country may just have a fighting chance of seeing a strong take up of the industry. With 16% of its 27 million population estimated to comprise Muslims, the idea of Islamic banking taking flight is feasible.

Additionally, with the proportion of its population living in poverty estimated at 24.5% as at 2020, according to the World Bank, the introduction of Islamic banking, given its particular appeal to the unbanked and microfinancing sectors, may well help Ugandans gain some faith in their financial system.

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However, this is only achievable if the Zakat funds are properly collected and managed, he noted.

Lower profits at Alliance

MALAYSIA: Alliance Financial Group reported a net profit of RM124.58 million (US$39.82 million) for its first quarter ended the 30th June 2012, 4.2% lower than a year earlier due to higher spending.

Net loans including Islamic financing rose 12.9% to reach RM25.3 billion (US$8.09 billion).

Slower growth at CIMB Islamic

MALAYSIA: CIMB Islamic has reported an 8.5% decline in pre-tax profit to RM242 million (US$77.36 million) due to higher provisions.

Its total deposits rose 23% year-on-year to RM28.5 billion (US$9.11 billion).

Meanwhile, CIMB Group Holdings announced a 12.3% year-on-year increase in net profit to RM2.12 billion (US$677.71 million) for the first half ended the 30th June 2012.

Record achievement for Maybank

MALAYSIA: Maybank announced a 24.5% year-on-year growth in its net profit to an all-time high of RM1.44 billion (US$460.89 million) for the second quarter ended the 30th June 2012.

Net interest and Islamic banking income surged 17.8% to RM2.67 billion (US$852.35 million).

Expecting growth

MALAYSIA: Bank Islam Malaysia, which reported a 3.8% year-on-year increase in profit to RM123.1 million (US$39.4 million) for the first half ended the 30th June 2012, is optimistic that its financing portfolio related to the country's Economic Transformation Program projects will help increase its revenue going forward.

During the period, the bank reported a 19.3% increase in total income to RM874.02 million (US$279.74 million).

Higher profit for REIT

MALAYSIA: Al-Hadharah Boustead Real Estate Investment Trust (REIT) reported a net profit of RM22 million (US$7.02 million) for the second quarter ended the 30th June 2012, against RM21 million (US$6.7 million) a year earlier.

The marginally higher profits were attributed to a revenue of RM25 million (US$7.97 million), while fixed rental income rose to RM14 million (US$4.47 million).

EUROPE

Financial planning for Muslims

UK: Accounting and business advisory firm Garbutt & Elliot have established Ummah Financial Planning, an independent financial planning unit targeted at Muslims in the UK.

Simon Holt, the managing director of Ummah Financial Planning, said that the firm plans to offer its services nationwide, but will begin with four advisors in the city of Leeds.

GLOBAL

Criteria reassigned

GLOBAL: Global ratings agency, Fitch Ratings has made modifications to its Sukuk rating criteria but noted that the changes will not impact its ratings on Sukuk already rated.

More knowledge needed

GLOBAL: Investment advisors remain hesitant to tap into Shariah compliant investments and funds as they have limited knowledge on the products, according to a study commissioned by the Bank of London and The Middle East (BLME).

Nigel Denison, the head of asset management at BLME, said that results of the study reaffirmed the bank's belief that Islamic funds have been largely overlooked, highlighting the need for Islamic fund managers to help educate investors.

Merger on the cards

GLOBAL: Global law firm K&L Gates, which has been involved in Islamic finance transactions and Australian legal firm Middletons are currently in discussions for a potential merger.

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Shariah compliant investors to gain from UK property price upswing

UK: For Shariah compliant investors, the UK has long represented an attractive location to park their funds, providing opportunities mainly in property investments; and a new report by real estate investment firm London Central Portfolio (LCP) shows why there has been good reason to do so, especially in London.

According to LCP, property prices in England and Wales have risen 29% since the UK made its Olympic bid in 2005, while prices in prime London central rose 112% and are projected to rise further.

"The second quarter of 2012 has seen property prices in prime London central continuing to forge ahead, reaching record highs. At GBP1.3 million (US$2.05 million), they are now five times higher than those in England and Wales, which stand at GBP238,638 (US$376,396)," said LCP, which is in the midst of acquiring properties for a Shariah compliant investment portfolio.

Among Shariah compliant real estate investments in the UK include an acquisition in July this year by Tadhamon Capital and Apache Capital Partners of a student accommodation development in central London. Additionally, Gatehouse Bank just announced its acquisition of a property in the city of Leeds which houses retail chain Debenhams. According to Scott Nicol, the vice-president of real estate at Gatehouse, major shopping centers in Leeds are continuing to see high levels of demand; with the prime retail market remaining "remarkably resilient".

UK properties have not just emerged as a prime investment for Shariah compliant investors, but also presented an opportunity for Islamic financing. The Shard, one of London's newest skyscrapers, was financed with Islamic funds; as was the redevelopment of the Chelsea Barracks.

Nonetheless, while Islamic funds seem to have found a safe haven in UK real estate investments, investors should remain mindful of putting all their eggs in one basket; and ensure that their portfolios remain diversified to avoid fallout from any property down cycles.

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According to a statement, talks between the firms have been underway for several months. If successful, formal proposals will be presented to both partnerships later this year.

Sovereigns to step in

GLOBAL: Sovereign issuers are expected to sustain momentum in the global Sukuk market in the second half of this year, according to KFH Research.

In a report, the research arm of Kuwait Finance House said that issuances from Malaysia and Gambia's central banks, the Indonesian government and debut sovereign Sukuk from Nigeria, South Africa and Turkey are set to strengthen the market in the last six months of 2012.

It said that issuances in the first half of the year amounted to US$66.4 billion, 40.1% higher than a year earlier.

MIDDLE EAST

Online banking for trade

UAE: Dubai Islamic Bank launched online payment facilities via Rosoom, Dubai Trade's electronic payment platform, for the bank's trade-related customers.

Rosoom allows importers and exporters, shipping agents, freight forwarders, clearing agents, customs brokers and transport companies to complete transactions and processes related to port operator DP World, Jafza (Jebel Ali Free Zone) and the Dubai Multi Commodities Center online.

Dubai Trade, part of the Dubai Group, provides a one-stop electronic platform integrating various trade and logistics service providers in Dubai.

Strong demand for SEC Sukuk

SAUDI ARABIA: Saudi Electricity Company (SEC) saw gains on yields of its US$1.75 billion Sukuk sold in March 2012 outpace those of Gulf corporate Sukuk by 67% in August.

The 4.21% papers have declined 9.5% since they were issued, falling to a record low of 3.1% on the 7th August. According to data from the HSBC/Nasdaq Dubai GCC Corporate US Dollar Sukuk Index, corporate Sukuk from the Gulf have returned 5.7%.

New offering from EIB

UAE: Emirates Islamic Bank (EIB) has launched a financial solutions program tailored for workers new to the emirates and those that have just started new jobs.

The program includes personal and vehicle financing of up to AED75,000 (US$20,413) and is aimed at assisting new workers and expats who have just moved to the emirates to settle in.

Record low for Nakheel Sukuk

UAE: The yields on Nakheel's 10%, AED3.8 billion (US$1.03 billion) Sukuk maturing in August 2016 declined to a record low of 9.5% on the 2nd August.

From the 1st January to the 15th August, the yield on the papers declined by 820 basis points.

New Takaful offering

UAE: Dubai Islamic Insurance & Reinsurance Company (AMAN), FWU Global Takaful Solutions and Emirates Money Consumer Finance, a subsidiary of Emirates NBD, have teamed up to launch a bancaTakaful savings and investment program.

The plan offers investments in equities and cash.

Coming up...

Volume 9 Issue 34 — 29th August 2012

Meet the Head
Deon Vernooy, senior executive officer, Emirates NBD Asset Management.

Special Report
Carbon finance, climate change and Islamic economy; By Khaldoun Malkawi, president and CEO, Al Sanabel Holding, Jordan.

Column
Why is the Fed not printing money like crazy? Strategic insight for the financial markets (Part 2); By Shan Saeed

Features
A new experience for embedded put options in the Iranian Islamic capital market; By Majid Pireh, Islamic finance expert at the Securities & Exchange Organization Iran.

The agency structure in Islamic syndicated financing; By Suhaimi Zainul, partner, Allen & Gledhill Singapore.

RATINGS

Strong and stable

MALAYSIA: RAM assigned its 'AA1' rating to Kuala Lumpur Kepong (KLK)'s 10-year, RM1 billion (US$319 million) multi-currency Islamic medium-term notes program, with a stable outlook.

The rating agency also reaffirmed its 'AA1' rating on KLK's existing RM300 million (US$95.66 million) Sukuk program. The papers also have a stable outlook.

Positively rated

MALAYSIA: RAM has reaffirmed its rating on Danga Capital's RM10 billion (US$3.19 billion) multi-currency Sukuk program at 'AAA' with a stable outlook.

The rating reflects the strong standing of Danga's parent company, sovereign wealth fund Khazanah Nasional, as the transaction's sole purchase undertaking obligor.

Good standing

KUWAIT: CI has reaffirmed National Industries Group's US$475 million Sukuk at 'BBB' with a stable outlook.

Consistently strong

QATAR: Fitch has affirmed Qatar Islamic Bank's long-term issuer default rating at 'A' with a stable outlook and viability rating at 'bbb'.

Affin Holdings looking into acquisition of Bank Muamalat Malaysia

Affin Holdings (Affin), which owns Affin Islamic Bank, has set its sights on the acquisition of a stake in Shariah compliant Bank Muamalat Malaysia; receiving approval from the country's central bank to initiate negotiations with its major shareholders, DRB-HICOM and sovereign wealth fund Khazanah Nasional.

In an announcement to the stock exchange, Affin disclosed that the talks are expected to be completed on or by the 31st December this year. However, any agreement will first require the approval of the finance ministry, with recommendation from the central bank, pursuant to the Islamic Banking Act 1938.

In a separate statement, DRB-Hicom said that its plans to dispose of a stake in Bank Muamalat, in which it acquired a 70% interest in 2008, is driven by the Malaysian central bank's requirement for it to reduce its ownership in Bank Muamalat to 40%.

The potential acquisition of Bank Muamalat could prove crucial for Affin to maintain a meaningful presence in Malaysia's increasingly competitive banking industry. Currently, Affin and Bank Muamalat are among the smallest banks in the country, in terms of asset size.

A merger with Bank Muamalat could also boost Affin's strength in overseas forays, which have so far proven unsuccessful.

In 2010, Affin made a bid to acquire at least 51% in Indonesia's Bank Ina Perdana, with plans to convert the bank into a fully-fledged Islamic bank, but its proposed acquisition was put on hold as the Indonesian central bank was at the time preparing its new rules on ownership limits in the country's commercial banks.

Affin has also attempted to expand its Islamic operations to China, with limited success due to the country's lack of regulations for Islamic finance. Nonetheless, the Malaysian banking group maintained that it remains keen on expanding its business in China, leveraging ties with its 23.5% shareholder, Hong Kong's Bank of East Asia.

With its first two tries at expansion so far thwarted, could Affin emerge third time lucky with its potential acquisition of Bank Muamalat? — *LR*

Ensuring quality control of Shariah scholars

The Malaysia-based Association of Shariah Advisors in Islamic Finance (ASAS) is on a mission to ensure the continual development and quality control of Shariah scholars through the implementation of a "points accumulation" program which could be made mandatory.

Dr Aznan Hasan, the president of ASAS, spoke to Islamic Finance *news* on how and why Malaysia and the rest of the world of Islamic finance is in dire need of this program.

"As we move forward in the industry, we want to implement a new way to measure all aspects and artefacts of Islamic finance, which also include Shariah advisors.

"Therefore, we are thinking of having ASAS as a forum and venue of which Shariah scholars can meet and discuss to enhance themselves," said Dr Aznan.

On how the program will be implemented, he said that ASAS will introduce a "continuing development program" (CPD), a framework for which ASAS has prepared. "Before 2015, we would try to persuade the scholars to undertake the CPD. But come 2015, with the help of the central bank, Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SCM) — we want to make it mandatory that Shariah scholars will continuously collect these points as they sit across a number of boards," he said.

> ***"Before 2015, we would try to persuade the scholars to undertake the continuing development program"***

The points can then be taken into consideration in the reappointment of Shariah scholars.

Dr Aznan said that ASAS is now in discussions with the central bank on the mandatory implementation of the CPD, noting however that: "The first two years are very crucial as we need to convince BNM and SCM that it is good for them to consider this program. However, we have no way to enforce this on BNM or the SCM, but we believe that what we have developed will help BNM to identify the scholars who are continuously developing themselves."

Meanwhile, he said that the association is working with experts in accounting, legal and economics, who also sit on the boards of Islamic banks in Malaysia, to formulate ASAS's framework for the CPD program. Scholars' knowledge of the three practices will then be taken into account when assessing their development.

He explained that the program could be implemented directly through ASAS, or through training firms with ASAS's endorsement. He also clarified earlier news reports stating that the program will include financial literacy tests, noting that ASAS's efforts will only involve workshops and courses which will be assigned points for scholars to accumulate.

Islamic Finance *news* has long mooted for a more organized effort in standardizing the role and introducing certification of scholars. ASAS's plan could help towards achieving this, however, its success may just hinge on the support of regulators in making the program mandatory. — *LR*

Bahrain Mumtalakat goes East

BAHRAIN

By Dr Hatim El Tahir, IFN Correspondent

Bahrain's sovereign wealth fund (SWF), Mumtalakat Holding Company, is set to go east and make an anchor cross-border investment by tapping the Sukuk market in Malaysia. This move is considered to be the first of its kind in the oil-rich Gulf countries, and was welcomed by many business and capital market analysts.

The transaction can be seen as a positive move toward market harmonization between the two countries. First, the Sukuk issuance and listing will help improve collaborative investment and will strengthen international Islamic liquidity market. The issuance of Mumtalakat will also pave the way for other Gulf corporates to reach out to investors in the Southeast Asian markets and enhance cross-border investment between the two jurisdictions. Needless to say, for Mumtalakat, Malaysia was the obvious choice for several reasons. One of the reasons is the historical regulatory institutional collaboration between the two jurisdictions and long-term support for Islamic financial services.

The firm's vision is to serve Bahrain's economic vision 2030 and aims to grow country's wealth through diversification of its economy and reduce dependence on the depleting oil and gas resources.

With just over six years in operations, Mumtalakat now operates 29 commercial enterprises operating in a spectrum of industries which all in a way or another support the important oil and gas industry in the kingdom. In addition, the firm also operates in other service sectors including aviation, real estate, telecommunication and manufacturing.

It is also worth noting that the establishment of the SWF Fund is a culmination of an important privatization strategy which transformed the assets of the formerly state-owned enterprises largely owned by the ministry of finance to be managed by Mumtalakat as an investment arm of the state.

However, looking at the firm's performance in the past few years, Mumtalakat has experienced mixed results of success and one cannot escape highlighting the failing part of its troubled affiliate-company Gulf Air — now fully owned by Mumtalakat — which has continued to drain immense funding support to restructure its escalating debts and operating losses. The estimated loss of Gulf Air last year was estimated at US$950 million. Naturally, this huge investment to rescue the national carrier has caused Mumtalakat a significant shrunk its total assets which amounted to 20% from US$13.4 billion in 2010 to US$11.1 billion in 2011.

Nevertheless, and in all good, Mumtalakat has recently embarked on an ambitious international capital raising plans through the issuance of the Malaysian ringgit-denominated Sukuk which worth just less than US$1 billion.

The main objective of this capital raising is to manage the holding firm's long-term finances and partly pay off some of its maturing corporate debts. The 20-year medium-term notes Sukuk have secured an 'AA2' rating from RAM Ratings.

The merit and value proposition of this landmark transaction can be summoned in two inter-related contexts:

- Micro-level:
  - Enhance liquidity and risk management of issuing firms' capital structure.
  - Strengthens corporate governance practice and greater disclosures.
  - Improve investors' profile through access to new institutional investors.
  - Develop new investment strategies and expertise.
- Macro-level:
  - Enhance cross-border liquidity between the two key markets, GCC and Southeast Asia.
  - Improve regulatory collaboration and harmonization of regulations.
  - Development of capital market leadership and human capital.
  - Stimulate product innovation and Shariah complaint investment structures.

Dr Hatim El-Tahir is the director of the Islamic finance group, Islamic Finance Knowledge Center Leader, at Deloitte & Touche – Bahrain. He can be contacted at heltahir@deloitte.com

Challenges facing the Islamic finance industry in the Maldives

MALDIVES

By Aishath Muneeza, IFN Correspondent

Background

The Maldives is a country with limited resources. The lifeline of the economy is fishing and the golden goose of the country is tourism. The country also heavily depends on importation of goods. The financial system of the Maldives is based on conventional rules and laws. The financial and the economic system of the country are based on conventional economics and financial principles.

The country has a fixed exchange rate or a pegged exchange rate where the domestic currency, Maldivian rufiyaa's, value is matched with the value of the US dollar. This makes trade and investments, including importing of goods between other jurisdictions, convenient and more predictable.

A fixed exchange rate is practical and functional to the Maldives which has a small economy with heavy reliance on imported goods. However, at the moment the country is facing a dollar crisis in the sense that the demand for dollar is more than the supply of it, making the imported goods more expensive and the inflation rates to rise up.

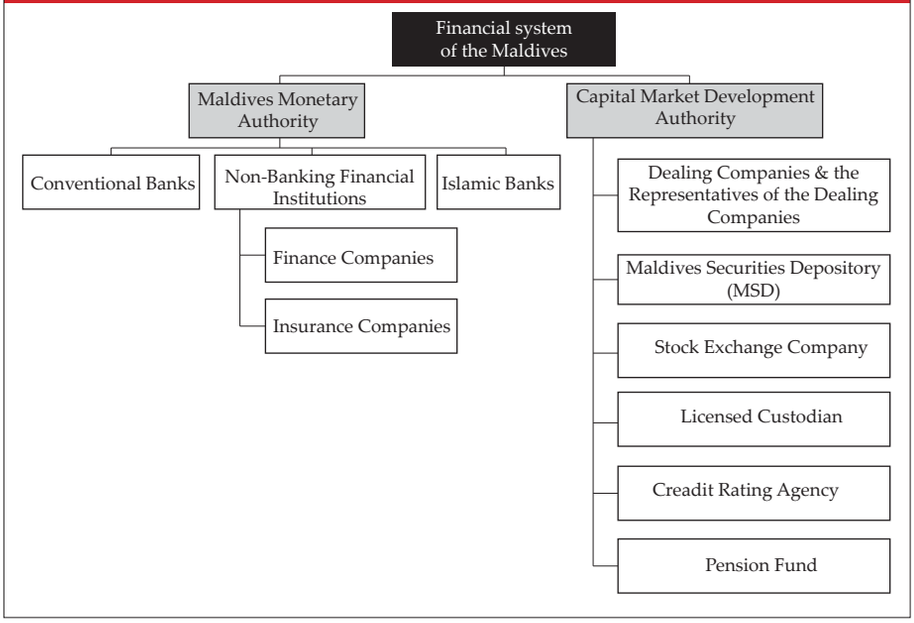
Banking sector

The banking sector and the money market are regulated by the Central Bank of the Maldives, the Maldives Monetary Authority, and the capital markets are regulated by the Capital Market Development Authority.

The Maldives Monetary Authority was established under the Maldives Monetary Act 1981 on the 1st July 1981 with the mandate to issue, regulate and stabilize the availability of the Maldivian rufiyaa and to license, supervise and regulate institutions in the financial sector; to formulate and implement monetary policies and to advise the government on issues relating to the economy and financial system to boost the economic development of the nation.

The Capital Market Development Authority was established under the Maldives Securities Act 2006 to regulate the capital markets in the Maldives, which now includes a conventional and an Islamic capital market which is developed parallel to each other. Chart 1 summarizes the financial system of the Maldives.

Chart 1: The financial system of the Maldives



The biggest challenge for the development of Islamic finance in the Maldives is the lack of education and awareness of the stakeholders about the mechanisms in which Islamic banking and finance will work.

Furthermore, the majority of the population still lacks knowledge of the distinction between Islamic banking, Takaful and the Islamic capital market; and whenever Islamic finance is mentioned, people consider it only as Islamic banking. Hence, formal education and awareness sessions on Islamic finance need to be carried out.

For Islamic banking and finance, it is not only religious knowledge that is needed. It also requires people from different disciplines.

Religious scholars are much needed for Islamic banking and finance. In the Maldives there are many graduates from various religious fields; but this does not qualify all of them to be Shariah scholars capable of advising or handling Islamic banking and finance matters.

Currently the country lacks an adequate number of religious scholars who have technical expertise in Islamic banking and finance.

Without this technical expertise it would be impossible to sustain an Islamic finance industry parallel to the conventional finance industry in the Maldives. Hence, there is an urgent need to train people in this field. To initiate this, the country could amend the existing skill shortage list and human resource requirement list to include people to be trained from Islamic banking and finance related fields. This could be done at national level.

Maldives, being a 100% Muslim country, has an inherent demand for Islamic banking and finance. There is an evergreen future to the development and sustainability of Islamic finance in the country provided that the constraints facing it are mitigated or eliminated.

Conclusion

It is hoped that in a near future, the country will be able to develop its Islamic finance industry as an alternative to the existing conventional finance sector; and that the recommendations stated here will assist in eliminating the hiccups facing the Islamic capital market in the Maldives.

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

The genetics of Islamic exchange-traded funds

Exchange-traded funds that are Shariah compliant are growing in number and diversity as they offer the investors service and value. SAEID HAMEDANCHI examines.

Exchange traded funds (ETF) were first introduced in the US in 1993 by State Street Global Advisors. The first ETF tracked the S&P 500 index. Since then, the ETF industry has seen rapid growth. According to the US ETF Industry Association, as at the end of April 2012, there were 1,458 ETFs/exchange-traded notes (ETNs) with assets under management (AUM) of US$1,204 billion listed on the US exchanges. In the US market, AUM for the ETF/ETN industry increased by US$357 billion over the past 24 months. Globally, AUM exchange-traded products reached US$1,716 billion in 4,490 exchange traded products.

> ***"Institutional investors (pension plans, endowments) can use an ETF to invest assets in a low cost manner while in transition between active managers"***

Global exchange-traded products had a positive inflow of US$173 billion last year while mutual funds had negative outflows of US$54 billion in 2011. ETF assets rose from US$70 billion in 2000 to US$1,204 billion in 2012 in the US market. The US market is the largest ETF market globally with over 70% market share. With the rapid growth of the ETF industry in the US and Europe in the last decade, it was only a matter of time until Shariah compliant ETFs entered the global Islamic finance industry. The first Shariah compliant ETF debuted in January 2007 in Europe using Dow Jones Islamic market indexes.

The exchange-traded products industry's AUM is growing rapidly because exchange-traded funds offer a lower total expense ratio, greater transparency, instant diversification and speedy execution to the investors (retail and Institutional). The major markets for the ETF sponsors currently are in the US, Europe and Asia Pacific. However ETFs are making inroads into other regions.

Regulators in the GCC and MENA are relaxing regulation and allowing exchanges to list ETFs there. Over the past few years, there have been listings of ETFs in various GCC markets such as Tadawul (Riyadh, Saudi Arabia) Abu Dhabi exchanges (Abu Dhabi and the UAE) and others.

The reasons for popularity of ETFs

Firstly, we need to recognize some general features of the ETF, an innovation over the open-ended mutual funds and closed-ended mutual funds:

1. **Lower total expense ratio/ cost efficiency**: Conventional broad-based ETFs are being offered at less than 10 basis points (0.1%) of the total expense ratio. The Shariah compliant ETF total expense ratios are targeted to be lower than that of competing mutual fund products. The total expense ratios in Shariah ETFs are very competitive with ethical/ socially responsible ETFs. iShares and DB ETF offerings are generally charging less than 60 basis points for total expense ratio per year. Shariah compliant active mutual funds are typically charging in range of 1-2% per annum depending on the strategy. Active management fees in Shariah compliant funds industry is dropping, according to EY Islamic Funds Report 2011.

2. **Speedy execution**: Shariah compliant ETFs are purchased just like stocks. This can be done via a broker for an individual or by the trading desk of an asset manager at any time during market trading hours. However mutual fund investors can only invest/redeem at market close.

3. **Greater transparency**: ETFs are required to reveal their holdings on a daily basis whereas mutual funds do it only twice per year on a delayed basis. Investors want transparency in this environment.

4. **More tax efficiency**: Shariah compliant ETFs are more tax efficient than mutual funds because of their structures. Mutual fund investors get penalized during periods of heavy redemption where one pays for capital gains of others. In an ETF structure, the ETF investor pays capital gains tax only upon sale of the ETF.

5. **Lower trading costs for institutional investors**: Institutional investors will be trading with authorized participants who would create and redeem the underlying baskets. Institutions can trade creation and redemption baskets which typically hold between 25,000-100,000 shares, lowering their transaction costs even further.

6. **Trading close to the net asset value**: ETFs, unlike closed-end funds, trade very close to the net-asset value (NAV) of the fund, not at a discount or premium. With an ETF, there are market makers doing constant arbitrage in the ETF and the underlying securities, thus causing the ETF to trade at very little discount or premium to NAV of the portfolio.

What are the applications of ETFs to the institutional investment managers?

1. **Cash overlay strategies**: This would be very useful for an active manager who has redemption or cash inflows. This will enable the active manager to minimize the cash drag and equitize the cash return.

   This will enable the manager to gain market exposure instantly to a Shariah compliant index while accumulating assets and lowering

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their cash drag. Institutional investment managers can purchase an ETF to manage their cash flows during the periods of inflows and outflows. A portfolio manager can establish a position that can correspond with the manager's benchmark or investment strategy, investing inflows into the ETF and liquidating the position as needed to meet redemptions.

Portfolio diversification can be done in one single trade. By purchasing broad based Shariah ETFs, the manager can gain instant portfolio diversification.

2. **Transition management**: Institutional investors (pension plans, endowments) can use an ETF to invest assets in a low cost manner while in transition between active managers.

3. **Asset allocation strategy**: Once the Shariah compliant ETF market is well developed, it will assist asset managers with their asset allocation decisions in choosing between different regions, market capitalizations, sectors and asset classes. This can be done in the retail market whereby the financial advisor allocates retail investors assets based upon his/her risk tolerance and preferences.

What makes an ETF Shariah compliant?

All passively managed Shariah compliant ETFs are required to follow an index. The first Shariah compliant index provider was Dow Jones which debuted in 1999. However others have entered the industry (i.e. S&P, MSCI and others). The index providers in consultation with a Shariah advisory board decide which stocks in a conventional index are not Shariah compliant. The excluded stocks are eliminated from the index.

All Shariah compliant ETFs are required not to invest in the following industries:

- Manufacture/distribution/retailing of alcohol, tobacco and pork related products.
- Conventional financial services industry (banking, insurance, etc).

Chart 1

	Outperformance of Shariah indexes		
Index Name	**1 year**	**3-year**	**5-year**
S&P 500	4.76%	19.46%	1.01%
S&P 500 Shariah	5.12%	18.54%	4.07%
Outperformance of Shariah indexes	0.36%	-0.92%	3.06%

Source: S&P Indexes
Data as of end of April 2012

- Weapons and defense contractors.
- Entertainment (hotels, gaming and casino, cinema, pornography music, etc).
- Trading of gold and silver as cash on a deferred basis (S&P Indexes).

> ***"Shariah compliant ETFs must have a Fatwa issued by a prominent Shariah board that they are indeed in compliance with Shariah rules"***

In addition, the screened companies are required which financial ratios are above these are excluded from Dow Jones Islamic Market Indexes:

- Total debt divided by trailing 24-month average market capitalization is 33% or more.
- Cash plus interest-bearing securities divided by trailing 24 month average market capitalization is 33% or more.
- Accounts receivables divided by 24-month average market capitalization is 33% or more.

Shariah compliant ETFs must have a Fatwa issued by a prominent Shariah board that they are indeed in compliance with Shariah rules and the manager is in full compliance with the rules and procedures established by the index provider. There are five major Shariah compliant index providers (Dow Jones, S&P, MSCI, FTSE and Russell Jadwa). All of them use a slightly different methodology in their screening criteria.

Shariah compliant indexes are generally overweight the following industries: energy, health care and materials. Shariah indexes underweight conventional financial services.

Shariah indexes have had excellent performance in the past five years versus the conventional indexes. Chart 1 is the performance of S&P 500 Shariah versus S&P 500 conventional. This is due to ethical and financial screens imposed on the Shariah Indexes.

Cash (physical) ETFs versus synthetic (swap-based) ETFs

ETFs have traditionally been using the physical ETF structure (full replication or sampling strategy) to match the return of the index. When ETF uses the full replication method, they invest in the underlying basket of securities linked to the index. In a sampling strategy, ETF portfolio manager uses sampling of stocks in the index to develop the basket of security. In indexing strategy, it is critical that the portfolio manager minimizes the tracking error and trading costs. ETF sponsors that use physical ETF structure.

Synthetic (swap-based) ETF have been very popular in Europe and is widely used by major ETF sponsors. There are two types of swaps employed: unfunded swap and funded swap.

- The fund enters into unfunded swap with a single or multiparty to receive

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the index performance in return for a stock basket purchased by the fund with the investors' cash, which collateralizes the swap notional.

- The fund enters into a funded swap with a single or multiparty counter party to receive the index total return. The fund pays the cash notional to the swap counter party that uses the cash to hedge exposure. The counter party posts collateral. All cash is transferred to swap counterparty swap index

Europe's UCITS rules which set the risk management policy to be followed by the entire region's ETF, specify that the net exposure to derivatives counter parties may not exceed 10% of a fund's NAV. Collateral is therefore used to reduce ETF's exposure to the swap counterparty.

The main advantages of physical replication ETFs are complete transparency, there is no counter party risk since the ETF holds the shares of the underlying index. In the event of bankruptcy of the ETF sponsor, the basket is liquidated and proceeds are returned to shareholders. In the event of default by the swap counterparty, ETF investor can potentially lose up to 10% of their investment.

The main advantages of swap-based ETFs are reduced costs, lower tracking error compared to the traditional full replication strategy ETF, since the counter party delivers the return of the index to the ETF sponsor. The other advantage of swap-based ETF is tax efficiency.

ETF sponsors mitigate the risk of counterparty risk by picking multiple financial institutions with excellent credit rating ('AA' or 'A') as their counterparty and conducting regular monitoring and due diligence to avoid risks. Investors should demand strong counterparty risk management as well as high degree of transparency from their ETFs.

In the US and Asia Pacific region, physical ETF are dominant in the market, due to regulation. However in Europe, synthetic ETF have approximately a 50% market share of all ETFs.

Conclusion

ETFs that are Shariah compliant are growing in number and diversity. They offer the investors service and value. Passive equity ETFs can provide the Shariah seeking investors' exposure to the global equity markets (developed, emerging & frontier) at low expense ratio and ease of execution. Most of the ETF offerings are index-based.

However active Islamic ETFs could be introduced in the near future. There are also several Shariah compliant precious metals ETFs offered by the ETF securities.

Saeid Hamedanchi is the founder and CEO of ShariahShares. He can be contacted at saeid@shariahshares.com.

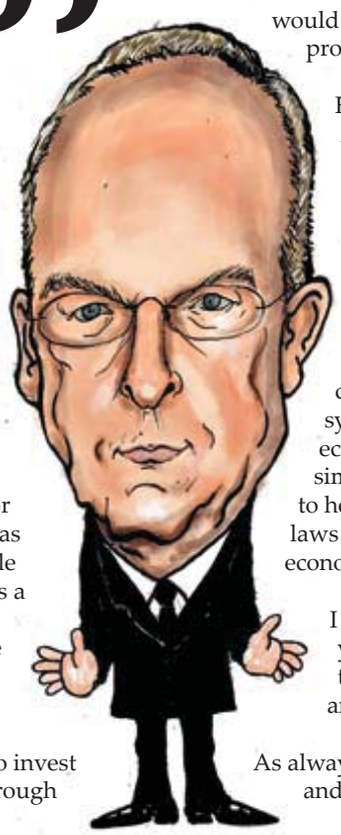
Daud speaks

By Daud Vicary Abdullah

This article is being written during the final days of Ramadan and by the time you read it, the Eid celebrations will have come and gone. Given that the fasting month has been an opportunity for reflection and thought, I have decided to share some thoughts with you on areas of research and development that the Islamic finance industry may care to take a look at in the coming 12 months or so. These are by no means exhaustive, however, I thought I would highlight four of them.

> ***"A comparative legal analysis in terms of determining the efficiency of legal institutions and frameworks that are conducive to economic growth"***

Firstly, macro market instruments . For example, governments developing risk sharing instruments to mobilize resources to financial capital and development expenditures. The return to these instruments can be tied to the growth rate of the GDP. These will provide instruments for liquidity management as well as allow the middle and low income groups a stake in the economy provided that these are small denominations unlike major Sukuk issuances. It could also allow other nationals to invest in the real economy through purchases of these instruments thus sharing risk of the domestic economy.



Secondly, risk-sharing-based macroeconomic policies — Given the large fiscal deficits in many countries and exhaustion by tax payers, finding alternative ways and means of not only financing some, if not all, government operations through risk-sharing could be helpful. As mentioned in the first item above, there are a number of ways that governments can develop risk-sharing instruments to mobilize financial resources to finance their operations. These then become monetary policy instruments as well through which the central banks can manage the liquidity needs of the real sector of the economy.

Thirdly, the institutional infrastructure of an Islamic-based economy. What are the institutions that an economy needs in order to grow? These would include institutions (or rules) such as property rights protection, contract enforcement rules, trust and efficient legal institutions. These and a number of other rules and institutions are prescribed in the Quran and Sunnah. What is required here is collaboration to specify and design ways and means of implementing the required institutional structure of economies that would help growth and development processes in the OIC countries.

Fourthly, legal Infrastructure. A comparative legal analysis in terms of determining the efficiency of legal institutions and frameworks that are conducive to economic growth. During the 1990s a number of credible studies were done comparing French civil law and English common law to see which system was more conducive to economic growth. Something similar could be undertaken to help analyze how Islamic laws could become conducive to economic growth.

I will leave these thoughts with you and see if they gain some traction in the coming weeks and months.

As always, there is always much to do and not a moment to lose.

International Bank of Azerbaijan looks to foreign shores

International Bank of Azerbaijan (IBA), whose Islamic banking business has primarily had to concentrate on growth outside of its home country, plans to apply for a license to establish a Shariah compliant finance subsidiary in Qatar in September this year.

In an interview with Islamic Finance *news* Behnam Gurbanzada, the head of the Islamic banking unit at IBA, said that the bank will submit an application to Qatari authorities for a Category 4 license, which allows institutions to arrange deals in investments, provide credit facilities and custody services, advise on investments and operate collective investment schemes.

> ***"We have opportunities to create an Islamic banking platform within CIS countries"***

"IBA is planning to establish an Islamic banking subsidiary with a local partner. The paid-up capital requirement is US$250,000. However, we are planning to increase the operational portfolio after start-up.

"We are planning to finish preparations by the end of 2012 and start operations in the first quarter of 2013," said Behnam, who also noted that the bank has already received preliminary permission for its planned venture from local authorities.

He added that the documentation for the bank's application is expected for completion after Ramadan. He could not disclose the identity of IBA's local partner, noting however that the firm is "well-known in the GCC and a respected Qatari company".

Strengthening domestic presence

The bank's Qatari ambitions appear to be driven by a need to diversify away from Azerbaijan, at least for now, as the country still has no separate legislation for Islamic finance, creating a hurdle in the further development of the industry there.

"Regulatory bodies support IBA's intentions to present Islamic banking in Azerbaijan, but they do not have enough knowledge about Islamic banking. Hence, local regulators should be provided with more detailed and educational information regarding Islamic banking as a banking model for earning money," said Behnam.

Nonetheless, he explained that Islamic banking can be provided in the country via the conventional banking structure, noting that while this is not the ideal scenario, until amendments are made to the legal framework to accommodate full-fledged Islamic banks, this is the best option to offer Islamic products and services.

Among growth plans of IBA's Islamic banking unit, which currently has assets of around US$60 million, is to increase its asset base to US$1 billion, said Behnam.

The unit, which is targeted to be developed into a window, plans to offer corporate and wholesale banking products within the first phase of its development; and retail and wealth management products in its second phase.

Behnam also noted that the bank's Islamic banking business in Azerbaijan will be used as a test for the implementation of Islamic banking in CIS (Commonwealth of Independent States) countries.

Tapping the CIS region

Behnam also sees Azerbaijan as a country well poised to become a hub for Islamic banking in the CIS region, given that 93.4% of the country's nine million-strong population is estimated to be Muslim. In addition, the country borders other Muslim-populated countries, such as Turkey, Iran, Georgia and Russia.

"Furthermore, the banking sector in Azerbaijan is developing and there are constantly growing requirements for new banking services and products. Islamic banking is in popular demand," said Behnam.

Given the strong projected potential for Islamic banking in those CIS countries, IBA's efforts to strengthen its Shariah compliant business will remain partly focused on those markets. In addition to its Qatari venture, IBA has set up a subsidiary in Russia and has a presence in the UAE.

"We will have great opportunities to create an Islamic banking platform within the CIS countries for collaboration with potential investors and partners from the MENA region," said Behnam.

He added that: "We are planning the establishment of a common chain of IBA subsidiaries and representative offices. If we are successful then we can set up an Islamic investment and development bank of CIS countries."

He also said that IBA is working with Russia's VTB Bank on the unified Islamic bank for CIS countries, with further developments expected to be announced following the International Banking Conference of the CIS to be held in November this year. — *EB*

Next Forum Question:

Is there still room for innovation in Islamic finance syndicated facilities and which areas would require focus?

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 24th August 2012.

Islamic banking in Kazakhstan: A gradual process

DR ASKAR KONAKBAYEV believes that the basis for the formation of a sound financial and banking system such as Islamic finance is the key to secure prosperity in economic, industrial and social spheres in Kazakhstan.

Since achieving its independence, Kazakhstan has become a member of many international organizations. Among them are many large financial institutions that have helped the country to create a new financial infrastructure. The IDB was one of the first institutions that reached out to Kazakhstan. So far the Islamic financial system has not been a source of a financial crisis.

On this occasion, the apparent stress of the Islamic banking system against the backdrop of the crisis was noted by western analysts in Islamic countries. The crisis that has engulfed the global financial system today clearly showed that an economy operating on the principles of Islamic finance is less prone to risk. This is proved by the growth of these markets, which is very high; on average 10-15%.

Emergence of Islamic finance

Kazakhstan has taken steps to promote Islamic finance in the country. The major factors of banking, according to experts, were insufficiently committed under Shariah law, national legislation and institutional prevailing mentality of the secular state.

Amendments have been made to the civil and tax codes, laws on banks and banking activities, the securities market, investment funds and state registration of immovable property transactions.

It should be noted that Kazakhstan is not the first secular state where Islamic financial products have been introduced. We can learn from the experience of the harmonization of Shariah with traditional international standards in European countries such as the UK and France, where Islamic banks are functioning successfully.

Nevertheless, when it comes to the prevention of the introduction of Islamic banking, which we have previously seen, it is, firstly, the question of regulation and accounting for Islamic transactions; and secondly, the question of taxation, since the collection of taxes according to Shariah was not adjusted.

President Nursultan Nazarbayev encourages the enhancement of the Islamic instruments in Kazakhstan. He said: "There is money in Islamic finance and Islamic banking… it should now be developed. Many countries, such as Malaysia, have used their resources to develop Islamic banking. By developing Islamic banking, it can be assured that this financial product will work in Kazakhstan."

Initiatives

There have already been steps taken in Kazakhstan to attract investments in infrastructure projects. In 1997, the IDB has opened its regional office. The IDB allocated US$77 million to Kazakhstan to finance the project highway Almaty-Gulshat, as well as the modernization of postal services and the development of three banks.

In addition, the government of Kazakhstan has attracted funding from the IDB for the implementation of the largest transportation project in Kazakhstan, 'Western Europe - Western China', in the amount of US$170 million, an agreement which was signed on the 31st July 2009.

In accordance with the agreement, the IDB has extended to the Kazakh government financing worth US$398 million.

These funds were allocated in two tranches. Credit has been granted for 20 years, including a four-year grace period.

A feature of the framework agreement between JSC BTA and the IDB is that financing for BTA's clients ranged from US$3-7.5 million and was issued for a period of 10 years.

At the end of January 2010, Kausar Consulting, with Encore Management SA (Saudi Arabia) and BNP Paribas, offered the opportunity to purchase a new financial instrument – Sukuk - in the Kazakh market in the medium-term.

The total amount of money raised from Islamic banks' financing amounted to more than US$1 billion. It is through this kind of cooperation with representatives of the banking sector that Islamic banking has complied with all the specific features and requirements of Islamic banking; set up the proper infrastructure; and removed legal barriers to raising finance; and therefore gained experience of Islamic finance and opened the way for its introduction in Kazakhstan.

The readiness of the majority of Kazakhstan's financial sector entities to work on the principles of Islamic financing is evidenced by the fact that Kazakhstan is the most attractive to the IDB among the countries of central Asia.

Since 2010, Al-Hilal Bank has been operating in Kazakhstan and the desire to work in Kazakhstan has been demonstrated by The Islamic Bank of Asia and the Fattah Finance company.

Conclusion

However, it is necessary to realize that the introduction of Islamic banking will be part of our lives only gradually, as it's too difficult for a citizen of Kazakhstan, with continuing signs of savage capitalism, to understand that business can be built on the basis of morality, ethics and eternal values.

However, the cyclical nature of the development of a market economy has shown that Islamic finance is a way out of this situation, the basis for the formation of a sound financial and banking system and the key to secure prosperity in economic, industrial and social spheres.

Dr Askar Konakbayev is the vice-rector of new technologies and e-learning at Karaganda Economical University. He can be contacted at askarkon@mail.ru.

Rating approach to Sukuk: A MARC perspective — Part one

The appeal of Sukuk as a funding source has grown significantly and achieved an increasingly wide customer base. In the first of a three-part series RATINGS RESEARCH from MALAYSIAN RATING CORPORATION (MARC) explores the various available structures from a ratings perspective: starting with Sukuk Ijarah.

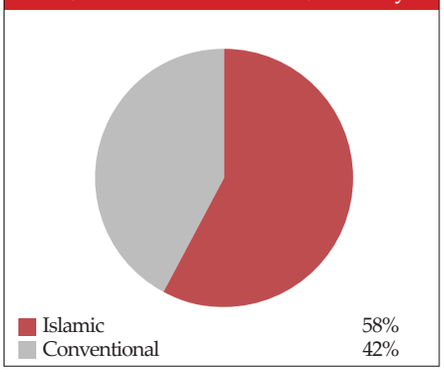
Overview

MARC regards 'Sukuk' as certificates of investment. Our view of Sukuk falls in line with that of the AAOIFI which defines Sukuk as 'certificates of equal value representing undivided shares in ownership of tangible assets, usufruct (legal right to derive profit from property), and services or in the ownership of the assets of particular projects or special investment activity'. Depending on the basic structure, the Sukuk can exhibit characteristics of debt and/or equity or asset-backed securities if securitization elements are present.

The appeal of Sukuk as a funding source has grown tremendously with an increasingly larger investor base. This can be attributed to its appeal as a Shariah compliant alternative to conventional fixed-income instruments. The importance of supporting real economic activities means that Sukuk could be issued against existing assets that are income-generating, new assets, or to fund infrastructure projects. These assets are then able to generate future income and/or returns i.e. profits to be shared or repay the Sukukholders. Apart from commonly providing the means for private entities to obtain funding through issuing corporate Sukuk, the public sector or governments are also able to raise financing through issuing sovereign Sukuk.

In terms of outlook, the global Sukuk market for both government and corporate is expected to see a new record of issuance of around US$126 billion this year (2011: US$85 billion) (source: Zawya Sukuk Monitor) (2011: US$26.5 billion). Although much stronger growth is anticipated in the GCC countries, Malaysia is still expected to remain the dominant Sukuk market. Reflecting a steady demand for Shariah compliant capital market instruments, the outstanding Sukuk raised by corporates domestically is estimated to be around RM169.5 billion (US$54 billion) as at end-June 2012, accounting for 58% of the total corporate bond market valued at RM294.1 billion (US$93.7 billion) (source: Bondweb). MARC's average market share in the domestic Sukuk market stood at 42% based on the outstanding amount as of the same period.

Distribution on of outstanding corporate debt (Conventional vs. Sukuk) in Malaysia



Sukuk issuance can be structured in a number of different ways depending on the type of underlying assets and/or specific financing needs of the issuing entity. Based upon the permissible Islamic financing transactions, the issuer or issuance may involve a variety of Sukuk instruments as illustrated in the following sections.

MARC's general rating approach to Sukuk

Within the general framework as applied in any rating methodology, the rating(s) are derived through an in-depth analysis and thorough evaluation involving:

- Identification of the risk criteria as well as assessment of key risk parameters and mitigants;
- Conducting sensitivity analysis on the critical risk factors; and
- Performing benchmarking exercise where available.

From an analytical standpoint, MARC's rating of Sukuk essentially involves (i) evaluating the underlying structure as well as assessing the key transaction parties; (ii) analyzing the income or cash flow generation ability of the underlying asset, project or business activity financed; (iii) assessing the strength of available credit enhancement, if any; (iv) assessing the adequacy and robustness of structural protection; and (v) the impact of key legal issues on the Sukuk structure.

In common with MARC's conventional debt and Islamic debt rating scales, the long-term Sukuk rating scale comprises eight rating categories ranging from 'AAAIS' to 'DIS', while the short-term rating scale ranges from 'MARC-1IS' to 'MARC-DIS'. The differentiated Sukuk rating scale is consistent with our view that Sukuk are supposed to represent ownership interests in underlying asset(s) and the resulting returns from the asset(s).

Sukuk structures rated by MARC

As at June 2012, MARC has rated a total of 57 issuances of ringgit-denominated Sukuk with an aggregate value of RM62.61 billion (US$19.96 billion). Back in 2001, MARC successfully rated the ground-breaking US$368 million Sukuk Ijarah issuance by First Global Sukuk (under MARC International, a subsidiary of MARC). First Global Sukuk was the first US dollar-denominated Sukuk issuance involving a corporate, Kumpulan Guthrie.

In the following sections, key highlights of Sukuk transactions rated by MARC are provided.

I. Sukuk Ijarah Structures

MARC has rated a number of Sukuk Ijarah structures, all of which have involved an issuer SPV, usually a wholly-owned subsidiary of the seller of the assets. The SPV funds the purchase of the assets by issuing Sukuk which represents beneficial ownership in the assets. The assets are leased to entities affiliated to

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the seller or to the seller in exchange for periodic rental payments which are matched to the periodic distributions under the Sukuk. The seller issues a purchase undertaking to repurchase the SPV's interest in the asset on maturity or any interim date at a pre-determined price. At maturity or on a dissolution event, the SPV sells the asset(s) back to the seller and redeems the Sukuk.

> ***"The rating assigned to Sukuk Ijarah of 'AAIS' reflects the credit strength of UEM"***

a) Asset-based Sukuk Ijarah

As shown in Exhibit 1, Diversified Venue (DVSB) is a special purpose vehicle which was set up to purchase the beneficial interest in the Mercu UEM building from its parent, First Impact (FISB), a wholly-owned subsidiary of UEM Group (UEM). The purchase was financed by the proceeds raised from the Sukuk Ijarah issuance. DVSB will hold the beneficial ownership of the building on trust for the Sukukholders under the terms of the declaration of trust.

To facilitate the sale-and-leaseback transaction, DVSB concurrently leased the building to FISB for a period corresponding to the tenure of the Sukuk program, and thus the latter will make rental payments as the lessee. Under the Service Agency Agreement, FISB is also responsible for the ordinary maintenance and repair expenses.

Mercu UEM building serves as the corporate headquarters for the UEM group, which is involved in four major businesses, namely expressways, engineering and construction, township and property development, and asset and facility management.
UEM has provided an unconditional and irrevocable agreement to purchase the beneficial interest in the Mercu UEM building from DVSB at a later date.

Exhibit 1: DVSB Transaction Structure

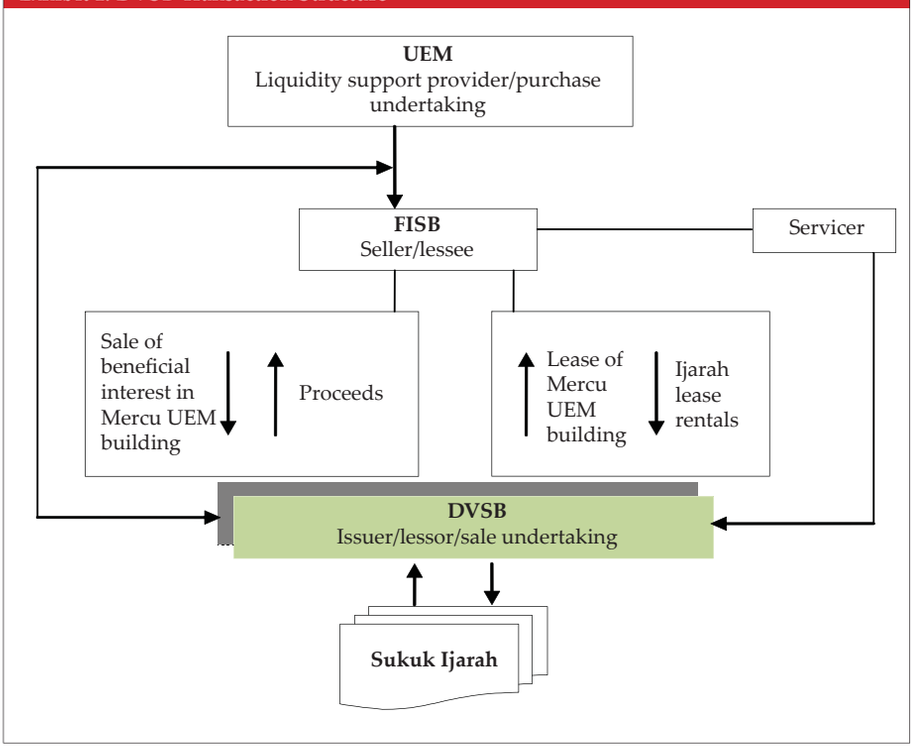
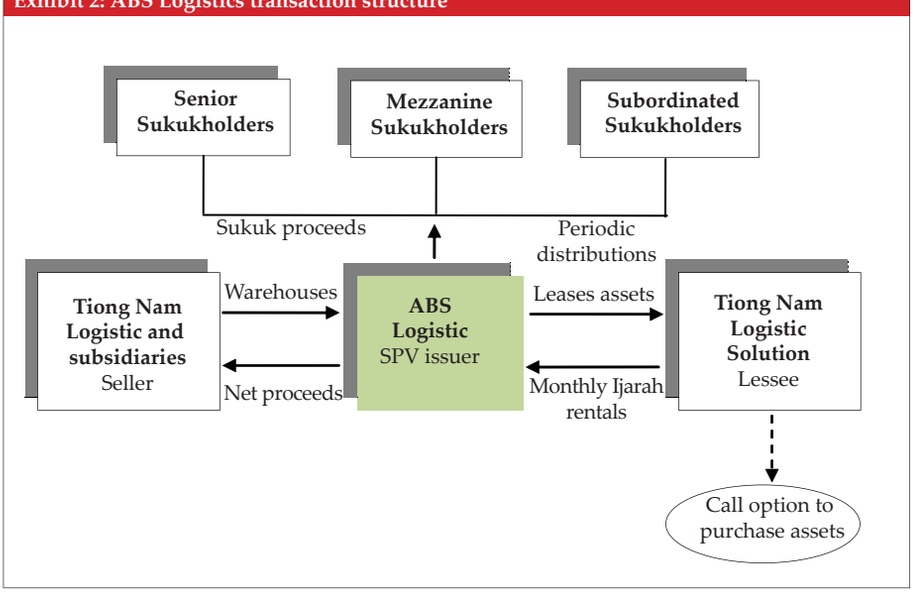


Exhibit 2: ABS Logistics transaction structure



The rating assigned to Sukuk Ijarah of 'AAIS' reflects the credit strength of UEM which provides liquidity support to this sale-and-leaseback transaction. UEM's assigned senior unsecured rating of 'AA', meanwhile, is based on the group's strong business and financial profile as well as its favorable financial flexibility stemming from its status as a wholly-owned entity of Khazanah Nasional, the government's investment holding company.

b) Asset-backed Sukuk Al-Ijarah

A bankruptcy-remote special purpose vehicle, ABS Logistics (ABS Logistics) issued Sukuk under a program which consisted of RM100 million (US$31.8 million) nominal value Class A, RM20 million (US$6.3 million) nominal value Class B and RM40 million (US$12.7 million) nominal value of Class C Senior

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Sukuk, RM44.5 million (US$14.1 million) nominal value Class D Mezzanine Sukuk and RM95.5 million (US$30 million) nominal value Class E Subordinated Sukuk. (The Class D and Class E Sukuk are unrated.) ABS Logistics acquired a portfolio of 23 warehouses from integrated logistics provider, Tiong Nam Logistics Holdings (Tiong Nam) and/or its subsidiaries for RM191.5 million (US$61 billion). It then entered into an Ijarah (lease) agreement with Tiong Nam Logistics Solutions (TNLS) for a period of up to 10 years.

> ***"The securitized properties comprise 23 industrial warehouses located in seven states"***

Periodic distributions and capital repayments on the Sukuk are funded by monthly Ijarah rentals made by the lessee during the tenure of the transaction as well as the proceeds from either the repurchase of the properties via a call option exercised by the lessee or sale of the properties to third parties prior to the final legal maturity. The call option's exercise price will be the higher of the market value of the properties and the aggregate amount required to redeem all the outstanding Senior Sukuk and any accrued profit.

The securitized properties comprise 23 industrial warehouses located in seven states. The portfolio is exposed to moderate concentration risk with its top ten tenants contributing a substantial portion of its total rental revenue. The Ijarah rentals are, however, fixed for the purposes of the transaction irrespective of the actual rental collections at TNLS which would be a function of rental rates in the warehouse market as well as actual occupancy rates at those warehouses (refer to Exhibit 2).

The approach taken to rate ABS Logistics' Class A, Class B Senior Sukuk was firstly to estimate the net cash flow (NCF) that could be generated by the securitized properties on a sustainable basis, looking through property market cycles. Once the sustainable cashflow was determined, MARC applied a capitalization rate of 10% to arrive at the DCF valuation of the property. The DCF valuation was then used to size the Class A and Class B Senior Sukuk tranches, based on applicable loan-to-value (LTV) limits for the target rating levels of 'AAAIS' and 'AAIS ' respectively. The decision to apply asset-backed methodology was predicated on elements of securitisation being present in the transaction, including the 'true-sale' of the warehouses and the option to sell the properties to third parties. The rating of the Class C Senior Sukuk, meanwhile, reflects an unconditional and irrevocable guarantee provided by Malayan Banking.

The amortizing structure of the Sukuk significantly reduces refinancing risk with projected LTVs for Class A and B Senior Sukuk Ijarah reducing to 25.3% and 37.9% respectively at maturity. Of the RM100 million of Class A Senior Sukuk, RM60 million (US$19.1 million) is expected to be paid down prior to its final legal maturity. Including the projected reserve account balance of RM3.55 million (US$1.13 million) and collection account balance of RM11.3 million (US$3.6 million) at the end of year 10, the net amount of Class A and Class B exposed to refinancing risk prior to their respective final legal maturity will be a modest RM45.2 million (US$14.4 million).

MARC also carried out a shadow rating on Tiong Nam consistent with our guidelines for property-backed transactions in which there is a single seller/lessee or the lessees are affiliated to the seller. MARC requires the lessee to be rated at least 'A-' for any structure that has 'AAA' tranche(s).

MARC's Rating Research can be contacted at marc@marc.com.my.

The asset management industry in Saudi Arabia: A steady growth

NAIF ABDUL MOHSEN AL- RASHEED believes that a natural shift is taking place within the Saudi asset management industry which is leading to the development of the wealth management industry.

The development of the asset management industry in Saudi Arabia has been interesting but is as yet incomplete because asset managers in the kingdom are usually part oflocal commercial banks, where they are focused on serving private banking, institutional and government clients. Up until now, the industry was not attractive enough for most local banks to build a business around.

However, during the boom of the local equity markets that ended in 2006, many asset managers and brokerage firms gained huge interest in becoming part of this wave: in addition to the rapid progress in structuring departments, hiring individuals, and constructing and/or buying systems that took place. As a result, this has increased the running cost of most local authorized participants (APs).

> ***"The relationship maintenance aspect of the business creates a personal connection with the client, which can be sustained for a very long period of time"***

However when the drop in the equity market occurred in 2006, besides the trading volume disappearance, and as assets under managements (AUMs) were pulled out of the market, these asset managers and brokerage firms were running with high costs, and with no direction on exactly how to deal with this new reality. And they unfortunately still continued to target clients to generate revenue, who had lost interest and confidence in the local asset managers that were still trying to focus only on generating their own management fees, with no focus towards the client's needs and/or the development of the industry.

Saudi asset managers versus international asset managers

Nonetheless, there are fundamental differences between international asset managers and Saudi asset managers. These differences have advantages and disadvantages: such as that international asset managers are typically focused on managing pre-marketed strategies and funds - and as a client if you meet the minimum investment measures, you can walk in and invest in such funds.

However, in Saudi Arabia the majority of the AUM of local APs are not in the fund industry, which only consists of around SAR80 billion (US$21.3 billion), but rather in discretionary portfolios and brokerage accounts, which are estimated to be around SAR300 billion (US$80 billion). As such asset managers in Saudi Arabia do not need to only generate performance for their clients, but most importantly they must maintain the relationship. This is an advantage, since asset managers can ensure that at least one part of the service is pronounced, whether or not the performance is. However, the latter should be produced to make the relationship sustainable.

Consequently, the relationship maintenance aspect of the business creates a personal connection with the client, which can be sustained for a very long period of time. Additionally, this is a perfect situation if a local AP wants to offer a wealth management service, as they can offer it under asset managers and naturally, spin it off into a standalone service.

Therefore there are two important opinions regarding the asset management industry. Firstly, the majority of investable assets are not concentrated in funds, but in discretionary accounts and brokerage accounts. Secondly, the lack of products and services for such accounts has caused a huge allocation to risk-free, or near risk-free investments.

This is a major lack of vision by local APs, since the majority of them still cannot approach such situations with very simple questions, such as: what does the client really want? And does this make sense for the client's long-term objectives?

The investment policy statement (IPS) is a simple document, with a set of questions and notes that a professional fills in during meetings with clients, with a minimum yearly update, which identifies various aspects of the person/institution they are managing assets for, and which also answers questions including: What type of investor is the client? What is the client's risk appetite? And what does the client want to achieve in the long-run?

This simple IPS provides the local asset manager with adequate information; offers tactics on how to manage the clients' assets; and advises on what way to present the performance achieved, at what risk level to maintain the clients' assets and what type of products and services should be offered. This technique will place the manager in the driver's seat. But unfortunately, the majority of the local APs have no such approach towards their relationship with clients, and this puts the whole industry at a major disadvantage.

Additionally, there has been fierce competition between local APs and in particular for local APs with no commercial bank ties since they do not have the strong balance sheets that local commercial banks have and as such, cannot offer clients leverage against their shares, which the majority of commercial banks can offer.

Nonetheless, such a situation may create an opportunity for asset managers

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to grab a significant market share. However, I need to stress the necessity for a vision to be striven towards by the asset managers, as well as the general managers of any local AP firm, since the clients are not very confident about the local equity market, and they are allocating the majority of their investable assets in risk-free or near risk-free investments. Clients are watching their wealth be consumed by inflation and they lack the tools and the advisors to guide them out of such situations.

> ***"The biggest investment that should be done in this industry is in individuals"***

So any local AP with the right vision should focus on their client's needs and wants, and this only comes by understanding the client more, and in investing within the product development role, which will help in structuring the appropriate products that will fit the client's needs.

Wealth management industry

I believe that a natural shift should be taking place within the Saudi asset management industry and that is the introduction of wealth management. However, the concerns are numerous. For example, the regulations are still not clear upon the definition of the service. The local APs are not sure about how to introduce this service to clients (lack of leadership amongst the majority), and also clients are not used to paying for such a service. So should this service be within the asset management, or a standalone: and if the latter is true, then what should the clients do if their asset managers are not performing well? Are the clients able to terminate the services of the local asset manager or choose another local asset manager?

However, these issues and concerns are all occurring because of the lack of vision of local AP executive management, as there are many ways to introduce wealth management, whether through asset management or as its own department.

The vast majority of clients' current structures are family businesses, and such a structure is perfect for wealth managers, as all these clients need estate planning, tax plans, succession planning, advisory, executions, etc.

Conclusion

The biggest investment that should be done in this industry is in individuals. Local APs must hire, train and retain local individuals in comparison to hiring someone from abroad. There is a lack of talent among Saudi and non-Saudi workforces within the kingdom in areas such as fund management and wealth management, and the solution is to invest in the existing employees.

Naif Abdul Mohsen Al-Rasheed is the head of asset management and CIO at Al-Khair Capital Saudi Arabia. He can be contacted at nrasheed@alkhaircapital.com.sa.

Risk management in Shariah compliant private equity

MOHAMMED KETTANI explores some risk prevention or mitigation solutions that can be implemented in Shariah compliant private equity investments (Musharakah).

In an Islamic risk management framework, the goal is to implement solutions and tools that help mitigate, reduce, manage or prevent key risks identified. Yet, the owner of the asset will still bear the risk of the asset and not shift the risk to someone else. This is very important in the sense that some conventional risk management solutions and tools cannot be implemented in an Islamic risk management framework.

Musharakah

Musharakah is defined according to AAOIFI standards as the co-mingling of funds for the purpose of sharing in profit. There are two categories of Musharakah: a holding partnership (created by means of inheritance or wills or other circumstances), and a contract partnership (created by means of an agreement.) There are four types of contract partnership: Mufawadah, Alanan, A'maal and Wojooh.

We focus on 'Inan contracts, under which private equity investment as practiced by Islamic financial institutions (IFIs) falls. Under an 'Inan partnership, each of the parties contribute to the overall funds and participate in work, but equality is not required in the contribution to the funds or work or profit sharing (as long as it has been mutually agreed). IFIs often invest in greenfield or existing ventures with key partners who retain the day-to-day management of the investment, the key partner having the industry expertise or know-how.

IFIs usually do not get involved heavily in the day-to-day management of their private equity investments unless obliged to (the operational aspect of it.) IFIs will generally retain board seats and an overview on the investment. Musharakah investments are inherently exposed to a wide range of risks which can be categorized as operating risks, legal risks, microeconomic risks, macroeconomic risks and principal-agent risk.

If executed properly, a private equity investment would first entail a detailed due diligence in order to understand key business drivers, risks associated with the operations, industry specific risks (microeconomic), country economic environment (macroeconomic), competence and business reputation of the management/partners/employees risks or (principal-agent.)

The principal-agent risks are the most important and the most difficult to prevent/mitigate as they involve behavioral issues which cannot always be identified at the due diligence stage.

Nonetheless, key issues can be prevented if at the due diligence stage (the first and most important risk prevention / mitigation tool) the IFI ensures that it understands the objectives of the key partners and convey clearly to them its objectives (target performance, investment horizon, preferred exit route, overall strategy.) The IFI shall also ensure that the key partners understand and agree to its objectives as they will be the ones working on achieving these objectives.

Interests and objectives

How to ensure that interests and objectives are aligned? Being in a Musharakah contract, the IFI cannot shift the risk to the other partners. Some practitioners have argued the use of Murabahah arrangements in order to mimic preference shares while retaining a conversion option of the principal (and the Murabahah profit) into common shares of the company.

Assuming that this is acceptable from a Shariah perspective; at what conversion ratio the Murabahah capital shall be converted? In addition, the partners may not accept then for the IFI to have a say in the management or to have board seats as the Murabahah return is being provided for.

The use of a redemption option can be implemented whereby the IFI will obtain from its key partners an option to purchase (in a staged manner or at a specified date) on an agreed basis. Shariah law however requires that the buyback does not occur less than 12 months after the investment or it may be assimilated to a disguised Riba.

On the assumption that the option buyback is at fair market value and the valuation methodology has been agreed initially, the IFI may still be exposed to the credit risk of the key partners (ability to repurchase the shares) and the pricing risk of the shares (we assume that the early redemption is used to exit an unsuccessful investment.)

Practitioners also use a phased share purchase scheme whereby the agreed share price is paid in full when the IFI acquires the shares of the company (for example, the lower range of the valuation), but an incentive bonus (upper range of the valuation) is paid only when the key partners have achieved some key milestones (operational, financial or others.)

Other practitioners recommend a more active approach where the IFI ensures that best governance practices are adopted and implemented at the company. Some IFIs will require a veto right on key shareholder decisions, others will ensure that some key positions in the company have been filled by professionals nominated by the IFIs.

Conclusion

We believe the right mix of these elements will yield a better result. Nonetheless, we recommend going a step further and incentivizing the partners/ management/employees in order to really align their interests with those of the IFI by putting in place a performance reward plan which encompasses not only the management but also the employees. We find this combined approach much more in tune with the true spirit of Islamic finance and more fitted to firms operating in emerging markets.

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Islamic Investor

Vol 9 Issue 33

Targeting the affluent

Cover Story

A report card of the global private financial wealth market was released a few months ago which revealed that although there has been some growth, it was relatively lower compared to the previous two corresponding years.

The research came from Boston Consulting Group (BCG), which stated that global private financial wealth experienced a 1.9% rise to US$122 trillion last year. Noting that growth was much lower compared to the 9.6% in 2009 and 6.8% in 2010, the consultancy group cited economic uncertainties and struggling equity markets in developed nations as contributing factors.

North America, western Europe and Japan suffered losses in private wealth while it came as no surprise that Asia Pacific and Latin America, currently two of the strongest regions, saw double digit growth. The tiny nation of Singapore continued to maintain top position with the highest density of millionaire households, seeing a growth of 17% last year from 15.5% in 2010.

The report also stated that private wealth in the Middle East grew by 4.7% despite the Arab Spring turbulence, due to high savings rates and double digit GDP growth rates: particularly in Saudi Arabia and Kuwait. Investors were apparently more comfortable investing in bonds, as investments in that asset class rose 13.3% while cash and deposits grew by 5.1%.

Such indicators clearly show a flight to safety for the region's millionaires towards more stable asset classes, as the equity markets suffered huge losses due to the political turmoil. The wealth of the region's ultra high net worth (UHNW) clients rose 9%, posting the strongest growth of all client types according to BCG; driven by government incentives that benefited the large family offices.

This research was recently corroborated by another report released by a UK-based asset management company, which stated that there are currently 450,000 millionaires in the Middle East alone. London Central Portfolio (LCP) also revealed that Islamic investing was growing among Muslim investors in the UK and abroad.

> ***"London Central Portfolio also revealed that Islamic investing was growing among Muslim investors in the UK and abroad"***

However BCG cautioned that, faced with numerous adverse factors including volatile equity and bond markets, increasingly demanding clients and the scrutiny of regulatory bodies, wealth managers must proactively find new investment opportunities amidst the current climate.

This is where Shariah compliant investing can play an important role in the wealth management segment as it seeks new alternatives to the battered conventional industry. LCP's report states that it has seen a recent surge in the demand for Shariah compliant funds.

The Sukuk market has become one of the biggest attractions of the Islamic finance industry to investors with international Sukuk issuances reaching record highs of US$79.3 billion at the end of July 2012 over a seven-month period, according to KFH Research, which recently placed global Sukuk sales at more than double those of the previous corresponding period.

Other traditional investments for the Muslim investor apart from equity and bonds include property. Property funds are highly popular in the Middle East, particularly in Saudi Arabia. LCP's launch of its first ever Shariah compliant residential property fund in the UK will be an interesting test to gauge investor appetite for funds in this asset class.

KFH Research estimated the total assets under management of the Islamic funds industry at US$60 billion last year, with an expected growth rate of 10-12% in 2012. With an increasing number of investors interested in Shariah compliant ways of investing, it is time for fund managers to step up to the plate by offering more innovative funds to attract not only Muslim but also the non-Muslim UHNW investors keen to invest in a lower volatility environment yet achieve comparable returns. Such a trend could propel the industry to new heights. — *RW*

In this issue...

Danareksa Syariah Berimbang

Objective: Danareksa Syariah Berimbang aims to invest in assets in which its value will grow over time.

What led to this fund being launched?
Danareksa Investment Management is a pioneer in the Indonesia mutual fund industry. This fund is among the first Shariah balanced funds in Indonesia. We noted that there were some investors who would like to participate in the Indonesian growth story but wanted to do it according to Shariah law.

Why has this particular region / asset class been chosen?
We balance between equity, Sukuk, and the money market to minimize volatility.

What are the key factors that drive the fund's performance?
The performance of the Indonesian economy in the long-term, which we believe will continue for the foreseeable future. This performance will directly affect the performance of the asset classes that we hold.

Who are your investors?
A combination of institutional and HNW individuals, mostly from Indonesia.

What specific risks does the fund take into consideration? And why?
The fund is exposed to market risk. We are running a diversified portfolio so individual risk should be minimal.

What are the sectors you are heavily invested in and why?
Consumer and consumer-related sectors to benefit from the Indonesian domestic growth story and to shelter our investors from global problems.

What are the sectors you have recently exited and why?
Mining sectors due to the bleak global growth prospect.

How has this change affected your portfolio of this fund?
These changes affected our equity position on the fund, while on the Sukuk side we are mostly invested in Indonesia's government Sukuk and investment grade corporate Sukuk.

What is the market outlook for this fund?
We believe that Indonesia's growth story will continue well into the future. The commodities boom in the 2000s created an Indonesian middle-class. In turn, this explosive growth in domestic consumption from the middle-class (GDP per capita is expected to double according to the IMF) will propel Indonesia's economy in the future. We believe that this fund is in a perfect position to capture this opportunity.

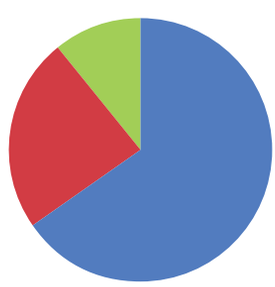
How has this fund performed compared to your initial expectations?
The benchmark for this fund is 50% SWBI (Shariah time deposit) and 50% Jakarta Islamic Index. The fund has outperformed the benchmark consistently.

Has your strategy for this fund changed since inception, and if so how?
No. The changes are made to the asset allocation while the investment process stays the same. On the equity side, we are looking for companies that are undervalued relative to their peers and have a positive short to mid-term catalyst. On the fixed income side, we are looking for Sukuk that yield higher than our risk model. If we can't find opportunities in Sukuk and/or equity, we go cash heavy.

Why should investors chose this fund over others?
Investing in this fund is the most effective way to get exposure to the Indonesian growth story while controlling volatility of the investments.

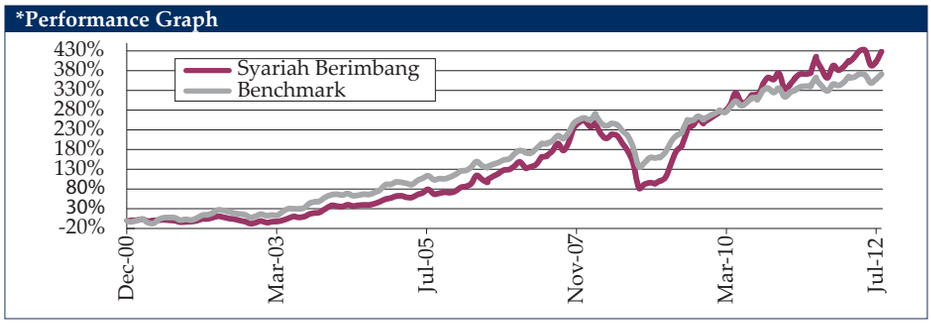
Fact sheet	
Fund Manager	Oskar Syahbana
Trustee / Bank Custody	Citi Bank
Shariah Advisor(s)	KH Ma'ruf Amin & Kanny Hidaya Y from Dewan Penasihat Syariah (DPS)
Benchmark (Index)	50% JII Index + 50% Simpanan Wadiah Bank Indoneisa (SWBI) Indonesia
Domicile	Indoneisa
Inception Date	20th Jun 2001
Fund Characteristics *(As of 29th Jun 2012)*	**Fund Type** Open **Fund Size** 93.35 Bio **NAV per share** 5.020,44 **Minimum / Subsequent Investment** Rp 100.000 **Management Fee** 1.5 % **Dividend policy** N/A

*Portfolio composition



Equity	65.52%
Bond	23.82%
Cash	10.65%

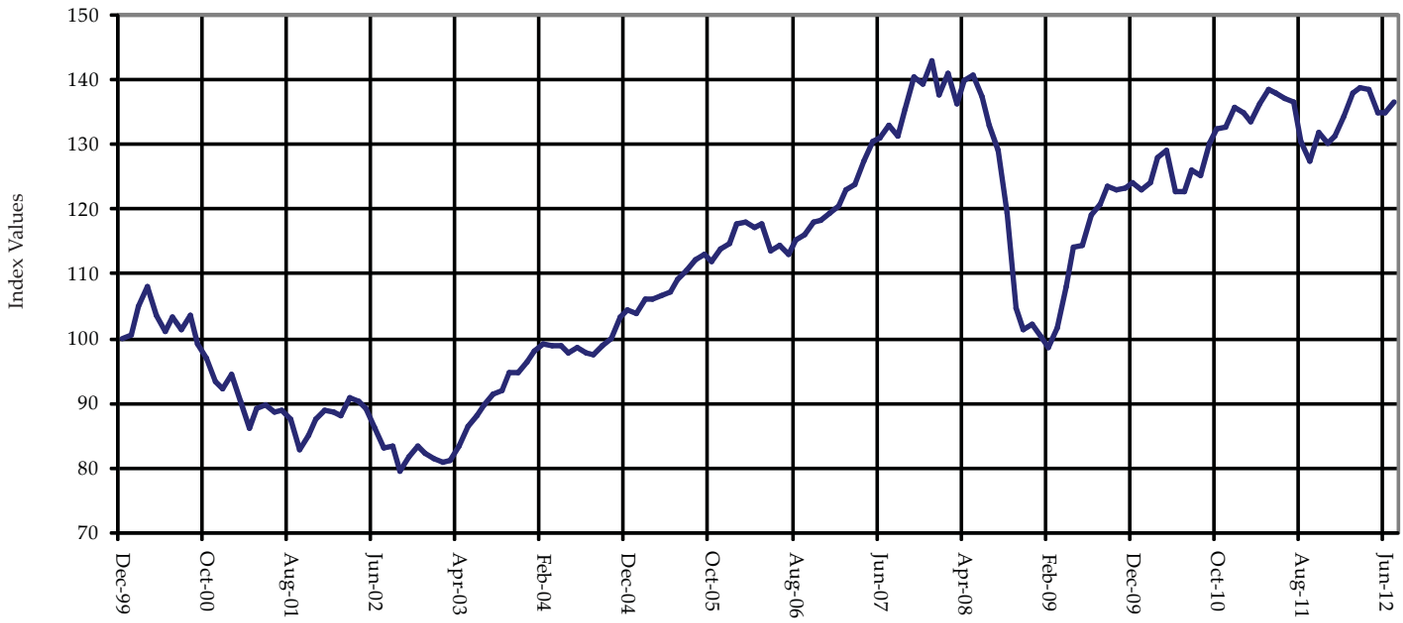
*Performance Graph



*Performance Summary

YTD Return	2.57 %
Return Since Inception	14.95 %
Cumulative Return Since Inception	402.04 %
Monthly Peformance	1.63 %

Eurekahedge Islamic Fund Index



Top 10 Yield-to-Date Returns for ALL Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	39.78	Pakistan
2	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	28.52	Pakistan
3	Meezan Balanced	Al Meezan Investment Management	19.80	Pakistan
4	Jadwa Saudi Equity	Jadwa Investment	18.89	Saudi Arabia
5	CIMB Islamic Small Cap	CIMB-Principal Asset Management	17.50	Malaysia
6	Al-Saffa Saudi Equity Trading	Banque Saudi Fransi	16.59	Saudi Arabia
7	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	16.26	Saudi Arabia
8	Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	16.16	Egypt
9	AlAhli Global Real Estate	The National Commercial Bank	15.63	Saudi Arabia
10	Jadwa Arab Markets Equity	Jadwa Investment	15.46	Saudi Arabia
	Eurekahedge Islamic Fund Index		**4.01**	

Based on 55.29% of funds which have reported July 2012 returns as at 21st August 2012

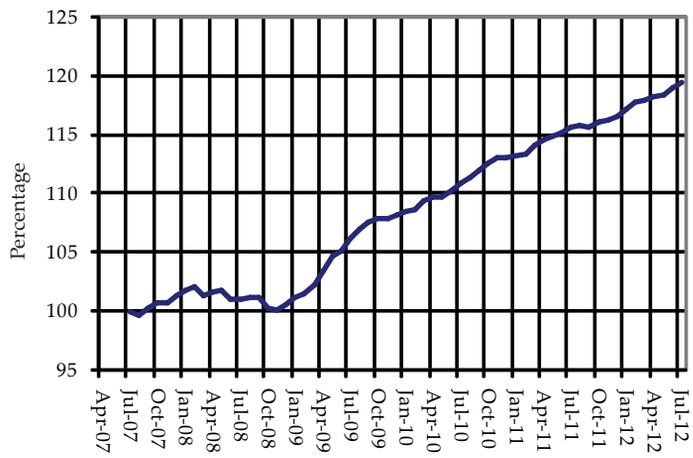
Top 10 Sharpe Ratio for ALL Funds since inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	10.26	Pakistan
2	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	4.91	Pakistan
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	4.89	Pakistan
4	Public Islamic Money Market	Public Mutual	3.79	Malaysia
5	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	3.02	Saudi Arabia
6	Public Islamic Income	Public Mutual	2.78	Malaysia
7	PB Islamic Cash Management	Public Mutual	2.77	Malaysia
8	Commodity Trading - SAR	Riyad Bank	2.75	Saudi Arabia
9	AlAhli International Trade	The National Commercial Bank	2.15	Saudi Arabia
10	PB Islamic Bond	Public Mutual	2.12	Malaysia
	Eurekahedge Islamic Fund Index		**0.06**	

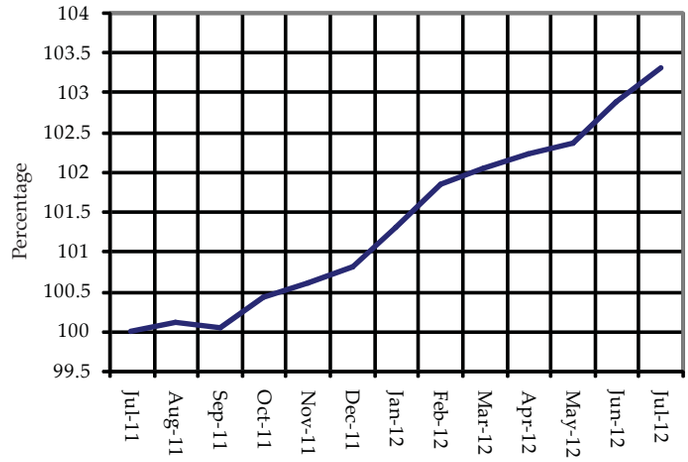
For funds having a track record of at least 12 months as at end July 2012

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 Index over the last 1 year



Top 10 Islamic Fixed Income Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	RHB Islamic Bond	RHB Investment Management	2.87	Malaysia
2	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	2.46	Pakistan
3	Jadwa Global Sukuk	Jadwa Investment	2.45	Saudi Arabia
4	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	2.12	Pakistan
5	Public Islamic Enhanced Bond	Public Mutual	1.80	Malaysia
6	PB Islamic Bond	Public Mutual	1.79	Malaysia
7	CIMB Islamic Sukuk	CIMB-Principal Asset Management	1.59	Malaysia
8	Public Islamic Bond	Public Mutual	1.36	Malaysia
9	AmBon Islam	AmInvestment Management	1.32	Malaysia
10	Public Islamic Select Bond	Public Mutual	1.08	Malaysia
	Eurekahedge Islamic Fund Fixed Income Index		**1.06**	

Based on 64.71% of funds which have reported July 2012 returns as at 21st Aug 2012

Top 10 Annualized Sortino Ratio for ALL Funds since inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	13.59	Pakistan
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	13.05	Pakistan
3	Commodity Trading - SAR	Riyad Bank	8.12	Saudi Arabia
4	PB Islamic Bond	Public Mutual	3.61	Malaysia
5	Public Islamic Bond	Public Mutual	3.55	Malaysia
6	Emirates Global Sukuk USD Institutional Share Class (Acc)	Emirates NBD Asset Management	2.98	Jersey
7	Kagiso Islamic Equity	Kagiso Asset Management	2.89	South Africa
8	Public Islamic Select Enterprises	Public Mutual	2.78	Malaysia
9	Public Islamic Select Bond	Public Mutual	2.60	Malaysia
10	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	2.50	Pakistan
	Eurekahedge Islamic Fund Index		**0.07**	

Based on 55.29% of funds which have reported July 2012 returns as at 21st Aug 2012
Based on reporting funds with at least 12 months of returns till July 2012 as at 21st Aug 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

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23rd August 2012

First half results encouraging

Cover story

As the results from the first half of the financial year trickle in, Takaful operators from across the globe have recorded encouraging results; with most posting profits and seeing double-digit growth across the Family and Life Takaful lines.

In Malaysia, regional Takaful player Syarikat Takaful Malaysia saw its net profits as at the 30th June rise to RM22.58 million (US$7.22 million) from RM16.51 million (US$5.28 million) the previous year. The group, which has a presence in Indonesia via its subsidiary, Takaful Syarikat Takaful Indonesia, also generated operating revenue of RM446.1 million (US$142.77 million), compared to RM327.2 million (US$104.74 million) in the previous year; a growth of 36%. According to a statement by the group, the increase was mainly attributable to higher sales generated by Family Takaful and higher investment income.

Despite seeing a 21.9% dip in revenue to RM492 million (US$157.46 million), Etiqa Takaful, which is owned by Maybank, Malaysia's largest Islamic bank by assets, also recorded strong performances in its Family/ Life category, Motor, and Marine, Aviation and Transportation sectors. These lines recorded growth of 18.5%, 20% and 14.8% respectively. The operator attributed the drop in revenue to the recent adoption of the revised Bank Negara Malaysia guidelines, which it said directly caused a slump in actuarial surplus.

In the Middle East, Takaful operators such as Qatar-based Al Khaleej Takaful Group and Abu Dhabi National Company also reported growth, with Al Khaleej recording a boost of between 30-40% in its medical line insurance. According to reports, the company is currently focusing on the construction industry, with plans to develop private group insurance plans to cover blue-collar workers.

However, it has been said that there is a need to further develop regulations to cover such private medical schemes in order to avoid fraud.

The underwriting profit for Abu Dhabi National Takaful for the six-month period ended the 30th June increased to AED11.3 million (US$3.7 million) compared to AED6.7 million (US$1.82 million) in the same period last year, representing a growth of 69%.

However, gross Takaful contributions reached AED91 million (US$24.77 million) compared to AED98.9 million (US$26.92 million) for the six months last year, representing a decrease of 8%. There was a 38% reduction in net claims incurred, at AED11.4 million (US$3.1 million). Osama Abdeen, CEO of Abu Dhabi National Takaful, commented: "During the six months period ended the 30th June 2012, we posted a net profit of AED11.75 million (US$3.19 million) compared to AED9.58 million (US$2.6 million) in the same period last year with a growth of 23%. We have previously indicated that our strategy incorporates a focus on profitability while working on diversifying our portfolio, products offerings and underwriting discipline - a strategy that we intend to maintain, and further develop over the future periods." With mostly positive results in the key Takaful hotspots around the world, it is possible that the year will end well for the Islamic insurance industry. The Ernst & Young World Takaful Report 2012 stated that Malaysia and the UAE achieved growth rates of over 24% in the last year, with the greatest hurdle to the industry seen as maintaining growth with profitability in the current economic climate.

The report also added that the return on equity for the Takaful industry was lower than its conventional counterpart, both in the GCC as well as in Malaysia. This was mainly due to the lower investment returns for the industry, relative to returns yielded by conventional insurers. The report also said: "The industry has now obtained significant market share versus conventional insurance in most GCC countries as well as Southeast Asian markets. There are a number of drivers behind this growth but one that is becoming increasingly important is regulatory support through appropriate amendments in legislature to provide a level playing field with conventional insurance companies."

As the world struggles to bounce back from one of the most severe economic crises in recent history, it is comforting to see a nascent industry such as Takaful grow despite the odds. — *NH*

In this issue...

HANS DE CUYPER, CEO of Etiqa Insurance & Takaful, shares his insights on the development, challenges and future prospects of the Takaful industry in Malaysia.

Takaful in Malaysia has enjoyed a solid growth, but it has been suggested that this growth is slowing. What can you do to ensure the upwards trajectory is continued?
The Takaful market in Malaysia has achieved a steady growth of between 20-25% annually for the last five years, doubling that of conventional insurance. The growth rate of Takaful is expected to be sustained for 2012. The main factor that will encourage the growth of the Takaful sector is the efficiency and expansion of the distribution channels that will provide greater access to a larger segment of the population. We also see the marketing of Takaful products widening.

Some of the important factors that will encourage the growth of Takaful sector are:

- Efficient and diversified distribution channels that will provide greater access to a larger segment of the population.
- Products tailored to meet customers' needs and sophisticated demands.
- Deepening of the Islamic capital markets for the Takaful fund to invest in.
- Market penetration rate for Takaful is still low (about 15% in terms of contributions).

Nevertheless there is still a growing pressure on the profitability of Takaful to attract the required investments into the business.

There are three dimensions from which strong opportunities for growth can be harnessed in the Takaful industry:

- Opportunities to penetrate the remaining under-served areas in Family Takaful, especially Medical and Health Takaful, which in 2010 constituted only 9% of new Family Takaful business.
- Transformation of Malaysia into a high-income economy. With Islamic finance specifically identified as one of new growth areas under the new economic model, the Takaful industry stands to gain from this socio-economic transformation by seizing the opportunity to grow business beyond the more traditional business lines. This entails broadening product offerings to include sophisticated investment-linked and wealth-management products aimed at more affluent customers. At the other end of product spectrum, there should also be more emphasis to cover low-income individuals via microTakaful.
- Opportunities to be harnessed under the Malaysia International Islamic Financial Center initiative which seeks to enhance the international dimension of the Takaful industry.

Takaful, being an Islamic product and traditionally designed for the Muslim population, has successfully been marketed to the non-Muslim community. However, there still remains a large proportion of the Muslim community who remain committed to the non-Takaful business. Is this a concern and how do you propose to approach it?
Generally, there is no direct competition between insurance and Takaful in Malaysia. Each business has its own market segment and grows on different value propositions. We do see in our portfolio that all racial groups recognize the added value in the Takaful proposition, being the Shariah element, but also the values of sharing and ethics in the Takaful business.

You have mentioned in the past the necessity for good talent. What are you doing as a business to nurture and grow your talent pool?
There is definitely a shortage of professionals in specialist areas such as actuarial, underwriting and product development. The insurance industry is growing every year and with the emergence of new Takaful players, qualified professionals in Takaful are highly sought after by everybody. Also, our neighboring insuring markets are growing fast and international mobility of talents could become a strength for regional players.

What more could the government do to assist in human capital development for the Takaful sector?
I am happy to see that the government and the regulator have placed talent development high on the agenda. This also includes attracting foreign talent into the Malaysian market. The latter has become a bit easier due to the economic problems in the western markets.

To support the dynamic growth of the Malaysian financial sector, the industry, including insurance companies and Takaful operators, unveiled the Financial Sector Talent Enrichment Program (FSTEP) in September 2007 to develop new talent. The FSTEP is managed by Institute Bank-Bank Malaysia and is driven by the financial services industry with the objective of training and preparing high caliber graduates for employment in the financial services industry.

> ***"The insurance industry is growing every year and with the emergence of new Takaful players, qualified professionals in Takaful are highly sought after by everybody"***

Apart from that, the set-up of the International Center for Leadership in Finance, an international, Asia-focused center of excellence delivering practical and usable leadership and corporate governance programs, has also played a distinctive role in harnessing individuals' leadership potential.

How big a market is Indonesia for Etiqa now, and what plans do you have moving forward?
Takaful rose 48% in Indonesia in 2010 to IDR4.5 trillion (US$489 million), while Malaysia's market expanded 17% in the first seven months of last year to more than 10 times that size. Inevitably, Indonesia has become an attractive market for Takaful, as well as insurance.

Also, Indonesia is on our radar given that there is an existing distribution channel

continued...

Continued

for us through Maybank subsidiary, Bank Internasional Indonesia (BII). The presence of Maybank through BII will provide a jump-start for Etiqa to set up a business operation in Indonesia. It will also complement Maybank's mission to "humanize financial services across Asia".

The population size, the low insurance penetration and the robust economic expansion makes Indonesia an attractive market for Etiqa to grow in both the non-Life, Life and Family segments.

What are the key differences and challenges between running a Takaful business in Indonesia to that of Malaysia?
Consumer awareness for Takaful products is one of the main challenges, especially in educating Indonesian customers on the benefits and the value proposition that Takaful can offer. Given the fact that the majority of the Indonesian population is Muslim, the task is not impossible. Based on a recent survey, only 5% of Indonesians responded that they have good knowledge about Takaful; however they do have a positive perception towards the Takaful industry.

Further, there is the Shariah governance. We cannot simply introduce our Takaful products into the Indonesian market, without passing through the Shariah certification again. This will dampen the time to market of our products and services. Lastly, there is the need for an extensive Islamic capital market to support the investments of our family assets.

Which other markets are you intending to penetrate and why?
At present, Etiqa has established its international operations in Singapore, Brunei and Pakistan. Besides supporting Maybank's aspiration to be the top regional player, international expansion will also provide Etiqa with an attractive opportunity to acquire significant presence in high growth markets, leveraging on two main thrusts: Maybank's overseas operations and Etiqa's expertise in Takaful and bancassurance.

> ***"To support the dynamic growth of the Malaysian financial sector, the industry, including insurance companies and Takaful operators, unveiled the Financial Sector Talent Enrichment Program in September 2007 to develop new talent"***

We're currently seeing a wave of consolidation: will Etiqa be participating? If so, what markets interest you for a tie-up?
Mergers and acquisitions are heating up in the insurance sector, specifically in the general insurance market. The risk-based capital requirements will encourage the smaller insurance companies to merge with the bigger players as the former would have difficulty in raising the required additional capital under the new regime.

Domestically, Etiqa will focus on organic growth. Today, Etiqa can already leverage the widest distribution footprint in the country and we have gained market leadership in the combined general insurance and Takaful market. Any acquisition would be assessed on the added value for a group that is already strong in the domestic market.

Finally, product development continues to be a hurdle for many in this industry, with some tying up with white-label providers and others joining hands. What is your preference and how do you go about this?
One of the key challenges in this industry is to develop new products that can be introduced with a reduced time to market.

For Etiqa, we are backed by two strong financial institutions i.e. Maybank and Ageas. Besides our key shareholder, Maybank is also our core distributor. Ageas is an international insurance company with a heritage spanning more than 180 years and among the top 20 insurance companies in Europe. Ageas helps Etiqa to build products which have proven success in the overseas markets.

Until 2011, Etiqa focused on mergers between its different entities, and on building a new life insurance platform to support our web-based services. Over the last 12 months, Etiqa has introduced several new products to the market, built on this new infrastructure. Also, Etiqa Takaful has completely renewed its family product range in line with the Takaful operating framework.

Zahid Hussain, group general manager, head of Islamic banking, Banque Saudi Fransi-Riyadh

Zahid Hussain has played an important role in the growth of Islamic banking in Banque Saudi Fransi. He has overseen the development of new operational procedures and processes and successfully changed the mindset of senior management, staff and customers through regular training and awareness building at the bank.

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

After obtaining a law degree in 1973 and qualifying as a chartered accountant in 1976, my banking career started in 1979 with the largest Pakistani bank, Habib Bank. Later I joined Banque Indosuez (presently Credit Agricole) in 1986 and moved to their joint venture bank, Banque Saudi Fransi (BSF) in Saudi Arabia in 1990. For the past 23 years, I have been with this leading organization. While I have always been a corporate and investment banker, my interest in Islamic banking started during my earlier days with Habib Bank in Pakistan in the early 1980s, when it provided syndicated project financing under the Participation Term Certificate.

Banque Saudi Fransi started Islamic banking activities in early 1990s by introducing Ijarah and Musharakah finance and later formed its Shariah board in 2003 to introduce a number of retail, corporate, treasury and asset management products. I took over as the head of Islamic banking at BSF in 2004 and have gone a long way in a short span of time.

What does your role involve?

Being historically a conventional bank, Islamic banking is offered at BSF under an Islamic banking window. The Islamic banking division is an independent division and assists all business lines in developing Shariah compliant products and to

ensure that these products are implemented in the Shariah compliant manner.

What is your greatest achievement to date?

I am proud to have played an important part in the substantial growth of Islamic banking in Saudi Arabia in general and BSF in particular, during the last decade. This required continuous learning and self-development, in order to introduce innovative Shariah compliant solutions to cater to the entire needs of various segments of the customers, who have traditionally been only offered conventional banking products.

Which of your products/ services deliver the best results?

Murabahah and Ijarah are the two major concepts under which we have developed most of our corporate, retail and treasury products. Additionally, BSF has an edge over other banks in providing Shariah compliant financing to auto dealers, whereby the bank purchases their large number of mostly Ijarah-based pool of receivables, under a securitization structure without recourse, in the true spirit of profit and loss sharing concept of Shariah compliant banking.

What are the strengths of your business?

1) Our strong corporate client base. We have been maintaining our strong market share in this segment for decades. Leveraging on this strength, we have embarked on marketing for all other business lines of the bank and joint venture operations in the investment banking, insurance and lease finance.
2) The relationship management team at various segments of our business has extensive experience, skill and knowledge. They have been associated with the bank for a very long time; resulting in maintaining our strong relationship with a large number of leading corporate customers in the country.

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

1) The commitment of our board of directors and the senior management to a long-established vision. This is very important in bringing stability and ensuring that we stay on course.
2) The ability to make quick decisive decisions in the face of turbulence and in times of business opportunity.

What are the obstacles faced in running your business today?

The limited level of awareness and knowledge of participants (staff and customers) of the intricate differences between Islamic and conventional banking. This is especially pronounced in the area of documentation and operational processes.

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

Volumes will be significantly larger than where we are today, and it will most likely be the dominant mode of financing in the Islamic world. We have witnessed exponential growth in the last decade, and this trend will most definitely continue, at least for the next 10-15 years, before a state of equilibrium is reached.

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

Increased participation and active involvement of the regulatory bodies, especially within the GCC and the Middle East countries. The Islamic finance industry is in much need of standardization of products and uniformity, and this can only be achieved when the regulators step in, namely the central banks, to take charge in a similar way to they currently do for conventional banking.

ISSUER	SIZE	DATE ANNOUNCED
Malakoff Corporation	RM1.8 billion	17th August 2012
Putrajaya Holdings	RM3 billion	13th August 2012
Indonesia sovereign	US$1 billion	10th August 2012
Indonesia sovereign	US$750 million	10th August 2012
Tanjung Bin Power	RM4.5 billion	7th August 2012
Kuala Lumpur Kepong Berhad	RM1 billion	1st August 2012
Axiata	US$1.5 billion	25th July 2012
Bahrain Mumtalakat Holding	RM3 billion	30th July 2012
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	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

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

IRAN: Majid Pireh
Islamic finance expert, SEO

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

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

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

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LUXEMBOURG: Marc Theisen
partner, Theisen Law

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

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
counsel member for Islamic financial institutions, FIANZ

NIGERIA: Hajara Adeola
managing director, Lotus Capital Limited

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

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

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

QATAR: Amjad Hussain
partner, K&L Gates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

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

SOUTH AFRICA: Amman Muhammad
managing director, Absa Islamic Bank

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

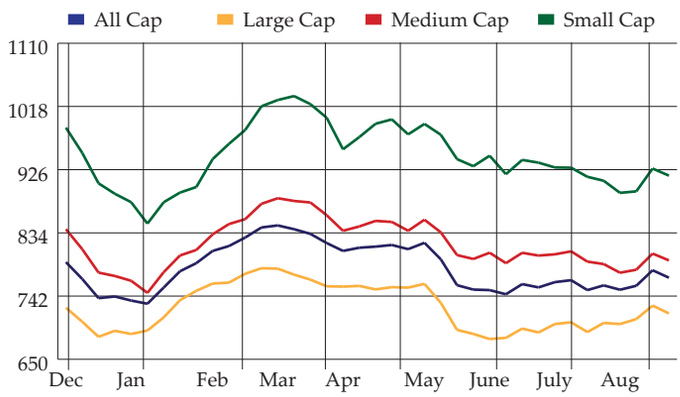
UK: Siraj Ibrahim
associate, Credit Agricole CIB

US: Saeid Hamedanchi
CEO, ShariahShares

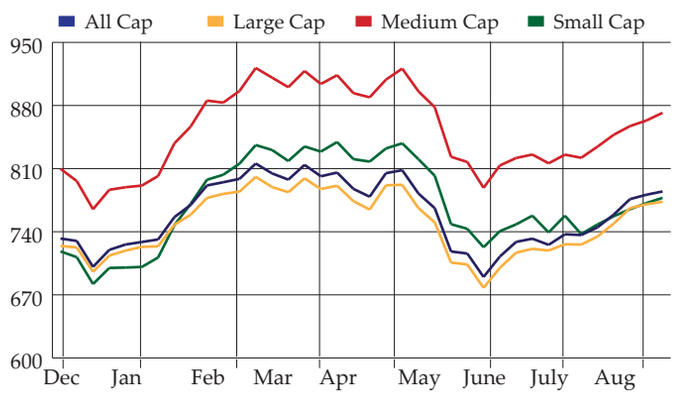
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

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

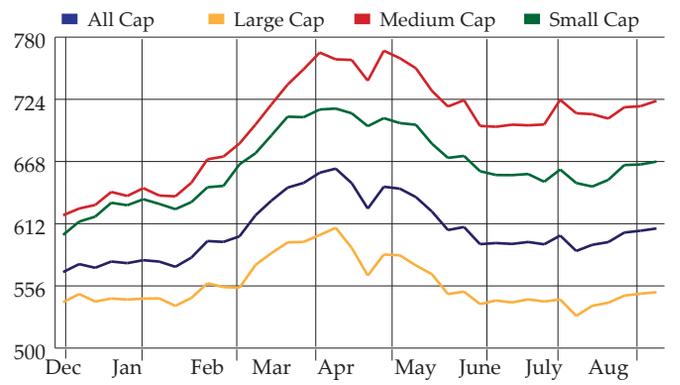
REDmoney Asia ex. Japan *6 Months*



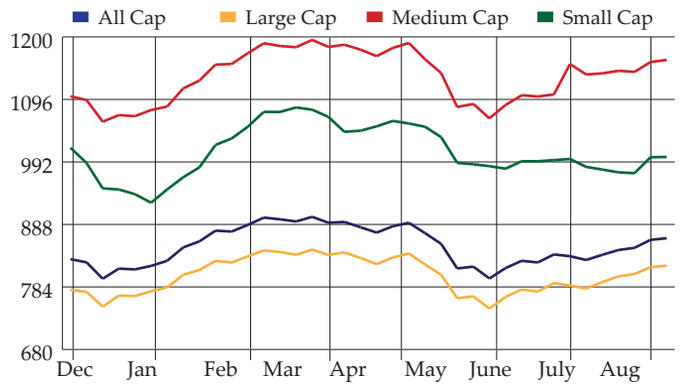
REDmoney Europe *6 Months*



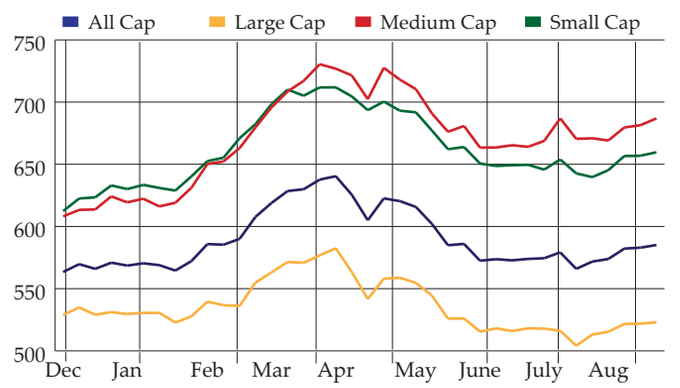
REDmoney GCC *6 Months*



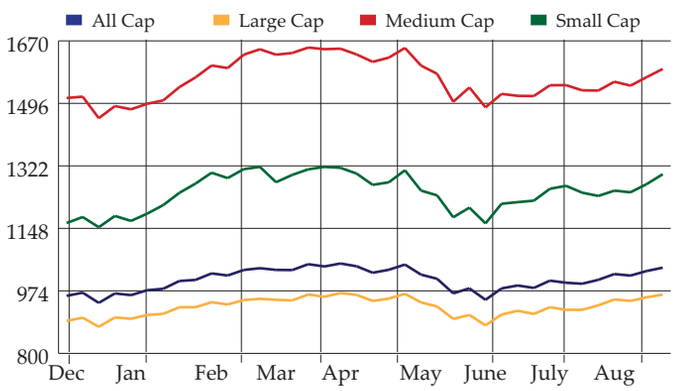
REDmoney Global *6 Months*



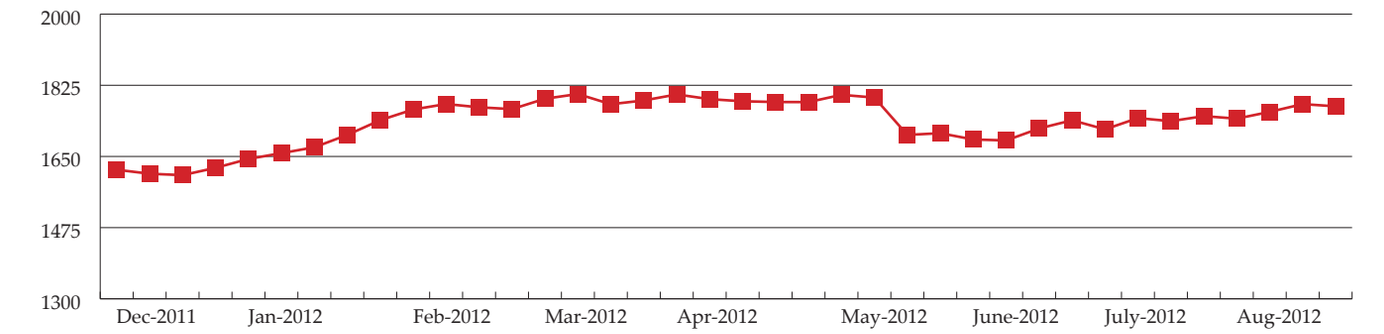
REDmoney MENA *6 Months*



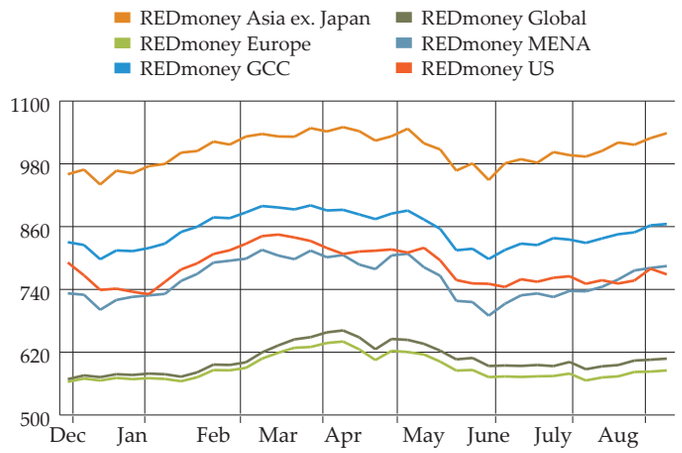
REDmoney US *6 Months*



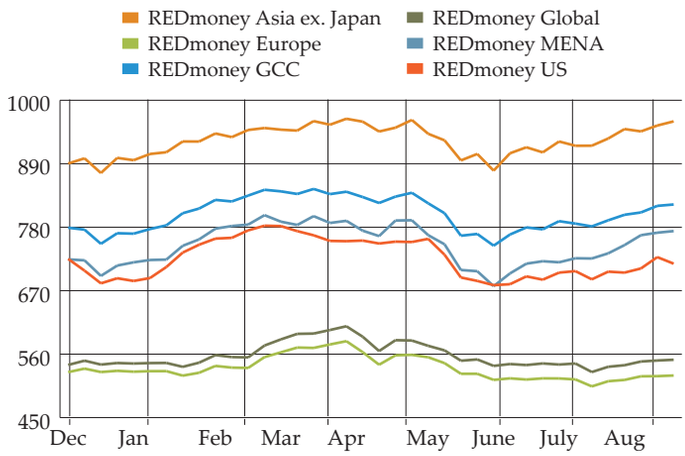
SAMI Halal Food Participation (All Cap) *6 months*



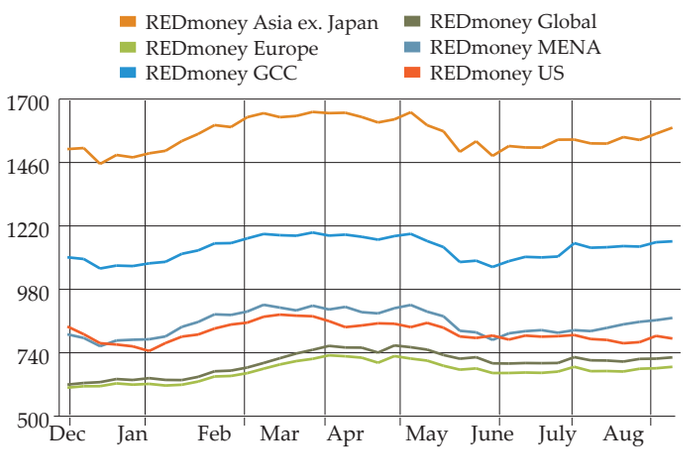
REDmoney Global Shariah Index Series (All Cap) *6 Months*



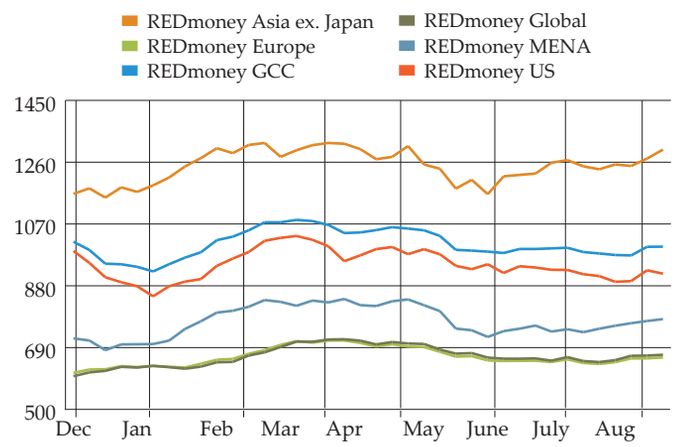
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



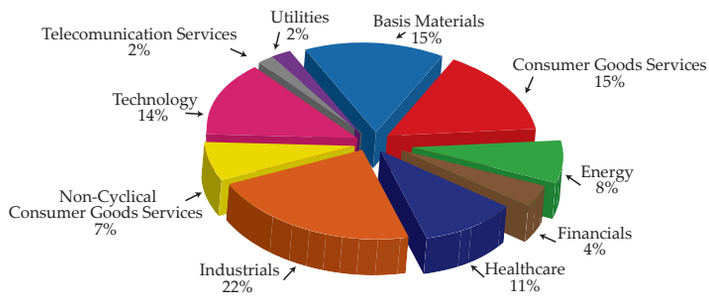
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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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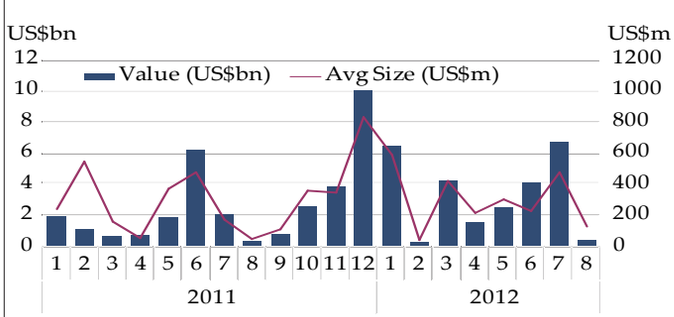
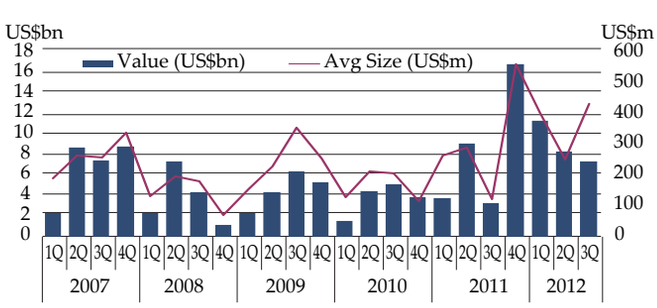
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
15th Aug 2012	Tanjung Bin Power	Malaysia	Sukuk	Domestic market private placement	1,346	CIMB Group, Maybank Investment Bank
14th Aug 2012	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	963	HSBC, CIMB Group, Maybank Investment Bank
9th Aug 2012	Kuala Lumpur Kepong	Malaysia	Sukuk Ijarah	Domestic market public issue	322	CIMB Group, Maybank Investment Bank
1st Aug 2012	SME Bank	Malaysia	Sukuk	Domestic market public issue	159	KFH, AmInvestment Bank, Maybank Investment Bank
19th Jul 2012	Kimanis Power	Malaysia	Sukuk	Domestic market public issue	272	HSBC, CIMB Group
17th Jul 2012	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	260	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
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
12th Jul 2012	First Resources (Singapore)	Indonesia	Sukuk	Foreign market public issue	189	RHB Capital
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

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	20.5	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	State of Qatar	Qatar	Sukuk	Euro market public issue	4,000	8.5	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest, Barwa Bank
3	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	8.5	HSBC
4	Saudi Electricity Company	Saudi Arabia	Sukuk	Euro market public issue	1,750	3.7	Deutsche Bank, HSBC
5	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	3.3	Lembaga Tabung Haji, CIMB Group
6	Tanjung Bin Power	Malaysia	Sukuk	Domestic market private placement	1,298	2.8	CIMB Group, Maybank Investment Bank
7	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	2.7	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
8	Tanjung Bin Energy Issuer	Malaysia	Sukuk	Domestic market private placement	1,089	2.3	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
9	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	1,071	2.3	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
10	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	2.1	Standard Chartered Bank, HSBC, Citigroup
10	EIB Sukuk	UAE	Sukuk	Euro market public issue	1,000	2.1	Standard Chartered Bank, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD, Dubai Islamic Bank, Credit Agricole
12	Celcom Transmission (M)	Malaysia	Sukuk	Domestic market public issue	963	2.1	HSBC, CIMB Group, Maybank Investment Bank
13	Johor Corporation	Malaysia	Sukuk	Domestic market public issue	939	2.0	CIMB Group, Affin Investment Bank, AmInvestment Bank, Maybank Investment Bank
14	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	800	1.7	Saudi National Commercial Bank, Standard Chartered Bank, BNP Paribas, HSBC, CIMB Group
15	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	1.7	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
16	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	789	1.7	CIMB Group, Maybank Investment Bank
17	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1.7	CIMB Group, Maybank Investment Bank
18	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	753	1.6	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
19	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1.6	Standard Chartered Bank, BNP Paribas, Citigroup
19	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1.6	Deutsche Bank, Citigroup, Credit Agricole
21	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
22	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	561	1.2	Maybank Investment Bank
23	TASNEE	Saudi Arabia	Sukuk	Domestic market private placement	533	1.1	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	Kuala Lumpur Kepong	Malaysia	Sukuk Ijarah	Domestic market public issue	416	0.9	CIMB Group, Maybank Investment Bank
	Total				**46,879**	**100**	

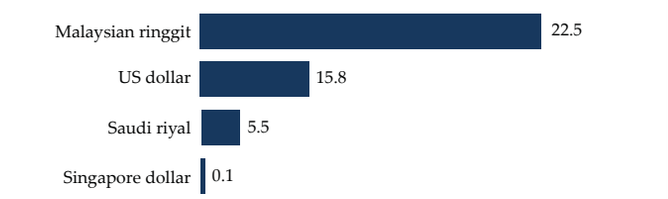
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	9,252	25	19.7
2	CIMB Group	7,851	35	16.8
3	Maybank Investment Bank	6,931	39	14.8
4	AmInvestment Bank	4,123	19	8.8
5	RHB Capital	2,914	31	6.2
6	Standard Chartered Bank	2,492	15	5.3
7	Deutsche Bank	2,025	4	4.3
8	Citigroup	1,630	9	3.5
9	Lembaga Tabung Haji	1,137	5	2.4
10	Dubai Islamic Bank	868	7	1.9
11	Barwa Bank	863	2	1.8
12	QInvest	800	1	1.7
13	National Bank of Abu Dhabi	797	6	1.7
14	Affin Investment Bank	468	4	1.0
15	Emirates NBD	439	5	0.9
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	DRB-HICOM	320	7	0.7
22	Hong Leong Bank	252	2	0.5
23	OCBC	235	5	0.5
24	Abu Dhabi Commercial Bank	218	2	0.5
25	KFH	163	3	0.4
26	Saudi National Commercial Bank	160	1	0.3
27	Riyad Bank	153	2	0.3
28	Bank of America Merrill Lynch	125	1	0.3
29	RBS	121	2	0.3
30	Public Bank	95	1	0.2
	Total	**46,879**	**122**	**100.0**

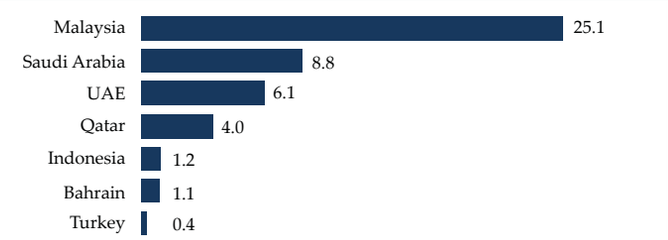
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	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

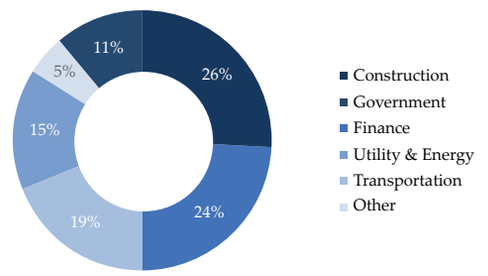
Sukuk Volume by Currency US$ (billion) *12 Months*



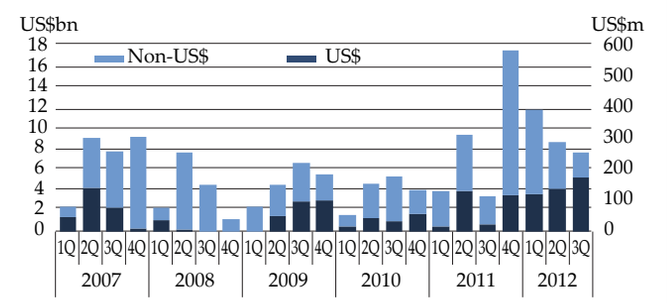
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	SABB	1,395	5	9.1
2	Samba Capital	1,093	5	7.2
3	Saudi National Commercial Bank	991	5	6.5
4	Banque Saudi Fransi	944	4	6.2
5	Maybank Investment Bank	819	5	5.4
6	Al-Rajhi Banking & Investment	753	3	4.9
7	CIMB Group	731	3	4.8
8	AmInvestment Bank	704	3	4.6
9	RHB Capital	631	1	4.1
10	Arab National Bank	617	2	4.0
11	Saudi Hollandi Bank	538	2	3.5
11	Riyad Bank	538	2	3.5
13	Standard Chartered Bank	458	9	3.0
14	Noor Islamic Bank	447	5	2.9
15	Barwa Bank	422	3	2.8
16	Citigroup	412	6	2.7
17	Abu Dhabi Islamic Bank	400	7	2.6
18	Emirates NBD	315	4	2.1
19	HSBC	233	3	1.5
20	Qatar Islamic Bank	213	1	1.4
20	Qatar International Islamic Bank	213	1	1.4
20	Masraf Al Rayan	213	1	1.4
23	Arab Banking Corporation	209	4	1.4
24	Dubai Islamic Bank	203	2	1.3
25	Mashreqbank	185	2	1.2
26	National Bank of Abu Dhabi	175	2	1.1
27	Deutsche Bank	160	3	1.1
28	QInvest	156	1	1.0
28	Commercial Bank of Qatar	156	1	1.0
30	Al Hilal Bank	121	4	0.8

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

	Bookrunner	US$ (mln)	No	%
1	QInvest	467	1	12.4
2	Abu Dhabi Islamic Bank	420	5	11.2
3	Standard Chartered Bank	384	7	10.2
4	Citigroup	370	5	9.8
5	Emirates NBD	283	3	7.5
6	Noor Islamic Bank	254	2	6.7
7	Dubai Islamic Bank	243	2	6.4
8	National Bank of Abu Dhabi	211	2	5.6
9	Samba Capital	171	1	4.5
10	Maybank Investment Bank	166	3	4.4

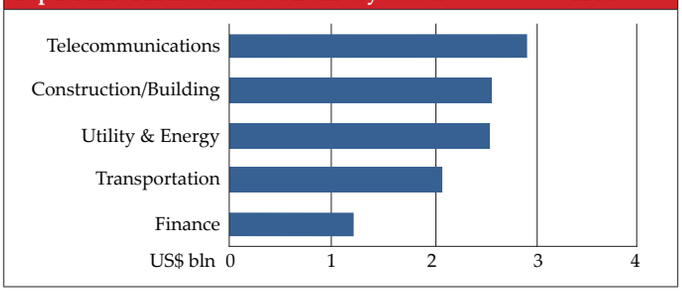
Top Islamic Finance Related Loans Deal List *12 Months*

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
30th Jun 2012	TIBAH	Saudi Arabia	1,193
25th Jun 2012	Bawabat Al Shamal Real Estate Company	Qatar	1,154
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World	UAE	850

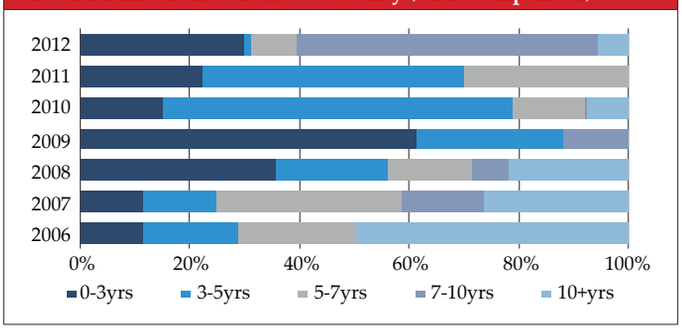
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	6,896	7	45.1
2	Malaysia	2,971	5	19.4
3	UAE	2,350	7	15.4
4	Qatar	1,317	2	8.6
5	Turkey	1,107	5	7.2
6	Pakistan	227	6	1.5
7	Indonesia	183	4	1.2
8	Sri Lanka	175	1	1.1
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)

9th — 10th October 2012
4th World Islamic Retail Banking Conference
Dubai, UAE (*Fleming Gulf*)

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)*

23rd November 2012
IFN Roadshow Thailand
Bangkok, Thailand (*REDmoney Events*)

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

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

3rd — 4th December 2012
AAOIFI World Bank Annual Conference on Islamic Banking and Finance
Manama, Bahrain (*AAOIFI*)

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

8th — 10th December 2012
Global Islamic Microfinance Forum
Dubai, UAE (*Al Huda CIBE*)

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)*

Islamic Finance *news*

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