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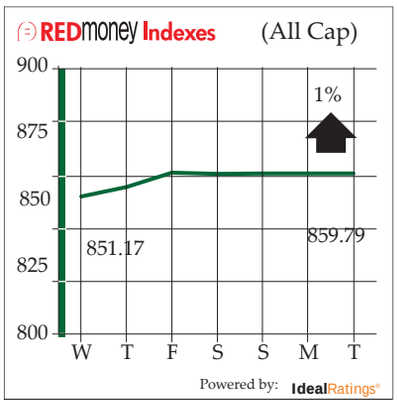

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The rise and fall of Islamic bond yields

Cover Story

Record Sukuk issuance in 2011 combined with low yields and a positive outlook for 2012 are said to be luring investors away from poorly performing conventional markets towards the Shariah compliant fixed income markets. But how are Sukuk yields actually performing in 2012, and are they really attracting new investors or are the comparisons with the conventional market simply wishful thinking?

January has seen a spate of high profile, high volume Sukuk issuance that has brought the Islamic capital market to the forefront of investor consciousness. Last week Abu Dhabi-based First Gulf Bank (FGB) issued a US$500 million Sukuk, as did Emirates Islamic Bank (EIB), a unit of Dubai's Emirates NBD. Tamweel, the troubled Dubai mortgage lender, also announced a US$300 million Sukuk sale while Saudi Arabia and Bahrain both announced government issuances and Malaysia saw the biggest global Sukuk issuance to date with the US$9.7 billion PLUS Expressways privatization. There is no doubt that investors, concerned over limited global liquidity and access to debt markets, are turning to the Sukuk market as a means of diversifying their funding sources, tapping Middle East and Asian liquidity and accessing cheaper borrowing rates. According to Mohammed Dawood, the managing director of Islamic global markets for Europe, the Middle East and Africa at HSBC Amanah in Dubai: "It's purely down to commercial considerations. What gives you the best execution and pricing?"

Lured by lower yields

Islamic debt has certainly been performing strongly over the past six-12 months, with high demand pushing yields below those of conventional bonds. In the GCC region, based on the HSBC/Nasdaq Dubai indexes, Sukuk are trading at an average yield of around 4.5% — about 50 basis points (bps) lower than conventional bonds. In addition, Sukuk has demonstrated considerably lower volatility. Mohieddine Kronfol, the chief investment officer for fixed income and global Sukuk at Franklin Templeton Investments (ME) in Dubai, comments that: "Where the returns are comparable, Sukuk have delivered significantly lower volatility than other asset prices."

He points out that the economic climate of the two key Sukuk-issuing regions of the Gulf and Malaysia are also attracting investors. "They have strong government sectors that benefit from high commodity prices, especially oil. They have the balance sheet resources to support the aggregate demand so that both regions have positive economic growth and favorable debt dynamics, all of which help Sukuk issues out of these countries." This strong economic performance,with an expected growth of over 4% across the region, is pushing markets up and pulling yields

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Sukuk is the word

Editor's Note

As the clear favorite instrument of the Islamic financial market, there is no escaping that Sukuk will be the buzzword for 2012. Although hardly groundbreaking, perhaps a factor that could add a different dimension to the Sukuk markets this year is the emergence of Sukuk in new markets, such as Saudi Arabia and South Africa; or an increase in cross-border fundraising deals.

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NEWS

Indonesia eyes US$223.59 million project-based Sukuk in the first half of 2012

Islamic banking assets in Indonesia almost double year-on-year in 2011

Bank Maybank Syariah Indonesia provides US$11.1 million financing to **Bess Finance**

IDB looks to cooperate with government on energy projects

Elaf Bank extends US$5 million facility to **Serba Dinamik**

Trinity Corporation proposes extra collateral as US$28 million Sukuk Ijarah matures

Bank Muamalat Malaysia targets more non-Muslim customers

Maybank concludes US$330.6 million syndicated term facility

Qatar's conventional banks' defunct Islamic windows to make headway in Swaziland?

Securities Commission Malaysia approves US$13.6 billion-worth of Sukuk in the fourth quarter of 2011

Public Bank 2011 net profit up marginally

State Bank of Pakistan and the **Islamic Corporation for Insurance of Investment and Export Credit** ink MoU on promoting trade and investment

State-owned companies in Kazakhstan could lead sovereign Sukuk or eurobond

Bank Negara Malaysia reveals new liberalization measures for financial markets

France's first Sukuk hampered by debt crisis

Albaraka Türk Katılım Bankası to proceed with planned US$200 million Sukuk sale

Chaabi Bank eyes launch of Shariah banking in June 2012

BLME concludes three-year Murabahah financing agreement with **Masthaven Property Finance**

GCC Sukuk sales up almost threefold in 2011

NASDAQ Dubai joins **Gulf Bond and Sukuk Association**

Market eyes Dubai Sukuk as **Dubai Holding Commercial Operations Group** reaffirms debt commitment

IDB pledges interest as country's Islamic banking sector sets to launch

QInvest has acquired a 30.5% stake in a local landscaping services group that includes **Al Nakheel Agriculture and Trading Company** and **AG Middle East**

The **QFC Regulatory Authority** has issued its 'Guide to Corporate Governance' for QFC authorized firms involved in Islamic finance

Bank Sohar plans rights issue to finance Islamic window

No doubt of Dubai meeting debt obligations

Abu Dhabi Commercial Bank nets US$830.34 million profit in 2011

The **IDB** to make US$650 million investment in four construction projects in Iran throughout 2012

Tamweel's 2011 income rises to US$28 million

Capital Market Authority to coordinate supervision of kingdom's financial sector with central bank

Masraf Al Rayan posts 16.3% growth in net profit in 2011

National Bank of Fujairah looks at offering Islamic services

Majid Al Futtaim's has reportedly received an initial price guidance in the range of 5.9-5.95% for its US dollar-denominated maiden Sukuk

Dana Gas Sukuk yield at highest level since the middle of January

First Gulf Bank reports 8% growth in net profit in 2011

ISLAMIC INVESTOR

Crescent Wealth to jointly launch Islamic Australia Index

Al-Hadharah Boustead REIT net profit leaps to US$77.9 million

TAKAFUL

Doha Insurance Company reports US$18.07 million profit in 2011

ING Public Takaful Ehsan seeks 10% share of domestic Takaful market by 2015

RATINGS

S&P assigns **Banque Misr** 'B+/B' long- and short-term counterparty credit ratings

Fitch affirms **DIB** long-term issuer default rating at 'A'

Musteq Hydro makes early redemption on US$36 million Bai Bithaman Ajil fixed-rate serial bonds

MARC revises outlook on **Aras Sejagat**'s US$165 million Sukuk Ijarah program to stable from negative

AM Best assigns financial strength rating of 'B++' (good) to **First Insurance Company**

MOVES

Edib Smolo to become Shariah coordinator at a local financial institution

CIMB Group appoints **Nazir Razak** president commissioner of **CIMB Niaga**

Suresh Kumar said to be stepping down as CEO and board member of **Emirates NBD Capital**

Bank BRI Syariah appoints **Hadi Santoso** as president director

Foo San Kan is new chairman of **OSK Investment Bank**

The rise and fall of Islamic bond yields

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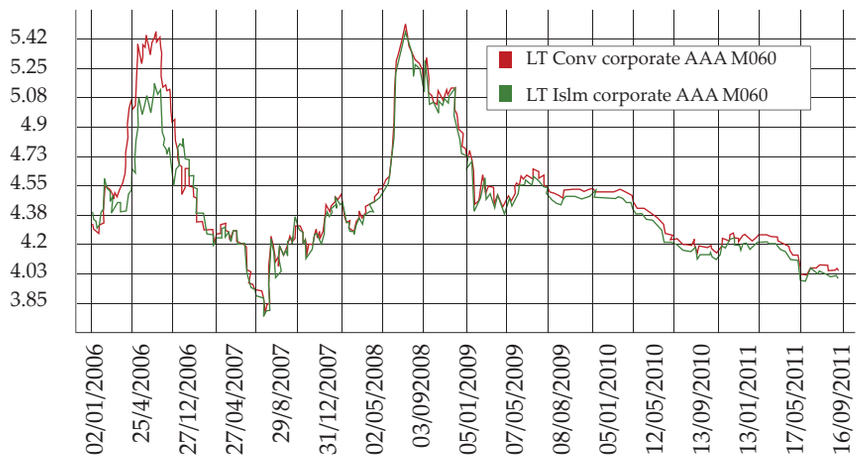
Table 1: 5 Five-year 'AAA' Corporate Bonds vs five-year 'AAA' Corporate Sukuk 1/1/2006 – 31/12/2011



Source: Bond Pricing Agency Malaysia

down. This was noticeable particularly in the recent November 2011 Bahrain global Sukuk, which despite a relatively high yield of 6.273% saw strong demand from both new and existing investors and reaffirmed confidence in the market following the political upheaval it experienced earlier in the year. Attracted by economic strength, the significant trading discount and the low volatility, are issuers now being tempted towards Sukuk instead of conventional debt?

It seems as if this may be the case, with several new entrants to the Sukuk space. The infrastructure sector is looking particularly promising for the Islamic capital market, as companies struggle with difficult global bond market conditions and seek alternative sources of funding. In July 2011, for example, state-owned Malaysian infrastructure firm Syarikat Prasarana Negara successfully priced its first RM2 billion (US$657.1 million) offering under its RM4 billion (US$1.31 billion) Sukuk program. Although initially arranged in 2009, the issuance took several years to come to market, and it is notable that Prasarana usually finances its activities with conventional bond issuances. However, following its maiden Sukuk foray, CEO Shaipudin Shah Harun confirmed that the company now plans to regularly issue Sukuk to fund the company's expansion.

Corporate concerns

However, there are still concerns that corporate Sukuk is not performing as well as government issues. Table 1 demonstrates the performance of corporate Sukuk over conventional bonds over the past five years, and shows that while spreads have tightened, the conventional market has consistently outperformed the Islamic sector.

Even the record corporate Sukuk sale from PLUS Expressways saw a relatively high yield of 5.07%, compared with average yields on global Islamic notes of around 4.08-4.1%. This has put off some corporate issuers from entering the market. The Turkish unit of Al Baraka Banking Group postponed its planned US$200 million issuance in December 2011 citing unfavorable yields, with price guidance suggesting an expected yield to market of around 6%.

Nor has the Gulf escaped regional corporate risk concerns, the most significant being Dubai repayment concerns. These have for example considerably affected the performance of the Dana Gas US$1 billion Sukuk yield, which has seen high volatility as investors worry over its ability to meet its debt obligations. On January 16th the yield soared 17 percentage points to 71.8%, yet the next day plummeted by 19 points (the most on

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CLOSING BELL

Purchase concluded

OMAN: Bahrain-based investment manager Instrata Capital has acquired a stake in the Sembcorp Salalah Independent Water and Power Project from Oman Investment Corporation, for its Shariah compliant Bunyah GCC Infrastructure Fund.

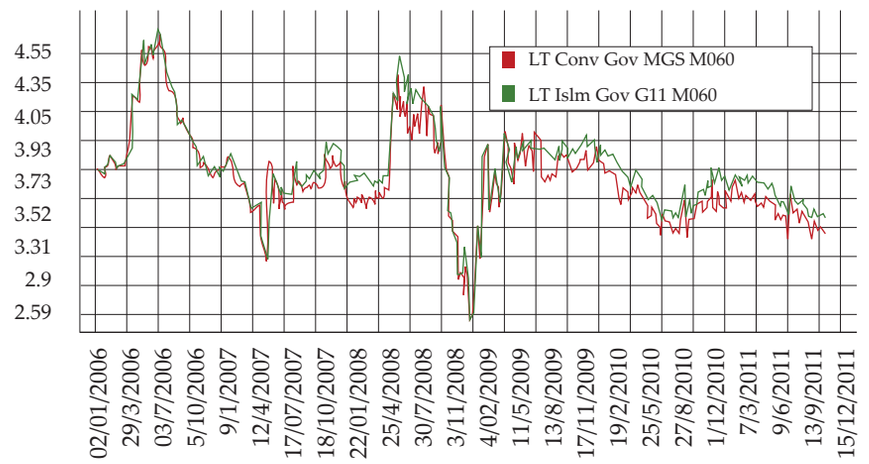
Profit increase for Alinma

UAE: Alinma Bank has announced a 103% increase in its fourth quarter profit to SAR136 million (US$36.2 million) from the previous corresponding period.

The rise and fall of Islamic bond yields

Continued from page 3

Table 2: Five-year MGS vs GII 1/1/2006 – 31/12/2011



Source: Bond Pricing Agency Malaysia

record) to 52.7%. The Sukuk is currently yielding more than 11 times the average rate on GCC Islamic debt, which is hovering around 4.56%.

New issuers are finding greater success. EIB's first Gulf-originated Sukuk of US$500 million closed on the 10th January at 4.718%, at a spread of 350bps over midswaps (*see case study page 16*). However this too reflects the regional risk perception, with the final price higher than the expected yield of around 4% or 275bps over midswaps. The performance is affected by the perception of Dubai as a riskier bet than its wealthier and more stable neighbors, with around US$15.5 billion in debt due in 2012. In comparison, Abu Dhabi-based FGB's recent US$500 million Sukuk was priced at a considerably lower 4.046%,while Abu Dhabi Islamic Bank raised US$500 million at just 3.78% in November and Abu Dhabi Commercial Bank raised a similar amount at 4.071%, reflecting a strong investor preference for the emirate.

Malaysia is also bucking the general trend, with US$2.2 billion of corporate Sukuk already issued in the first two weeks of the year – almost as much as during the whole of 2009. Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia, the central bank, said in a recent interview that: "Sukuk yields have tight spreads and often experience over-subscription than their conventional equivalents, as the pool of potential investors is wider, comprising both conventional and Shariah compliant parties while drawing comfort from the robust regulatory system governing capital raising in Malaysia."

Sovereign strength

In comparison to the corporate sector, however, government Sukuk have been performing exceptionally strongly over the past six-12 months. Yields on Malaysia's five-year local currency Islamic bonds this month fell to 3.31%, their lowest level in almost three years, due to expectations of interest rate cuts in the first quarter of 2012, while the average yield on global Shariah compliant notes hovers around 4.08%. Analysts predict that government Sukuk yields will continue to fall, due to the high liquidity in the Islamic financial system enabling it to absorb the new supply. In addition, high levels of new sovereign issuance are expected for 2012, with Indonesia and Saudi Arabia both planning offerings, along with new entrants such as Sudan and South Africa.

Mohd Shaharul Zain, the chief business officer of the Bond Pricing Agency Malaysia (BPAM), points out that: "Yields for government Sukuk are higher than conventional bonds, whereas for corporate Sukuk the yields are lower than the equivalent conventional. This is a reflection of the supply/demand situation for these asset classes."

Demand for stable government Islamic debt is shooting up as borrowing costs decline and investor appeal widens. The Bloomberg-AIBIM Malaysia Sovereign Shariah Index, which tracks the most traded ringgit-denominated debt, gained 4.5% in 2011 and rose 0.2% to a record 106.233 this week. In addition, as the country seeks to narrow its budget deficit Malaysia may look to reduce its debt offerings in 2012, thus boosting demand at auctions as supply tightens. However, this could also have a knock-on effect on the corporate sector, as the government looks to pass significant project financings to the private sector.

The attraction of the Islamic

The low yields, scarce supply, high demand and strong regional prospects really do seem to be encouraging new issuers to the Sukuk market. Chavan Bhogaita, the head of markets strategy at the National Bank of Abu Dhabi, is quoted as saying that it is no coincidence that Gulf issuers are selecting fundraising methods based on what will attract the most investors, and thus secure the best rates. And there are many reasons why issuers are choosing to sell Sukuk over conventional debt.

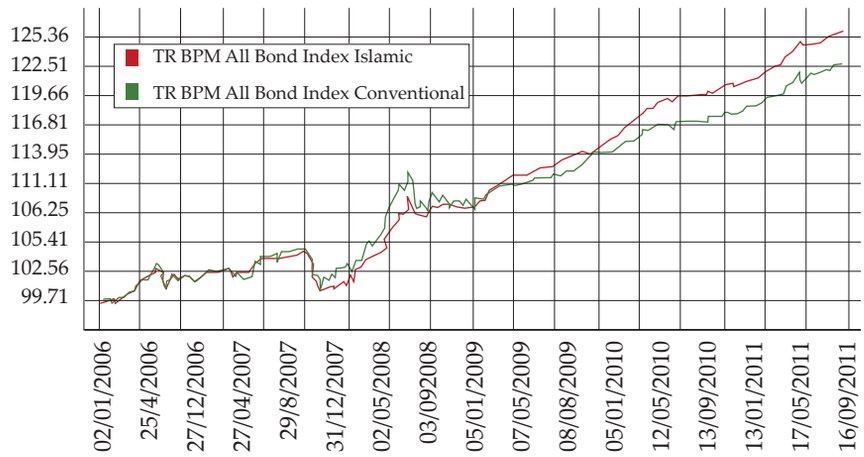
The scarcity of supply is boosting demand making it easier to complete transactions during a predominantly risk-averse period. In addition, Sukuk enables issuers to efficiently target the high liquidity markets of the Middle East and Asia, the biggest Islamic debt markets in the world, and gives them an excuse to avoid the riskier US and European markets. However, the most compelling attraction is as always the pricing, which is still at a significant discount to the conventional market. With Islamic bonds trading at around a 50bps discount, and at considerably lower volatility, it is no surprise that the Sukuk market is attracting interest.

Shaharul explains that: "In terms of market performance, it is best represented by an index. You can see from the Thomson Reuters-BPAM index for all Sukuk vs conventional bonds between 2007 to date, that Sukuk consistently outperform the conventional bonds throughout in terms of total return."[See Table 3]

The rise and fall of Islamic bond yields

Continued from page 4

Table 3: TR-BPAM All Bonds and Sukuk Index 1/1/2007 – 31/12/2011



Source: Bond Pricing Agency Malaysia

Future performance

Investors like Sukuk because it is cheaper and less volatile than conventional issuances, while issuers like Sukuk because it gives them access to high liquidity and a wide investor base.

One of the key attractions of the Sukuk market is also its regional nature, which allows investors to access Middle East and Asian liquidity and escape from over-reliance on Europe and the US. Conversely however, issuers do not have to rely on European and US investors and the market is both strong and independent. The recent EIB Sukuk saw 57% allocated to buyers in the Middle East and 29% to Asia, while the FGB Sukuk also witnessed "overwhelming responses from investors in the Middle East, Europe and Asia," with Middle East investors subscribing to 69% compared to 16% for Asian investors, while European investors counted for 15%.

Mohieddine notes a number of key factors that are driving the performance of the Sukuk market, including: "First, a return of confidence to the market in general after a positive experience with the restructurings surrounding Dubai World and Sukuk that were affected by the 2008/9 financial crisis. Second, the European crisis, and its effect on sentiment and capital markets everywhere. And third is the quantitative easing, or the accommodative and loose monetary policy in the developed and the developing world."

For 2012, he believes that we will see the same three factors influencing the market. "However, I would add a fourth component for this year, which would be the liquidity factor. New supply, the refinancing requirements of the GCC, and continued deleveraging by many European banks will have an influence on the amount of liquidity that is available for Sukuk. These factors are really what are going to drive returns in the next twelve months."

However, he does warn that despite the encouraging levels of issuance for 2012: "Issuers do not look at market performance, they looks at cost. I don't think there is necessarily a large discount or premium between Sukuk and conventional products. It really will come down to liquidity at Islamic institutions and the issuer's preference." And as a quick comparison, the debut FGB Sukuk in 2007 was oversubscribed six times with a rate of 3.797%, compared to its recent issuance of 4.046%. Despite the promising prospects for the Sukuk market, there is still a way to go before yields recover to pre-crisis levels. — *LM*

Sukuk is the word

Editor's Note

As the clear favorite instrument of the Islamic financial market, there is no escaping that Sukuk will be the buzzword for 2012. Although hardly groundbreaking, perhaps a factor that could add a different dimension to the Sukuk markets this year is the emergence of Sukuk in new markets, such as Saudi Arabia and South Africa; or an increase in cross-border fundraising deals.

This week, Islamic Finance *news* keeps pace with the Sukuk trend; and our cover story looks at Islamic bond yields and their role in attracting new investors.

Our features also include an overview of Sukuk issuances by Standard & Poor's, highlighting the impact Islamic bond sales from Europe could have on the global Shariah compliant debt market; while our Hong Kong & China IFN Correspondent, Anthony Chan of law firm Brandt Chan & Partners, discusses what could be done to realize the issuance of Sukuk in Hong Kong.

Meanwhile, Dr Abderrazak Belabes and Dr Ahmed Belouafi, of the Islamic Economics Institute of the King Abdulaziz University in Saudi Arabia, discuss Islamic finance teachings at the world's top 10 business schools. We stay in the schoolyard with an IFN report on Islamic investments in student accommodation.

Reliance Asset Management (Malaysia) writes our Islamic Investor feature this week, providing a review of the equity markets in 2011; while our Takaful feature looks at the new draft Takaful Rules 2012 in Pakistan.

Insider features an exclusive interview with Faizal Salieh, the managing director and CEO of Sri Lanka's Amana Bank. Our IFN reports also cover the Islamic Bank of Asia; Dubai debt and Indonesia's new rules on foreign ownership. We also have an IFN Correspondent article on developments of Islamic finance in the UK.

ASIA

Utilizing assets

INDONESIA: The government is looking at issuing a IDR2 trillion (US$223.59 million) project-based Sukuk in the first six months of this year, according to Agus Martowardojo, its finance minister.

He said that the government has IDR5 trillion (US$558 million)-worth of underlying assets to issue the Sukuk.

Indonesia is also planning to sell a global Sukuk at the end of the first half of this year.

Growth soars

INDONESIA: Islamic banking assets in the country grew 49% year-on-year to IDR149 trillion (US$16.5 million) in 2011, according to the central bank, Bank Indonesia.

Shariah compliant financing also grew to IDR105 trillion (US$ 11.6 million) in 2011; 50.6% higher than in 2010.

Auto financing deal

INDONESIA: Bank Maybank Syariah Indonesia has provided a IDR100 billion (US$11.1 million) financing facility to auto financing company Bentara Sinergies Finance (Bess Finance).

Bess Finance will utilize the funds to enlarge its portfolio of motorcycles and used cars.

IDB eyeing bigger role?

AZERBAIJAN: The IDB is reportedly exploring opportunities for more cooperation with the Azerbaijan government in the energy sector.

The bank is said to have met with Mugabil Hussein, the acting head of the country's energy department, to discuss possibilities and perspectives of cooperation.

Elaf Bank in financing deal

MALAYSIA: Bahrain's Elaf Bank has concluded a US$5 million financing facility to engineering and maintenance services firm Serba Dinamik to finance a five-year contract awarded by Petronas Carigali, the exploration and production arm of national oil company Petroliam Nasional.

Dr Jamil El Jaroudi, the CEO of Elaf Bank, said that the financing represents a springboard for the bank to expand its coverage in Malaysia and other Southeast Asian countries.

More collateral for Sukuk

MALAYSIA: Real estate and development company Trinity Corporation has proposed additional collateral from the sale proceeds of 40 units of shop offices following the maturity of the RM84.65 million (US$28 million) balance of its RM150 million (US$49 million) Sukuk Ijarah on the 27th January 2012.

The sale proceeds amount to RM40 million (US$13 million).

However, the company said that its Sukukholders have not declared an event of default on its unit, Ample Zone, which issued the Islamic bonds, as they have not convened a Sukukholders' extraordinary general meeting to deliberate Ample Zone's proposal for a three-year extension on the Sukuk's maturity date.

The proposed collateral is in addition to existing securities in the form of the balance of three commercial buildings.

Widening reach

MALAYSIA: Bank Muamalat Malaysia is targeting non-Muslim customers in a proactive bid to enhance the market of Islamic banking products and services, which is seeing growing interest from non-Muslims in Europe.

The percentages of non-Muslims currently utilizing the bank's services comprise 20% for its deposits segment and 40% for its financing segment.

Maybank in Indonesia syndicated deal

INDONESIA: Maybank has extended a US$330.6 million syndicated term facility for independent power producer Badrajaya Sentranusa.

The 10-year facility includes a US$100 million Islamic tranche. The financing will be used to take over the entire existing project loans for the construction of a hydroelectric power plant in North Sumatra.

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Headway abroad for Qatar's defunct Islamic windows?

GLOBAL: Swaziland is reportedly considering the establishment of the country's first Islamic bank, with Qatar National Bank (QNB) said to be a frontrunner.

The move is significant in two ways. Firstly, it would mark the African nation's entry into Islamic finance; and secondly, it would help Qatari conventional bank QNB to compensate for losing an Islamic operation following the orders to shut down its Islamic operations in Qatar last year.

Furthermore, as noted by Yousef Hussain Kamal, QNB's chairman and Qatar's minister of finance and economy: "Though we miss our Islamic division, QNB is pretty confident it will be able to recoup what it actually missed through its activities," signaling that the bank would perhaps have preferred not to give up its Islamic operations. In 2010, the bank's Islamic division grossed around QAR900 million (US$247.32 million) in profit.

Although the Qatar Central Bank has ordered Qatar's conventional banks with Islamic operations to shut down those businesses, it appears that those limitations do not cover any foreign Islamic operations that those conventional banks may have.

Whatever the consequence, it appears that Swaziland is not short of Middle East suitors for the establishment of domestic Islamic banks. According to Martin Dlamini, the governor of the Central Bank of Swaziland, several Middle East investors have already expressed interest in establishing Islamic banks in the country, although there has been no submission of formal documentation on the matter.

Only time will tell whether any of these talks will come to fruition. Could Swaziland mark the next African country to enter into Islamic finance?

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Bank Internasional Indonesia, Maybank Investment Bank and Bank Maybank Syariah Indonesia (MSI) were joint mandated lead arrangers and bookrunners, while BII, Maybank Islamic and MSI were joint underwriters for the transaction.

Bank Bukopin and Lembaga Pembiayaan Ekspor Indonesia (Indonesia Eximbank) also participated in the financing.

Flood of Sukuk

MALAYSIA: The Securities Commission Malaysia has approved 15 local currency Sukuk, amounting to RM41.7 billion (US$13.6 billion), in the fourth quarter of 2011.

This accounted for more than half of the total RM78.9 billion (US$25.8 billion)-worth of Sukuk it approved last year.

Islamic banking contributes to growth

MALAYSIA: Public Bank has reported a 14.3% year-on-year growth in net profit to RM3.48 billion (US$1.14 billion) in 2011.

The increase was attributed mainly to an 8.6% higher net interest and net income from Islamic banking to RM464.6 million (US$152.4 million) and an 8.4% growth in net fee and commission income to RM87.1 million (US$28.6 million).

Trade booster

PAKISTAN: The central bank, the State Bank of Pakistan, and the Islamic Corporation for Insurance of Investment and Export Credit have signed a MoU to cooperate in promoting trade and investment in the country.

The agreement is aimed at establishing a basis for the exchange of information between the two entities on the banking industry's condition and operating performance and on ICIEC's exposure to banks in the country.

Possible benchmark?

KAZAKHSTAN: State-owned corporations will most likely set a benchmark for foreign borrowing before the state would consider issuing either a eurobond or a Sukuk, said Bolat Zhamishev, the finance minister of Kazakhstan.

Bolat added that the issuance of eurobonds or Sukuk will depend on the market and the corporate sector's external borrowing plans.

Change for the better

MALAYSIA: The central bank, Bank Negara Malaysia (BNM), has announced new liberalization measures on the use and conversion of foreign exchange.

From the 31st January 2012, licensed onshore banks are allowed to trade in foreign currencies against another foreign currency with a resident.

However, the new measure is only for transactions involving foreign currency against another foreign currency, for any purpose; and does not include the trading of foreign currency against the ringgit.

BNM has also given flexibility to residents to convert their existing ringgit or foreign currency obligations into another currency to enhance asset liability management.

EUROPE

France Sukuk foiled

FRANCE: Europe's ongoing debt crisis has hampered the government's efforts to sell France's first Islamic bonds and attract Shariah investors from the Gulf.

Jawad Ali, the global deputy head of the Islamic finance practice at law firm King & Spalding, noted that although the legal framework for a Sukuk issuance in France is in place, the financial situation has not made it particularly conducive for a sale.

"Investors aren't looking at Europe and saying there are a lot of opportunities. They are looking at Europe and saying there is a lot of uncertainty," he said.

Sukuk back on the table

TURKEY: Albaraka Türk Katılım Bankası is set to issue a US$200 million Sukuk in the first quarter of this year, after putting off the sale in December 2011 due to concerns on pricing.

Meanwhile, Adnan Ahmed Yousif, the president and CEO of Al Baraka Banking Group, which owns Albaraka Türk, said

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Bank results in strong preliminary showing

UAE: Banks in the emirates have made a strong showing in their financial results this reporting season, despite talk in the market last year of continued depressed growth in 2012.

As at the 31st October 2011, the net profit of banks in the UAE rose by 11.3% from the beginning of the year, to AED24.98 billion (US$6.8 billion).

For the full year, Abu Dhabi Commercial Bank reported full-year earnings of AED3.05 billion (US$830.34 million), with its net interest and Islamic finance income growing to AED1.39 billion (US$378.42 million).

Shariah compliant mortgage provider Tamweel, which went through a period of turbulence following the 2008 Middle East financial crisis, also showed strong results in its 2011 financials. Its full-year profits increased 291.9% to AED101.9 million (US$27.7 million) from 2010.

"It was a positive surprise on the numbers and while there is not a great deal to compare it with, the fourth quarter profit was way ahead of our expectations," Julian Bruce, a director of institutional equity sales at EFG-Hermes, was quoted as saying. In the fourth quarter of last year, the mortgage provider reported a net profit of AED31 million (US$8.4 million).

In a report late last year, Fitch commented that the country's banking system could come under pressure from the global economic turmoil and a slowdown in Abu Dhabi.

While results may still be preliminary, could banks in the emirates be poised to overturn earlier expectations of gloomy days ahead?

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that the group's financial results this year are expected to be better than in 2011, with its balance sheet expected to improve by 15%.

It has reported a net profit of US$166 million for the first nine months of last year.

Shariah banking in Belgium?

BELGIUM: Morocco's Chaabi Bank is considering the launch of a Shariah compliant current account at its branch in Brussels in June this year.

The bank will reportedly consult with Belgium's Financial Services and Markets Authority on the matter soon.

Murabahah financing for Masthaven

UK: The Bank of London and The Middle East (BLME) has signed a three-year Murabahah financing agreement with bridging financing provider Masthaven Property Finance.

The financing will be used to fund Masthaven's bridge and short-term property finance business.

GLOBAL

GCC Sukuk triples

GLOBAL: Sukuk issuance in the GCC almost tripled to nearly US$19.4 billion in 2011 from US$6.9 billion a year earlier, according to Saudi Arabia's National Commercial Bank (NCB).

The growth came despite developments in Europe and even as IPOs and conventional bond sales remained depressed.

"In spite of the positive momentum, it is clear that the GCC market — as indeed its Malaysian counterpart — remains critically linked to sovereign and quasi-sovereign issuances. Most of these remain short-term paper sold for liquidity management purposes, above all by the Central Bank of Bahrain," it noted.

Corporate Sukuk in the GCC amounted to around US$5.6 billion in 2011, from a total of 12 issuances, from seven sales amounting to US$4.3 billion in 2010, said NCB.

MIDDLE EAST

Developing Middle East debt mart

UAE: NASDAQ Dubai has become the first securities exchange to join the Gulf Bond and Sukuk Association.

The move is aimed at strengthening the development, transparency and efficiency of the region's debt markets.

Bouyban Bank's 31% net increase

KUWAIT: Boubyan Bank has announced a 31% year-on-year growth in net profit to KWD8 million (US$28.8 million) for the 2011 financial year.

According to Ibrahim Al-Qadhi, its chairman, the growth in profit reflects its increase in operating profits by 24% to KWD30.4 million (US$109.5 million).

Its net finance income rose to KWD39.6 million (US$142.7 million) from KWD30.3 million (US$109.2 million) in 2010.

All eyes on Dubai

UAE: Dubai Holding Commercial Operations Group (DHCOG), a unit of Dubai Holding, has announced that it will meet its obligation on the payment of its US$500 million conventional bond, but the market still awaits the fate of two Sukuk due later this year.

"The first test for Dubai will be to meet its US$1.25 billion DIFC Investments (DIFCI) commitment in June, but the real test will be the Jebel Ali Free Zone (Jafza) [US$2 billion Sukuk], as it is the largest maturity and at the end of the line — after Dubai will likely have already provided substantial financial assistance to DIFCI," noted Ghassan Chehayeb, an associate director of Middle East research at Exotix, an investment banking boutique specializing in distressed assets.

Market observers also said that monetizing assets quickly or financial support from the Dubai government are key for DIFCI and Jafza, whose Sukukholders include hedge funds, high-yield investors and distressed debt players.

However, optimism remains on the settlement of the debt. "Although DIFCI and Jafza have been less transparent than

continued...

IDB pledges interest as country's Islamic banking sector sets to launch

OMAN: The country's fledgling Islamic banking sector is fast gathering momentum with the IDB now pledging to invest equity into the sector.

"We are at the disposal of both authorities and institutions to provide assistance in Oman. The IDB has from the start been supporting the establishment of Islamic banks and financial institutions through equity participation," said Dr Ahmed Mohammad Ali, the president and chairman of the board of executive directors at the IDB.

He also said that the options for IDB's participation remain open and hinge on the needs of the industry, authorities and founders of Islamic banks in Oman. "We are ready to provide equity capital to banks which are making a foray into Islamic banking," added Dr Ahmed.

The country's newly set-up Islamic banks, Bank Nizwa and Al Izz International Bank (Bank Al Izz), are slated to begin operations this year, while Ahlibank, Bank Muscat, Bank Sohar and the National Bank of Oman comprise conventional lenders which have expressed interest in establishing Islamic windows. Standard Chartered Bank is also said to be considering offering Shariah compliant services.

Participation from the IDB will certainly make up a clever way for Oman's government to get the ball rolling further in the development of the country's Islamic finance sector; providing capital support in an area where the government has already said it will not.

While committed to providing regulatory support — the establishment of Oman's Islamic banking sector was announced early last year, with regulations expected to be announced by February this year — the government appears content with keeping its involvement to the minimum. Bank Nizwa and Bank Al Izz were established by private investors and both banks are set to launch IPOs by June this year, offering 40% of their equity to the public.

With the IDB now prepared to make an entrance into Oman's Islamic finance sector and local banks lined up to launch their Shariah compliant services, there is not much left for the government to do to get the sector kicked off.

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DHCOG in voicing their commitment to creditors, we believe that all Dubai public maturities will be honored in a timely fashion," said Ghassan.

New purchase for QInvest

QATAR: QInvest, a local Shariah compliant investment bank, has acquired a 30.5% stake in a local landscaping services group that includes Al Nakheel Agriculture and Trading Company and AG Middle East.

The acquisition represents the fourth private equity transaction completed by QInvest in the MENA region and is consistent with its strategy to partner with established businesses that are in need for growth capital to achieve their expansion objectives.

Both the companies specialize in providing landscaping and related maintenance services to governmental, corporate and industrial customers.

New corporate governance guidelines

QATAR: The QFC Regulatory Authority, the independent regulatory body of the Qatar Financial Center (QFC), has issued its 'Guide to Corporate Governance' for QFC authorized firms involved in Islamic finance, banking, investment, insurance and reinsurance businesses.

The guide sets out principles of sound corporate leadership and management as well as the key elements relating to corporate governance that are provided for in the QFC Companies Regulations and Regulatory Authority's rules.

It will also assist these firms in benchmarking their corporate governance practices against the international best practice standards and identify areas of potential improvement.

Bank Sohar targets Islamic window

OMAN: The board of directors at Bank Sohar has recommended an OMR10 million (U$25.97 million) rights issue as capital to fund the bank's Islamic window.

The bank, which has just reported a net profit of OMR14.5 million (US$37.66 million) in 2011, also announced that the introduction of Islamic banking represents a key objective for this year.

It is now putting in place the frameworks, systems and procedures to facilitate its roll-out of its Shariah compliant business.

Dubai to meet repayments

UAE: There is no doubt that Dubai will meet its schedule of debt obligations due this year according to Mohammed al Shaibani, the CEO of Investment Corporation of Dubai, the government's flagship holding company.

He also said that Dubai will not need any external support, such as from Abu Dhabi, to meet its repayments, adding that the debt situation is not expected to be affected by the Eurozone crisis.

Profits surge

UAE: Abu Dhabi Commercial Bank has reported a net profit of AED3.05 billion (US$830.34 million) for its 2011 financial year, as profit in the fourth quarter rose 38.5% year-on-year to AED514 million (US$139.94 million).

Its net interest and Islamic finance income grew to AED1.39 billion (US$378.42 million) from AED1.03 billion (US$280.41 million) a year earlier.

IDB invests in Iran construction

IRAN: The IDB will make a US$650 million investment in four construction projects in the country throughout 2012.

According to Ali Fallahi, a representative of the IDB in Iran, the bank's investments in construction projects in Iran will amount to US$3 billion in the next three years.

Last year, the bank provided US$84.3 million-worth of funding for a wastewater project in the country.

Tamweel back in business

UAE: Tamweel has reported a net profit of AED102 million (US$28 million) for 2011, compared to a profit of AED102 million (US$28 million) in 2010.

The growth was attributed to its launch of a range of new products last year.

continued...

RATINGS

Negative outlook

EGYPT: S&P has assigned a 'B+/B' long- and short-term counterparty credit rating to Banque Misr with a negative outlook.

Good support

UAE: Fitch has affirmed Dubai Islamic Bank (DIB)'s long-term issuer default rating at 'A' and viability rating at 'bb'. The outlook on the long-term rating is stable.

Early redemption

MALAYSIA: Musteq Hydro, a local independent power producer, has redeemed and cancelled its outstanding RM108 million (US$36 million) Bai Bithaman Ajil fixed-rate serial bonds on the 26th January 2012, before its final maturity date of the 30th January 2017.

Making progress

MALAYSIA: MARC has revised its outlook on its 'AA+IS(bg)' rating on Aras Sejagat's RM500 million (US$165 million) bank-guaranteed Sukuk Ijarah program to stable from negative. MARC also affirmed the 'AA+IS(bg)' rating on the Sukuk.

Brilliant start

JORDAN: AM Best Europe Rating Services has assigned a financial strength rating of 'B++' (good) and issuer credit rating of 'bbb' to the First Insurance Company. The outlook assigned to both ratings is stable.

continued...

"A year on from our successful return to the UAE's home finance market, our positive financial results confirm that Tamweel is firmly back in business," said Abdulla Ali Al Hamli, its chairman.

Sharing supervisory role

SAUDI ARABIA: The Capital Market Authority has signed an agreement with the central bank, the Saudi Arabian Monetary Agency, to coordinate supervision of the financial industry to improve its stability.

Under the deal, the two regulators will coordinate the supervision of corporate governance, risk management measures, IPOs, Sukuk issuances and merger and acquisition regulations as well as the exchange of information.

Additionally, the two bodies will also coordinate before issuing or renewing regulations to ensure the stability of the kingdom's financial sector.

Good performance

QATAR: Masraf Al Rayan has reported a 16.3% year-on-year increase in net profit to QAR1.41 billion (US$387.17 million) in 2011.

Profit for the fourth quarter climbed to QAR396 million (US$108.74 million), up 37% from the previous corresponding period.

Assets rose 59.4% from the end of 2010 to QAR55.27 billion (US$15.8 billion) at the end of last year, while customer deposits grew 71.2% to QAR46.26 billion (US$12.7 billion).

New Islamic unit on the cards?

UAE: Dubai-based National Bank of Fujairah is considering making an entry into Islamic banking, according to Vince Cook, its CEO.

He said that the bank has seen demand from its customers for Shariah compliant banking.

"It is certainly on our radar. At the moment it is more a question of when and how. We are aware that we need to have some form of that proposition. We are still at an early stage of that discussion, so I do not have a definite answer on when and how," said Cook.

MAF Sukuk nears close

UAE: Majid Al Futtaim's (MAF) has reportedly received an initial price guidance in the range of 5.9-5.95% for its US-dollar denominated maiden Sukuk.

As at press time on the 31st January, books for the sale were expected to be nearing its close.

The final pricing follows investor meetings in Abu Dhabi and Dubai on the 29th January and in London and Kuala Lumpur on the 30th January.

Abu Dhabi Islamic Bank, Dubai Islamic Bank, HSBC and Standard Chartered are arrangers of the transaction.

Investors still in the dark

UAE: Dana Gas witnessed the yield on its US$1 billion Sukuk, due in October this year, soar to its highest level since the middle of January this year as the company announced 2011 profits without making any reference to its repayment of the papers.

The yield on the 7.5% notes jumped 79 basis points to 64.69%.

FGB profits reach US$1 billion

UAE: First Gulf Bank has reported an 8% year-on-year increase in net profit to AED3.7 billion (US$1 billion) in 2011.

Net interest and Islamic financing income rose 19% from 2010 to AED5.07 billion (US$1.4 billion).

Coming up...

Volume 8 Issue 5 — 8th February 2012

Meet the Head
M Lamine Mbacke, chairman and managing director, African Institute of Islamic Finance — AIIF Advisory and Training, Senegal.

Features
The magic of recent Sukuk issuance: By Abrar Hussein, partner at Elixir Capital.

Mergers and acquisitions in the Islamic finance industry: By Carlo Pianese, associate at Vinson & Elkins.

The rising of gold product in Indonesian Islamic banking: By Tony Hidayat, researcher at Bank BRI Syariah.

MOVES

ISRA

MALAYSIA: Islamic Finance *news* has learnt that **Edib Smolo** will join as a Shariah coordinator for a local financial institution on the 2nd February 2012.

Edib was previously a researcher and coordinator of the Islamic capital unit at the International Shariah Research Academy for Islamic Finance (ISRA).

CIMB NIAGA

INDONESIA: CIMB Group has appointed **Nazir Razak** as the president commissioner of its Indonesian unit, CIMB Niaga, pending approval from the central bank, Bank Indonesia.

Nazir, who is also the group CEO of CIMB Group, will replace Mohd Shukri Hussin, who has retired.

The bank has also named **Glenn Mohammad Surya Yusu**f as vice-president commissioner, replacing Roy Edu Tirtadji.

EMIRATES NBD CAPITAL

UAE: **Suresh Kumar**, the CEO and a board member of Emirates NBD Capital, will reportedly leave the bank after serving for more than 20 years.

BANK BRI SYARIAH

INDONESIA: Bank BRI Syariah has appointed **Hadi Santoso** as its president director, replacing Ventje Raharjo, who has resigned.

The appointment awaits approval from the bank's shareholders and the central bank, Bank Indonesia.

Hadi was previously the regional leader of the bank's parent bank, Bank Rakyat Indonesia, in West Java.

OSK INVESTMENT BANK

MALAYSIA: OSK Holdings has appointed **Foo San Kan** as the chairman of its subsidiary, OSK Investment Bank, for a period of three years.

Foo, who is also OSK Holdings' senior independent and non-executive director, replaces Dr Choong Tuck Yew, who has retired.

Banking on students

In a bid to diversify from traditional investment routes, Islamic financial institutions, particularly in Europe and the US, are beginning to look towards the student accommodation market as a viable source of revenue. Student accommodation is considered a relatively low-risk form of investment due to bad debt provisions of less than 1% in the student accommodation market (in the UK), a secure rental income, sustained growth and a mature market with long-term fundamentals. As a commercial property asset class it is already an established market within the conventional financing realm, although it has yet to fully take off in the Islamic finance market.

In the UK alone, the number of students enrolled in higher education institutions has increased by 81% over the last ten years. In 2010, the number of full-time non-UK post graduate students accounted for more than 50% of the 300,000 total. According to the latest figures, the demand for higher education in the UK remains strong, with 2.4 million full-time students. Applications have also risen by 22.9% from 2010-2011, with overseas applicants registering a 28.7% increase. Despite the expected trebling of tuition fees between 2012-2013 in UK-based higher education institutions, demand for applications have grown by 5.3% among non-UK students over the last year, according to the University and Colleges Admissions Service (UCAS).

The asset class is not entirely alien to the Islamic finance sector, with the first Shariah compliant student accommodation fund launched in the mid-1990s by Ahli United Bank, followed by ABC International Bank, and Gatehouse Bank in 2010. The most recent addition to the student accommodation investment fraternity is Solum Asset Management. The firm intends to launch an investment Sukuk worth up to GBP200 million (US$314.73 million) in the first quarter of this year on the back of these tangible investments.

Safdar Alam, CEO of Solum Asset Management, revealed: "Unlike traditional Sukuk, which are akin to conventional debt products, the Student Accommodation Investment Sukuk will use equity to provide holders with an annual yield of 4-6%. Our stance is that Sukuk in its purest sense is an investment vehicle. We could go to market with this as a fund, but we've made the deliberate choice to launch it as an investment Sukuk.

"The whole question of asset-backed or asset-based is the result of Sukuk being debt products. As an equity structure, it will be a true sale to Sukukholders, and they take the risk and return of the assets."

A recent report by UK-based property advisors GVA also affirmed the growing demand amongst institutional investors to utilize student accommodation as an asset class: "As government spending on infrastructure projects falls back, student housing is being seen as an attractive alternative by institutional investors in search of bond-type deals with index-linked income streams. As well as more institutional and infrastructure funds showing interest in this sector, we are also seeing contractors like Balfour Beatty and Mace taking a much more active involvement in the student housing market." — *NH*

IBA back in the saddle?

Following a period of turbulence and slow business characterized by at least US$77 million-worth of losses, the Islamic Bank of Asia (IBA) appears to be implementing a slow but sure rebuilding of its operations. The bank, owned by DBS Bank and investors from the GCC, has just announced two appointments seen as key to strengthening its business; charting its future direction.

At its headquarters in Singapore, it has appointed Harish Parameswar as a managing director and its head of investment banking, while it has also named Saleh Al Nashwan as the chief representative of its Bahrain representative office.

Toby O'Connor, the CEO of IBA, said that: "The addition of Parameswar and Saleh to our senior management reflects IBA's commitment to deliver a first class Shariah compliant merchant banking platform servicing Asia and the Middle East." He added that: "Strong client coverage across the Middle East and Asia with high quality transaction origination and execution are essential for us to fully capture our business opportunity." O'Connor himself was appointed in May last year, to a position that had been vacant since December 2009 following the departure of then-CEO, Vince Cook. Following the impact of impairments on accounts from the Gulf, O'Connor was tasked with re-directing IBA; moving the bank out of the financing business and focusing on fee-based income.

The bank now appears to be banking on its new hires to continue with its refreshed outlook. According to its statement, Parameswar will oversee the expansion of the bank's investment banking business, including private equity, advisory, private placement and capital markets activities; in line with its strategic priorities.

Prior to his appointment, Parameswar was the managing director of Beacon Advisory International, a corporate finance advisory and private equity investment firm which he also founded. He also has experience at Deutsche Bank and Jardine Fleming.

Meanwhile, Saleh will lead the bank's regional office and coverage of its shareholder and clients across the GCC. He will work with the bank's head office to strengthen business activity with its Middle East clients. He was previously the chairman of MECAP Consultancy and the founder and CEO of investment company Maalem Holding. — *EB*

> ***"Strong client coverage across the Middle East and Asia with high quality transaction origination and execution are essential"***

Healthy markets and influential allies to allay Dubai debt fears?

There has been a prevailing gloom hanging over Dubai's debt obligations due this year; but with debt markets off to a good start in 2012, prospects for their repayment now seem better than ever.

On top of this, banks such as HSBC, which has made a name for itself managing transactions in the Middle East, have come out to show their continued support for Dubai — perhaps in a bid to be first in line for business should the expected refinancings come through.

"We're not concerned with regards to Dubai's ability to meet its debt obligations; that's not only in the medium-term but certainly in the context of this year," Paul Skelton, the regional co-head of global banking, Middle East North Africa at HSBC Holdings, was quoted as saying.

With an estimated US$3.8 billion-worth of debt maturing this year, including Sukuk from at least three government-related entities, markets have been jittery on prospects of restructuring. However, market players have turned optimistic, looking towards a refinancing of the debt instead.

According to Skelton, there will be more refinancing of maturities this year compared to last; as there is still "an ability" for the debtors to refinance as and when required.

HSBC also believes that international banks' appetite to refinance the debt will not be impacted by the Eurozone crisis.

"There is sufficient liquidity and sufficient ways at the borrowers' disposal to get things done. International banks are still here and will continue to support Dubai," said Skelton.

With the current hive of activity in the Sukuk markets pointing to a positive 2012 and Dubai having supporters in high places, it doesn't look like the emirate will have much to worry about when its debt comes due this year. — *EB*

Holding companies might be exempt

Nazir Razak, the group chief executive of CIMB Group, recently revealed that he is confident that Bank Indonesia's proposal to limit foreign ownership in local banks at 50% or less will not affect holding companies such as CIMB, which currently has a 97% stake in Indonesia's fifth-largest bank, CIMB Niaga.

"As I understand it, the government will come up with some new rules of single ownership which would be common to what there is in other markets. I think the typical rules would center on individual owners and single corporate owners, as opposed to financial holding companies."

Last year, industry players in Indonesia's banking sector were waiting with bated breath for Bank Indonesia's verdict on the foreign ownership cap for banks in the country, which currently allows 99% foreign ownership. The statement, which was made by Darmin Nasution, the governor of Bank Indonesia, in July 2011, has left the market rife with speculation. However, no follow-up or assertion of certainty has been forthcoming since the announcement.

Indonesia's economy has benefited from an influx in foreign direct investment over the last few years, amounting to US$19.3 billion in 2011, an increase of 20%. Analysts fear that this move to truncate foreign stakes in banks will affect such investments and make Indonesia a less accessible market compared to its Southeast Asian counterparts.

> ***"Indonesia's economy has benefited from an influx in foreign direct investment over the last few years, amounting to US$19.3 billion in 2011"***

However, should the move materialize, the country's foreign ownership percentage will still be higher than Malaysia and Singapore, which have thresholds of 20% and 5% respectively.

An analyst said: "Bank Indonesia says the rule will apply to all banks, but analysts staunchly believe that this is aimed at checking the influence of foreign investors in the banking sector.

"Over a third of Indonesia's 121 banks are either branches of foreign banks, such as HSBC, or local banks majority-owned by foreigners, like Bank Danamon — which is 67.4% owned by Singapore's Temasek Holdings."

Other industry players involved in the local Indonesian market also do not perceive the proposed rules as an impediment, and instead regard them as a much-needed element to grow the Indonesian market on a domestic level. "As a country grows, you want to ensure good competition between local and foreign banks. Given enough time to invest, foreign entities can help with talent building, systems and good governance, thus allowing local banks to improve," a source revealed. — *NH*

Sukuk: Planning for 2012

HONG KONG & CHINA

By Anthony Chan, IFN Correspondent

It is always good to start the year with some forward thinking. One of the positive things a new year offers is the ability to turn over a new leaf and revisit old concepts with a different perspective.

Sukuk have been talked about for years in Hong Kong, but as yet Hong Kong has not really achieved any significant milestones as a promoter or financial intermediary of this Islamic product or indeed any other Islamic product. As the lunar year of the dragon rears its head, at least two critical path items need to be satisfied to make Sukuk a viable proposition for Hong Kong as a major financial center and gateway to mainland China.

The first is that Hong Kong (or the financial community in Hong Kong) needs to find an Islamic country partner with complementary skills. The Malaysian Islamic financial community appears to be the right partner because of its historical and cultural proximity and its expertise and success in structuring and implementing Islamic financial products such as Sukuk.

This is not to say that potential partners from the financial communities in the UAE or Bahrain or elsewhere in the GCC are not suitable but there is more work needed to get these communities closer to the Hong Kong financial community. Malaysia being in the same timezone as Hong Kong and its motherland also helps.

Whilst there will obviously be competition issues between Hong Kong and its country partners, the ability of the Hong Kong financial community to tap the enormous resources of mainland China should vastly increase the chances of success of such a partnership, giving both Hong Kong and its partner sufficient returns.

Hong Kong's role will be its ability to persuade non-Islamic investors and issuers, starting with those in Hong Kong and mainland China, as to why Sukuk (and indeed other Islamic financial instruments such as Ijarah) are worth investing in, and the Hong Kong financial community knows its own and mainland China's investor market like no other.

Hong Kong has seen its fair share of financial instruments, such as renminbi bonds, but marketing Sukuk will pose quite different challenges for promoters and sponsors and Hong Kong's partnership with an Islamic country partner should help to overcome any inhibitions investors or issuers may have.

> ***"Hong Kong can assist substantially in the growth of Islamic financing in east Asia and expand from the traditional investor base for Sukuk"***

However, at the end of the day Chinese investors and issuers will still regard risk/reward, yield and liquidity as key factors. Generally Sukuk is perceived to be a safer investment than conventional bonds but investors will need to understand how risks are managed within the Sukuk structure.

Hong Kong can assist substantially in the growth of Islamic financing in east Asia and expand from the traditional investor base for Sukuk. For one thing Hong Kong, as a major financial center, has no shortage of talent and language skills, and certainly is able to train talent continuously. Such talent has for years been put to understanding, structuring and marketing financial products throughout Asia.

With the assistance of an Islamic country partner who can complement the talent in Hong Kong, Hong Kong's financial community could, for instance, locate ways to structure Sukuk adapted to a more non-Islamic China or Asian investor base with differing profiles, to wrap Sukuk up within some other more exotic financial offerings that may be more suitable to the tastes of Chinese/Asian investors.

Notwithstanding the need to penetrate any new investor base and new issuers for Sukuk, Hong Kong still needs to be mindful of the traditional investor base and should use Hong Kong's resources to capitalize on promoting itself to Sukuk investors globally as well as the 300 or more Islamic financial institutions across 75 nations worldwide.

The second critical path needing attention is legislation to assist in smoothing over tax disincentives. Given Hong Kong's reputation and credibility in the global financial community and its relationship with mainland China, taking a step to permit Sukuk-centric tax changes will immediately turn the limelight of Islamic financing to Hong Kong ahead of other Asian jurisdictions, especially those like Korea who are experiencing their own problems with such tax changes.

If Hong Kong does make such Sukuk-centric tax changes, this will inevitably stimulate other jurisdictions to do the same; thereby promoting both the primary and secondary markets for Sukuk. Let's hope the Hong Kong government's current plans to create a level playing field for Sukuk and bond offerings for Hong Kong in terms of taxation are carried through to fruition this year.

As the lunar year of the rabbit leaps to a close, the new lunar year of the dragon rattles its magnificence. The year ahead is likely to be highly challenging, to say the least, given the global economic woes. However, may the fire of the dragon burn everything bad in sight so as to allow good things, especially good Islamic financing plans, to generate.

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New beginnings

UK

By Dr Natalie Schoon, IFN Correspondent

While the end of 2011 turned out to be relatively uneventful, the start of 2012 has already seen quite a bit of activity in the London market. Earlier in January the European Islamic Investment Bank (EIIB) announced the completion of its strategic investment in the UAE's Rasmala Holdings. EIIB will acquire a 35% stake in Rasmala over 2012 in return for a US$16 million investment. Rasmala expects to post a loss for the 2011 financial year, but is optimistic that cost reduction and restructuring initiatives should result in improved performance for 2012.

Norton Rose hosted its annual Islamic finance seminar in mid-January. Now in its fourth year, the seminar, titled 'Islamic Finance After the Arab Spring', was very well attended. The speakers talked about the growth potential of Islamic finance in the UK. Mohammed Amin, a chartered tax advisor, spoke about the issue of 'Shariah creep' noting that none of the amendments made to UK law in order to establish a level playing field for Islamic financial services make any reference to Shariah. Unfortunately Lord Sassoon, the commercial secretary to the Treasury, confirmed that although the UK government has not ruled out issuing Sukuk, it is not on the list of priorities, particularly not now as the cost of issuing conventional government debt is particularly low.

During the second half of January two new Sukuk were listed on the London Stock Exchange, bringing the total number of issuances to 42 at US$23.75 billion. Both Emirates Islamic Bank and First Gulf Bank have issued five-year notes for an amount of US$500 million with fixed periodic distributions.

One of the first achievements of Sohaib Hamid in his role as a business development manager for the Yorkshire region for the Islamic Bank of Britain (IBB) was the launch of a high street outlet in Dewsbury, West Yorkshire, which will serve the Bradford district. The agency is one of the six scheduled to be opened this year; meeting growing local demand for Shariah compliant retail financial products. The IBB is seeing a strong demand in the region from Muslims and non-Muslims looking for an alternative to conventional financial institutions.

Dr Natalie Schoon is the principal consultant at Formabb and she can be contacted at mail@formabb.co.uk.

Amana Bank focused on further growth

The launch of Amana Bank as Sri Lanka's first fully-fledged Islamic bank in August last year belies the bank's experience in Islamic finance, which can be traced back to 1997. Starting out as Amana Investments, Amana Bank was later set up in 2009 following legislative changes to Sri Lanka's Banking Act No. 30 of 1988 to allow Islamic banking.

Now five months into its rebirth, the bank is focused on expanding further and sees its small and medium sized enterprise (SME) business as a key area of growth. Additionally, with shareholders including Bank Islam Malaysia (20%), Bangladesh's AB Bank (15%) and the IDB (10%), Amana Bank also appears well-placed to take advantage of the ample growth available in Sri Lanka's fledgling Islamic finance industry.

"My outlook is positive. The industry is showing clear signs of vibrancy after Amana Bank's entry into the banking sector as the first fully Shariah compliant commercial bank in the country. The popularity of Islamic finance is on the rise as seen from the growth in our own balance sheet; the number of conventional banks and finance companies that are stepping forward to open Islamic windows; the emergence of new fund managers [and] new equity funds; the growing interest in Islamic finance education and training; and the interest that is beginning to gather momentum in the larger non-Islamic segments of Sri Lankan society.

"I can see an Islamic finance eco-system in the making," said Faizal Salieh, the managing director and CEO of Amana Bank, in a response to Islamic Finance *news*.

Leg-up on growth

Thanks to a leg-up from the acquisition of Amana Investments' previous business, Amana Bank can now account for LKR5.3 billion (US$46.5 million)-worth of financing assets and LKR11.3 billion (US$99.2 million)-worth of deposits.

"The financing asset mix in terms of business portfolios is 22% consumer financing, 41% corporate financing and 37% SME financing. In addition to our short-term financing lines, we also do Ijarah lease financing of vehicles, equipment and machinery and provide housing finance for retail customers," said Faizal.

He also noted that the SME segment is seen as the main area that will drive Amana Bank's growth. "The margins are better in this segment and in the post-civil war period in our country this segment has tremendous potential for the uptake. Infrastructure development is another. There is also good potential for consumer financing.

"The challenge, however, lies in the bank's ability to introduce the range of Islamic banking products that would meet both market requirements and Shariah approval," he said.

> *"I can see an Islamic finance eco-system in the making"*

Looking ahead

Faizal also commented that the bank is focused on expanding its SME capabilities; in particular by strengthening its human resource skills in SME business development and risk management and expanding its distribution channels in high density SME territories.

"We are also reaching out to identified corporate in selected growth sectors of the economy, albeit the margins in the corporate business segment [are] pretty thin. Currently we are working on a number of financing transactions including project finance for customers engaged in the fields of renewable energy and export manufacturing start-up initiatives," he said.

The bank has also identified the expansion of its local distribution network as a key goal of its five-year strategic plan; where it aims to have up to 70 branches by the fifth year of its operations.

"The strategic plan also includes expanding into new emerging markets overseas where there is a viable demand for Islamic banking," said Faizal, who noted however that the bank is inclined to consolidate its local operations before stepping outside Sri Lanka.

"Having said that, we shall certainly explore any new and good global opportunities that arise where we can offer our expertise and promote the unique value proposition of the Islamic banking model," he said, adding that the bank hopes to draw value from its shareholders in order to expand abroad.

The bank is also mulling its needs for Tier II capital and has initiated discussions with "some parties" on the matter, said Faizal.

Opportunities abound

Among the factors encouraging the bank's bright outlook is the current market for Islamic finance in Sri Lanka, which has plenty of room for growth, although some hurdles remain.

"The transformation path has been particularly slow in the regulatory, tax and legislative environments; which is understandable in a Muslim-minority country. But in recent times we are beginning to see a positive alignment of minds and more traction at these levels," noted Faizal.

On its part, Amana Bank is also playing a role in reaching the urban and rural areas of Sri Lanka; and investing in technology and new products to better serve the banking population. Faizal said that the bank is also in talks with the regulatory and tax authorities to bring appropriate changes to the regulatory and legislative frameworks to facilitate the growth and development of the industry; and to put the industry on a level playing field with its conventional counterpart.

Going forward, Faizal said that: "Some of the opportunities in Sri Lanka we could capitalize on include the emerging demand for Islamic retail banking in the north and eastern provinces in the post-war era; inward remittance business from Sri Lankan Islamic expatriates working overseas where there is a demand for a Shariah compliant banking conduit; and infrastructure development financing."

Having hit the ground running since its official launch last year, the bank appears set to remain a firm fixture of Sri Lanka's Islamic finance market. — *EB*

Emirates Islamic Bank US$500 million Sukuk

Emirates Islamic Bank (EIB) successfully closed the first Gulf-originated Sukuk of 2012, pricing its US$500 million five-year Sukuk at 4.718% on the 10th January. The Sukuk's pricing was equivalent to a spread of 350 basis points over midswaps.

The certificates, maturing in 2012, were the second issuance emanating from EIB's US$1 billion trust certificates issuance program.

The program is guaranteed by Emirates NBD and is rated 'A3' by Moody's and 'A+' by Fitch. The transaction's Musharakah structure was based on Sharika Al Malk (co-ownership), with the certificates being senior obligations of EIB.

The issuance came on the back of a series of investor meetings held by senior management figures from EIB and Emirates NBD beginning on the 3rd January in the Middle East, Asia and Europe.

The transaction closed within 12 hours of the release of initial pricing, with strong demand from regional and international investors. The widespread syndicate and marketing strategies of the six joint lead managers and two co-managers resulted in an order book that was oversubscribed three times.

This also guaranteed that the order book was very well diversified with investor participation from Asia (29%), Europe (14%) and Middle East (57%). Within the final order book, banks accounted for 61%, fund managers 24%, insurance and pension funds 9% and private banks 5% and others 1%.

In a statement from one of the lead arrangers it was noted that EIB successfully achieved all of its issue objectives, capitalizing on the positive sentiment in international markets, the current low interest rate environment, strong Islamic liquidity and demand for Islamic paper.

The issuance also marks the first US dollar public bond issuance by Emirates Islamic Bank since 2007. According to EIB: "This successful Sukuk issue will result in US$500 million of new five-year funding for the bank and was very well received in the market, as evident by the oversubscription, tight pricing and depth of investor base. This issue also demonstrates the confidence that the global capital markets have in the Emirates NBD Group."

EIB was prudent in appointing six lead managers and two co-managers to oversee the transactions uptake, which was launched amid a depressed market for global credit. The outlook for EIB's Sukuk sale was expected to be weighed down by the prevailing weak economic trends emanating from the global financial markets. However, EIB's issuance was quickly followed by issues from First Gulf Bank and Tamweel.

> ***"The issuance also marks the first US dollar public bond issuance by Emirates Islamic Bank since 2007"***

The flood of Sukuk issuances from the Gulf in the beginning of January shows that borrowers, worried about limited global liquidity and future access to debt markets, are turning to Sukuk once again as a means of funding diversification.

It also followed news in December 2011 that Emirates NBD had decided to shelve its own plans for a five-year Sukuk; with an Islamic bond sale being looked at by EIB instead. This casts doubt on earlier rumors speculating that Emirates NBD's two Islamic subsidiaries, EIB and Dubai Bank, may be consolidated into a single entity; although such a proposition has not yet been ruled out. — *SW*

EIB Sukuk Company

US$500 million

10th January 2012

Issuer	EIB Sukuk Company
Obligor	Emirates Islamic Bank
Guarantor	Emirates NBD
Issuance price	US$500 million
Purpose of issuance	General funding requirements of the bank
Tenor	Five years
Coupon rate	4.718%
Payment	18th July and 18th January each year
Currency	US dollar
Maturity date	18th January 2017
Joint lead managers	Citigroup Global Markets, Emirates NBD Capital, HSBC Bank, National Bank of Abu Dhabi, Standard Chartered Bank and the Royal Bank of Scotland
Co-managers	Dubai Islamic Bank, Hong Leong Islamic Bank
Governing law	English and Dubai
Issuance price	At par
Listing	London Stock Exchange
Rating	'A3' by Moody's and 'A+' by Fitch
ISIN	XS0731642491
Structure / instrument	Musharakah
Investor break-down	Asia (29%), Europe (14%) and Middle East (57%) Banks (61%) Fund managers (24%), Insurance and pension funds (9%), Private banks (5%) and others (1%)
Face value / minimum investment	US$200,000 and integrals of US$1,000 thereafter

Western markets' initial enthusiasm for Islamic finance dampened by Eurozone woes

STANDARD & POOR'S provides an overview of Sukuk issuances and anticipates that in the long-term Sukuk from European countries will not be significant in helping to deepen the wider Sukuk market.

In 2011 a string of non-Muslim sovereigns, including several in Europe, announced their intention to enter the Sukuk market. Standard & Poor's Ratings Services considers that, following the global financial crisis, these countries hoped Islamic finance could provide them with an alternative means of supporting their economies by tapping into the excess liquidity available in regions that were less hard hit by the economic downturn, such as the GCC region and Asia. Countries such as the UK and France even set up regulatory frameworks to accommodate and support the growth of Islamic finance in their domestic markets.

But although more European countries have announced an increasing number of Sukuk issuances, these issuances have failed to materialize. It appears to us that issuers have been discouraged by the financial uncertainty caused by the Eurozone crisis or by the social and political nature of the issue. For example, in early 2011 the UK ruled out any Sukuk issuance due to unfavorable market conditions. Luxemburg also renounced plans to issue Sukuk because its economy is relatively resilient and it has no urgent need to diversify its funding sources. France has not taken any plans to issue Sukuk forward.

Relative Sukuk issuance by country, 2011

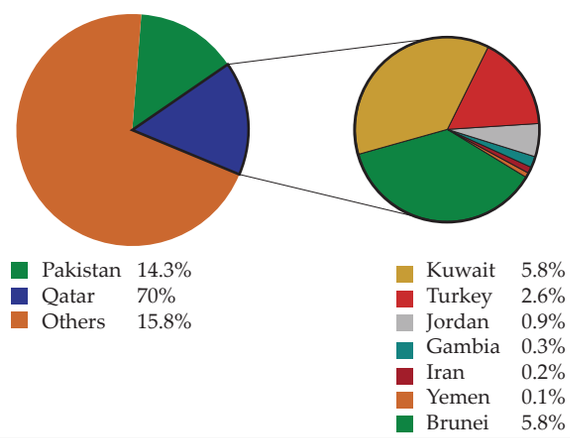

Chart 1: Relative Sukuk issuance by country, 2011

	(%)
Brunei	5.82
Gambia	0.33
Germany	0
Iran	0.19
Japan	0
Jordan	0.90
Kuwait	5.77
Pakistan	14.25
Qatar	69.96
Singapore	0
Sudan	0
Turkey	2.63
UK	0
US	0
Yemen	0.13

Chart 2: Absolute Sukuk Issuance By Country, 1996–2011 (US$ billion)

	Bahrain	Indonesia	Malaysia	Saudi Arabia	UAE	Others
1996	0	0	0.77	0	0	0
1997	0	0	1.09	0	0	0
1998	0	0	0	0	0	0
1999	0	0	0.23	0	0	0
2000	0	0	1.03	0	0	0
2001	0.27	0	2.45	0	0	0
2002	0.5	0.02	3.45	0	0	0
2003	0.85	0.06	3.55	0.4	0	0.7
2004	0.72	0.09	3.22	0.02	1.16	0.12
2005	1.317	0.07	7.87	0.5	0.95	1.04
2006	0.82	0.02	10.74	0.82	8.75	2.12
2007	1.06	0.13	18.41	5.72	10.8	2.07
2008	0.70	0.69	9.86	1.87	5.30	1.14
2009	1.56	1.76	22.12	3.11	3.33	1.53
2010	0.69	3.08	39.81	3	1.07	3.61
2011	2.55	3.73	58.06	2.76	4.08	13.26

We therefore anticipate that in these countries the initiative will shift, at least for the moment, to the private sector. HSBC tapped the market with a US$500 million bond and Goldman Sachs announced a US$2 billion program which has not yet been issued. Financial institutions like these can exploit their knowledge and infrastructure to raise money through Islamic finance, but although the unfolding Eurozone sovereign crisis may encourage them to do so, we expect any issues to remain exceptions.

In the medium-term, we expect those countries that have historically issued the most Sukuk — like Malaysia, Indonesia, and the GCC countries — to remain the focus of

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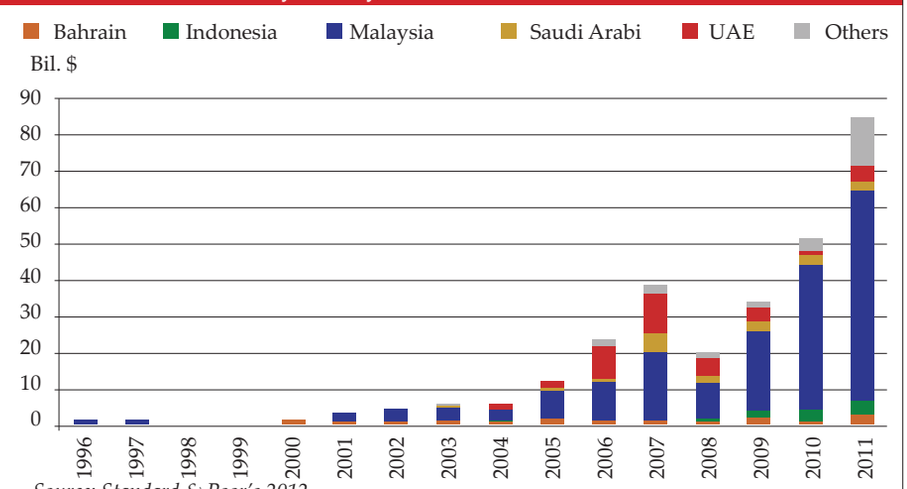
the global Sukuk market, due to their relatively unhindered economic growth and the availability of domestic liquidity.

> ***In the medium-term, we expect those countries that have historically issued the most Sukuk — like Malaysia, Indonesia, and the GCC countries — to remain the focus of the global Sukuk market***

If new markets, such as those in the west, do open up, we would consider it to be positive for the Sukuk market as a whole. It would increase the absolute amount of paper available, while broadening its spectrum by risk profile. However, it remains to be seen if western European countries or private issuers can issue Sukuk at cost they would consider acceptable compared with conventional debt, and if they have suitable assets to use to structure their Sukuk issuance.

Absolute Sukuk issuance by Country, 1996 — 2011



Source: Standard & Poor's 2012

Conclusion

In the long-term, we believe that Sukuk from the European countries will not be significant in helping to deepen the wider Sukuk market. Within the global Sukuk market, European issuers are unlikely to provide more than a sideshow, in our opinion, until the sovereign debt crisis dissipates.

Samira Mensah is an associate director and primary credit analyst at Standard & Poor's London. She can be contacted at samira_mensah@standardandpoors.com.

Private company acquisitions in the Gulf

Most corporate acquisitions in the GCC are not buyouts, or change-in-control transactions, but acquisitions of a minority interest. BENJAMIN NEWLAND discusses the challenges faced by investors in the Gulf.

The ongoing political unrest in the MENA region has given pause to some international investors, and has contributed to a drop in the overall deal-making activity in the region. Despite the volatility in the neighborhood, however, the GCC countries have shown steady growth. In some countries — Saudi Arabia, most notably — government commitment to social services and infrastructure spending, together with increased efforts to create a more favorable investment climate, seem to have produced an actual boom in investment-related activities.

For the Shariah compliant investor, the opportunities in the GCC and the wider Middle East are also expanding. In 2011, Oman reversed years of official hostility by finally embracing Islamic finance and banking. The political changes in Egypt, Libya and Tunisia seem likely to result in similar openness to Islamic finance and investing.

Challenges and points of difference

Particularly for buyers from outside the Middle East, the region offers a host of challenges. Legal systems are in early stages of development, reporting and governance standards are weak, and the operating environment can be opaque. What follows are some points of interest for Shariah compliant (and conventional) investors investing in private companies in the GCC.

Investors should note that most corporate acquisitions in the GCC are not buyouts, or change-in-control transactions, but acquisitions of a minority interest. In that respect, acquisition transactions in the GCC share some of the characteristics of what are usually thought of as venture capital transactions in more developed markets. There are also some important differences, however, driven largely by laws and regulations relating to corporate formation, capitalization and governance, as well as by culture and customary practice.

The first difference is that many of the typical tools of a financial investor in developed markets — preference shares to protect investor returns; stock options to incentivize management; warrants to serve as an equity kicker on shareholder loans; investor redemption rights as an exit of last resort, and buy/sell provisions in case of equity-holder disagreement — are not available, or not likely to be enforceable.

Some of these tools (preference shares, in particular) require special structuring for Shariah compliant investors even in developed markets, and that special structuring is also more difficult to implement in the GCC, although it can be done in the right circumstances.

The second difference is that the use of mechanisms to bridge a seller/purchaser divide on valuation are uncommon. While in some markets the divide between a seller's optimistic assessment of forward earnings and the purchaser's more restrained view — and the resulting disparity in company valuation — might be bridged through an earn-out provision, or through a deferred payment obligation tied to achievement of certain milestones, in the GCC such mechanisms are very seldom deployed.

Similarly, in some markets both pre- and post-closing purchase price adjustment (for example, based on changes in working capital or net asset value of the target company) are common, while in GCC deals, those tools are rarely if ever seen.

Like minority investors in other markets, however, minority equity-holders in the GCC are provided with a raft of statutory protections, and can build further governance rights and negative control or veto rights into a target company's charter documents. Many rights, particularly the rights relating to share issuance and transfer, cannot be varied by contract and as a result they create tremendous holdup value for minority shareholders.

For example, in all of the GCC countries the existing members of a limited liability company have statutory pre-emption rights on new equity issuances, as well as statutory rights of first refusal if another member wants to transfer equity interests. In addition, a transfer or issuance of an equity interest in such a company requires that all members appear in front of a notary public to sign amended articles of incorporation. This means that a member can exercise a 'pocket veto' on a share transfer or issuance simply by failing to appear in front of the notary. Minority rights can be a sword as well as a shield.

"Many rights, particularly the rights relating to share issuance and transfer, cannot be varied by contract and as a result they create tremendous holdup value for minority shareholders"

Legal remedies

It is important to note, however, that courts in the GCC rarely grant the remedy of specific performance — which would mean the court using the power of the state to force a party to take, or refrain from taking, a particular action. Instead the courts are more likely to award money damages, if damages can be shown. Because of that, the mere existence of the 'shield' of board voting rights, registration rights, or the stated ability to remove a manager in a shareholders' agreement, may be of limited practical value.

The difficulty of selling equity interests and effecting a quick exit from a portfolio company also means that the Shariah compliant investor needs to conduct thorough due diligence on

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> ***In the GCC the path to judicial enforcement is long and uncertain; and thorough and well-drafted legal documents are of prime importance***

the target company, and the target's intention to comply with Shariah, before consummating the investment. An emphasis on the parties' intentions, in addition to their current practice, is especially important in that (as noted above) there is little chance of using the courts to facilitate an exit or force a company to refrain from undertaking a non-compliant activity. Legal diligence on a target company should include reviewing charter documents to make sure that the company objects preclude certain activities — such as operating hotels or entertainment facilities, or acting as a landlord for industrial real estate that derives substantial revenue from trade in tobacco or alcohol — as well as reviewing financial statements for current working capital financing arrangements, long-term debt, the balance of receivables and other financial metrics that will reveal whether an investor might employ one of the various compliance screens to approve the investment.

Contracting in a shareholders' agreement for certain Shariah compliance matters is often useful in the context of an M&A transaction, but not primarily because it creates a snappy set of legal rights and restrictions for the acquiring party. It is useful rather because it forces all parties to set out in detail their expectations and understanding with respect to Shariah compliance, and what it will mean for company operations.

Conclusion

Like the shareholders' agreement, the merger or the purchase agreement is a document that must be produced and reviewed in context. In the GCC the path to judicial enforcement is long and uncertain; and because of this the prime importance of thorough and well-drafted legal documents is that such documents present the best opportunity for the parties to confirm that they have a true meeting of the minds. Once the parties' expectations are expressed and understood, these can be fit within the framework of applicable laws, regulatory constraints and the local cultural context.

Benjamin Newland is a corporate partner at the law firm of King & Spalding. He can be contacted at bnewland@kslaw.com.

Islamic finance at the top 10 business schools

Last year, the top 10 business schools were announced. DR ABDERRAZAK BELABES and DR AHMED BELOUAFI shed light on this new global educational phenomenon.

If one refers to the classification criteria in ranking these masters degrees: namely, research opportunities, diversity and internationalization, Islamic finance is involved almost in all these criteria.

Top 10 business schools

The top 10 consists of the following institutions: HEC Paris, IE Business School, ESSEC Business School, Saïd Business School, Warwick Business School, Grenoble Graduate School of Business, ESCP Europe, Imperial College Business School, Skema, and EM Lyon Business School. Six of these institutions are French, four are British and one is Spanish.

Contrary to expectations, the analysis of these business school programs reveals that half of them offer a module on Islamic finance. Thus the teaching of Islamic finance may have become a competitive advantage for the best Masters in Finance programs in the world.

> ***"This strategic educational decision is motivated by the fact that the future leaders of finance should master the fundamentals and standards of this new form of alternative finance"***

According to Genevieve Causse, an emeritus professor at ESCP Europe: "Islamic finance is one of the asset classes that [grew] among the fastest in the world before the financial crisis in August 2007, and continues to grow. Born in the 1970s, Islamic finance has been developed in the oil countries. It is still highly concentrated in the Persian Gulf and Southeast Asia, but it has recently been exported to the US and Europe due to the excess liquidity from the Gulf countries due to the strong increase in oil prices."

Top 10 business schools offering Islamic finance course

Ranking	Institution	Name	Character
1	HEC Paris	Islamic finance	Elective
2	IE Business School	Islamic finance	Elective
3	Essec Business School	Islamic finance	Elective
6	Grenoble Graduate School of Business	Islamic finance	Elective
9	Skema	Islamic finance	Elective

This position is supported by the IE Business School, ranked second, in a brief statement about the modules presented in its Master of Finance: "Islamic finance is becoming an increasingly important field of investment as Gulf investors have become pivotal actors in the world's capital markets. ... [Therefore] a deep understanding of the mechanisms used to issue Shariah compliant products will be a big asset for any future financier."

The table shows a contagion phenomena in the education field where each institution aspires to be first to offer a course in Islamic finance. The table also reflects the leading position of French business schools in the conquest of educational space in Islamic finance: four out of five (or 80%) are French.

If the modules available now have the same designation and have an elective status, in October 2012 the IE Business School, according to Professor Ignacio de la Torre, the academic director for the masters program at IE Business School, will introduce a first degree in finance of which "Islamic finance will be a key component" in the curriculum.

This strategic educational decision is motivated by the fact that the future leaders of finance should master the fundamentals and standards of this new form of alternative finance. It also aims to broaden the market opportunities in areas of finance before the rise of unemployment in Europe. Top 10 business schools seek to develop managers with expertise not only in the field of conventional finance but also in that of Islamic finance.

Reasons behind the Islamic finance programs

The interest of the top 10 institutions in Islamic finance may not be motivated by business considerations only. Islamic finance offers new perspectives for research in financial economics. In this regard, some business schools have established research programs or research centers dedicated to Islamic finance.

The IE Business School has established the Saudi Spanish Center for Islamic Economics and Finance in collaboration with the Institute of Islamic Economics (previously the Islamic Economics Research Center) of the King Abdulaziz University based in Jeddah, in Saudi Arabia.

Following an international conference ('Beyond the Crisis: Islamic Finance in the New Financial Order') held on the 16-17th June 2010, the two institutions have published a book entitled 'Islamic Economics and Finance: A European Perspective'.

A second conference, 'Islamic finance in the 21st century', held on the 1st December 2011, served as a platform to discuss the main challenges facing education in the field of Islamic finance, and should lead to an another book.

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Ironically, while the top 10 business schools use the teaching of Islamic finance as a competitive advantage in the global context of the liberalization of higher education, most business schools in the Muslim and Arab world keep sticking to the ideological stand in this perspective. The integration of Islamic finance in the curriculum is seen as a nuisance factor in the image of the institution and its attractiveness.

The value of the top 10 business schools for Islamic finance is not going to stop at the supply of an elective or core course. Mapping of the teaching of Islamic finance in the world shows that other scenarios are possible: the creation of an Islamic finance stream within a conventional curriculum or simply creating a pure degree in Islamic finance are examples of such possibilities.

> ***"The value of the top 10 business schools for Islamic finance is not going to stop at the supply of an elective or core course"***

Conclusion

The institutions that currently offer dedicated educational programs in Islamic finance should consider this challenge from the top 10 business schools, through the continuous improvement and innovation of curricula able to better meet market needs and developments of skills in the world of finance. In this, the leading business schools will show to others the image of their own future.

Dr Abderrazak Belabes and Dr Ahmed Belouafi are researchers at the Islamic Economics Institute of King Abdulaziz University and they can be contacted at abelabes@kau.edu.sa and ambelouafi@kau.edu.sa, respectively.

Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

Vol 9 Issue 4

The gems of Asia

Cover Story

Asia will continue to dominate the global investment space in 2012. According to the Asian Development Bank (ADB), although the global economic slowdown will take its toll on Asia this year, the region will still remain the economic powerhouse of the world. It also predicted China, India and Indonesia to be the main drivers of the region with a growth rate of about 7% this year, down from about 7.5% last year and 9% in 2010.

Forecasts for the region have been generally positive however, particularly for Southeast Asia. One analyst places Malaysia in the spotlight, suggesting the country is likely to continue to outperform its neighbors over the next few quarters.

Analysts have based their predictions on the private consumption growth of Malaysia that has reportedly been among the strongest in the region and is expected to remain robust this year. Growth has been supported by high energy and palm oil prices and government cash transfers; as well as pay rises and bonus payments for civil servants and pensioners in the country's 2012 budget announced last year.

The IMF said that Malaysia's economy grew by an estimated 5.2% in 2011 and is projected to grow 5.1% in 2012. China is predicted to grow 9% this year down from the projected 9.5% growth for 2011 and India is looking to record a 7.5% growth in 2012, merely 0.3% shy of its estimated 7.8% growth last year.

On the equity market front, the Jakarta Composite Index surged about 3% last year. The FTSE Bursa Malaysia KLCI Index moved 3.53% over a one-year period while the Shariah compliant FTSE Bursa Malaysia Emas Index increased 6.37% in the same time.

With all the positive figures laid out, it looks like Islamic equity funds should be set to have a good year. The performance of the top funds as seen in Table 1 clearly shows that while the returns of these funds are not as significant as experienced in 2010 due to the 'black swans' of last year, all but one have provided double digit returns.

Prudent management using Shariah principles will ensure Islamic equity funds continue to outperform their conventional counterparts. What is needed now is for these funds to attract the attention of institutional investors, which are still largely absent in the Islamic space. While it is undeniable that performance remains paramount, marketing and education will ensure such funds eventually move out of being merely retail and domestic-centric. — *RW*

Table 1: YT (December 2011) Returns for ALL Funds

1	BIMB Growth	BIMB UNIT Trust Management (BUTM)	Malaysia	22.73
2	ETFS Physical Gold	ETFS Metal Securities	Jersey	11.21
3	Meezan Tahaffuz Pension Fund — Money Market Sub Fund	Al Meezan Investment Management	Pakistan	11.21
4	AmStaples	AmInvestment Services	Malaysia	10.98
5	Meezan Tahaffuz Pension Fund — Debt Sub Fund	Al Meezan Investment Management	Pakistan	10.46
6	Public Islamic Select Enterprises Fund	Public Mutual	Malaysia	10.33
7	Insight I-Hajj Syariah Fund	Insight Investments Management	Indonesia	10.26
8	Atlas Pension Islamic Fund — Money Market Sub Fund	Atlas Asset Management	Pakistan	10.18
9	Al Qasr GCC Real Estate & Construction Equity Trading Fund	Banque Saudi Fransi	Saudi Arabia	10.06
10	BNI Dana Syariah	BNI Securities	Indonesia	9.91

Source: Eurekahedge

Comparison Graph (6 months)

In this issue...

Islamic investing in Oz

AUSTRALIA: Islamic wealth manager Crescent Wealth is set to launch the Islamic Australia Index in February this year; the country's first Shariah compliant research-based index.

The index will provide a tool for local and international investors to help invest in the Australian market in accordance with Shariah.

The index will cover 143 stocks with a combined market capitalization of AUD160 billion (US$168 billion).

Massive profit for Al-Hadharah

MALAYSIA: Al-Hadharah Boustead REIT ended its fourth quarter with a massive jump in net profit accumulating to RM238.9 million (US$77.9 million) compared to RM32.3 million (US$10.5 million) in 2010.

The plantation-based Islamic REIT said that the increase was mainly due to a large unrealized gain from the revaluation of investment properties.

Market Commentary

In an effort to create a greater awareness of the physical commodities markets, Islamic Finance *news* introduces a new feature to the Islamic Investor — a monthly commentary provided by Merit Commodities Partners, which co-launched the world's first investible Shariah compliant physical industrial metals index series

In this issue we focus on recent activity in the Industrial Metals sector.

The start of the year spread optimism that China's growth would shortly resume and the crisis in the Eurozone could be alleviated due to ample liquidity provided by the European Central Bank (ECB). Commodities built on gains from late December after an enthusiastic take-up of the ECB's massive LTRO (Long Term Refinancing Operation) with the central bank lending EUR489 billion (US$642.06 billion) to European banks. Markets quickly overcame Standard and Poor's mass downgrading of nine European countries on the 13th January, cutting France's 'AAA' rating and leaving Germany the only Eurozone country with the top rating.

On the 25th January, the Federal Open Market Committee shifted its 'exceptionally low rate' guidance from mid-2013 to at least late 2014. Subsequently the US dollar sold off and commodities posted gains with base metals among the biggest winners. Since the 31st December, copper, aluminum and nickel surged by more than 11%, zinc and tin gained more than 17% easily outperforming all other commodity sectors.

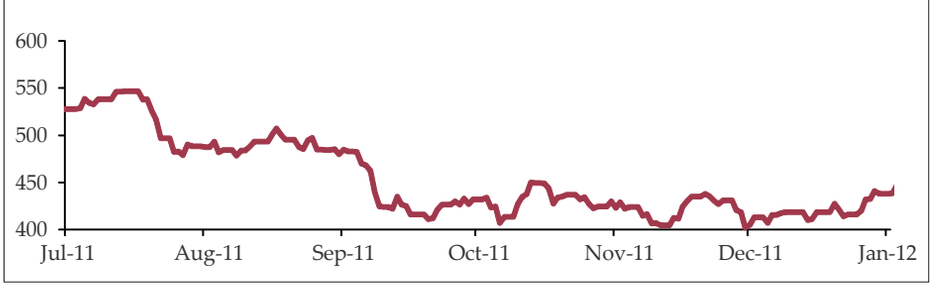
Generally investors are expecting a more benign government policy outlook in China. Optimism that the world's largest copper consumer will ease lending restrictions to kick-start growth should allow businesses to build inventories and drive restocking after prices fell more than 20% last year. Global copper demand growth for 2012 is forecast to grow by 3.7% with nearly all of it coming from China. Preliminary data provided by the International Copper Study Group in its January Bulletin indicated a production deficit of 296,000t for the first 10 months of 2011. Commodity Exchange (Comex) speculative net short positions moved to neutral recently.

With aluminum trading below US$2,000, investors started buying again in January. Stainless nickel producers in China sitting on low inventories due to a lack of buying in Q4 2011 have started restocking already. The main factors to watch for in the next weeks: interest rate spreads and the effects of 'backdoor' quantitative easing in Europe, the sustainability of the positive market sentiment after the FOMC decision in the US, possible disruptions in the energy markets (Iran) and updated demand figures from China.

Merit Commodity Partners. For more information or a daily update, contact info@mcpag.com or info@ftse.com.

Physical Commodity Index (ALL11) — 6 Months

FTSE Physical Industrial Metals Index (PIMI) — 6 Months



Equity review in 2011

RELIANCE ASSET MANAGEMENT (MALAYSIA) introduces the Reliance Global Equity Style Monitor, a quarterly feature that will examine investment trends across global equity markets.

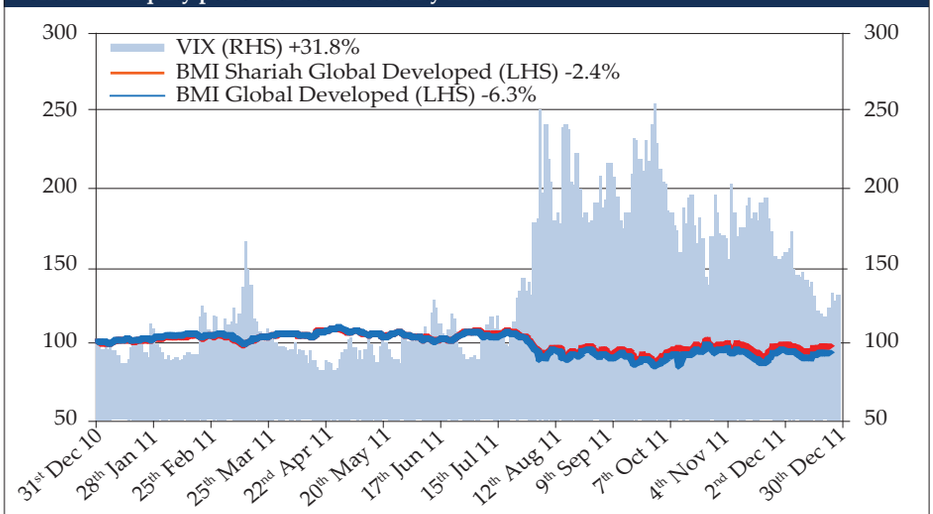
Looking back 2011 was certainly an eventful year. From the Arab Spring in the Middle East to a nuclear disaster in Japan and a debt crisis in the Eurozone, the last 12 months have been nothing if not dramatic. Although market volatility has subsided from the extreme levels of uncertainty experienced during the third quarter, investors clearly remain nervous. At the end of 2011, the VIX Index, a widely followed measure of estimated future volatility for the S&P 500 Index, remained around one third higher than at the end of 2010.

Despite the heightened uncertainty and relentlessly negative news headlines of the past 12 months, it might therefore come as something of a surprise to learn that global equities posted only moderate declines in 2011. Total return indices across the global developed economies finished the year 6.3% lower, with Shariah compliant equities once again outpacing their conventional counterparts with a marginal 2.4% decline. However, this performance mainly reflects the relative strength of the US equity market, which managed a flat performance in 2011, helping to offset steep declines in European and Asian equity indices.

How then are we to make sense of the events of 2011 and their influence on investor behaviour? Fortunately, a quantitative approach allows us to shed some light on the underlying trends. By combining a broad array of fundamental metrics, such as the price to earnings Ratio (PER), revisions to analysts' forecasts and measures of management efficiency such as return on equity (ROE), we are able to describe a range of investment 'styles', such as Value, Growth, Momentum or Quality. Using correlation analysis, we can identify which styles have best predicted share price performance over the past 12 months, providing a constantly evolving picture of how equity investors are reacting to economic events.

This type of style analysis forms the basis of Cognition: the in-house stock selection model utilized by Reliance Asset Management Malaysia. Cognition is a proprietary computer-driven expert system which observes most of the indicators that traditional investors analyze, but in a systematic, data-intensive way. The calculations derive a score that rates each company by its relative attractiveness within its sector. The investment approach is to examine each economic sector within six key geographic regions independently. This helps ensure that our style analysis is not biased towards the largest market, and does not overlook potentially significant variations across the world. We can use the style building blocks that create the Cognition score to take a snapshot of equity market style preferences at any point in time.

Chart 1 — Equity performance & volatility in 2011



Source: Reliance Asset Management Malaysia, S&P Total Return Indices, Bloomberg
Date: 30th December 2011

Table 1 — Style preference by region in 2011

Dec 2011	Value	Growth	Momentum	Quality	Financial Strength	Low Volatility
US	2 (-5)	4 (+1)	5 (0)	5 (+1)	10 (+2)	6 (+5)
Canada	3 (-4)	6 (+1)	7 (+1)	7 (+4)	7 (0)	6 (+4)
UK	4 (+1)	6 (-1)	4 (-3)	6 (+1)	5 (-2)	7 (+6)
Europe	2 (-2)	6 (-1)	3 (-6)	3 (+1)	8 (+1)	5 (+4)
Asia	4 (-2)	5 (+1)	7 (+1)	4 (0)	6 (-3)	4 (+3)
Japan	6 (-2)	6 (+2)	4 (+3)	3 (-1)	7 (0)	4 (-2)

Source: Reliance Asset Management Malaysia
Date: 30th December 2011

In order to draw a 'heat map' of global style preferences we tally the number of sectors where analysis by Cognition over the past twelve months assigns a greater than equal weight to any given style, against those where it assigns a less than equal weight. This has the advantage of ignoring the relative size of sectors and countries and focusing on the breadth of the style trend in question. Each cell in Table 1 displays the number of sectors in which Cognition was 'overweight' for each style at the end of December 2011, followed by the 12-month change in brackets. Red shading indicates areas where more than 50% of the sectors in a region are overweight a given style ('hot'). Blue shading is used to indicate where less than 50% of sectors are overweight ('cold').

So what can we say about 2011? Two key messages stand out. First, Financial Strength and Low Volatility were clearly 'hot' investment styles. Investors retained a cautious stance, continuing

continued...

Continued

Table 2 — Change in Style preference by Region — Q4 2011

Dec 2011	Value	Growth	Momentum	Quality	Financial Strength	Low Volatility
US	+1	(-3)	(-2)	(-1)	+5	+2
Canada	+1	+2	+0	+3	+0	+0
UK	+1	+0	+1	+3	(-1)	+1
Europe	+0	+1	(-4)	(-1)	+2	+0
Asia	+1	(-1)	(-2)	+0	+2	+2
Japan	+0	(-1)	+3	+1	(-1)	+3

Source: Reliance Asset Management Malaysia
Date: 30th December 2011

to emphasize a preference for defensive investment styles across most sectors and regions around the world. This was accompanied by a shift towards the Low Volatility style during the year, with only Japanese investors moving away from this style. Such a trend should come as no surprise given the increasing concerns over a double dip recession in Europe and the US, with a combination of private sector de-leveraging and fiscal tightening likely to remain a drag on economic growth.

Second, it is also clear that investors were 'cold' on Value. With the exception of Japan, all regions were net underweight Value by the end of the year, and the number of sectors overweighting Value moved lower in all regions apart from the UK. At times of economic uncertainty Value tends to be the least trusted of all investment styles. This reflects the fact that, at this stage of the economic cycle, the cheapest stocks in the market also tend to be the most economically sensitive. This is compounded by the fact that consensus earnings forecasts often lag behind economic reality, meaning that further downgrades may cause apparently cheap stocks to continue to get cheaper.

> ***"Defensive styles clearly remain in demand"***

The picture for 2011 is, then, quite clear. But what about more recent trends? If we focus our style analysis on changes to style preferences during the final quarter of 2011, an interesting pattern emerges. Whilst defensive styles clearly remain in demand, we note a shift towards Value in four of the six regions we monitor.

The US, Canada, the UK and Asia all saw a single sector move to an overweight Value position, with Europe and Japan unchanged. This does not necessarily signal a bullish shift to investor expectations. Significant macro-economic risks remain, not least a resolution to the Eurozone debt crisis. However, having underperformed as a style for some time now, it is quite possible that investors have begun to see an improvement in the risk/reward profile of a Value investment style.

Reliance Asset Management Malaysia is the investment manager of the WSF Reliance Global Shariah Growth Fund. This fund utilizes the Cognition investment process.

Public Islamic Savings Fund

PISVF aims to provide income over the medium to long-term by investing in a portfolio of investments that complies with Shariah requirements and which offer or have the potential to offer attractive dividend yields.

Could you provide an overview on the asset class which this fund is investing in?
Public Islamic Savings Fund (PISVF) is an equity fund which invests in a portfolio of Shariah compliant Malaysian stocks that offer or have the potential to offer attractive dividend yields.

What are the factors that were considered prior to launching this fund?
PISVF was launched as a sequel fund to Public Islamic Dividend Fund (PIDF) which also focuses on investing in Shariah compliant stocks that offer attractive dividend yields. PIDF has achieved a commendable return of 74% over the three-year period to the 31st December 2011.

Please elaborate on the driving factors of the main sectors selected in this fund's portfolio.
Sectors that the fund may look to invest in include telecommunications, consumer and plantations.

What is the short-term and long-term outlook of sectors and industries in this fund?
The telecommunications sector is expected to benefit from the increasing adoption of smartphones as increased data usage provides room for further revenue growth opportunities for the sector. Meanwhile, the consumer sector should continue to benefit from sustained consumer spending in tandem with resilient incomes. The oil & gas sector is envisaged to benefit from high oil& gas prices as well as efforts to strengthen domestic value chain activities.

How does the theme of the asset classes of this fund fit with investors today?
PISVF is suitable for investors during times of uncertain economic conditions as the performances of stocks which offer high dividend yields tend to be more resilient during periods of market volatility.

How often will you review this fund?
PISVF's investment portfolio is reviewed and rebalanced on an ongoing basis.

What are the sectors you are heavily invested in and why?
Given that PISVF was recently launched, the fund is still in the stock accumulation process. The fund is likely to focus on the telecommunications, consumer and plantations sectors.

What is the projected rate of return of this fund?
As PISVF is an equity fund, the fund's returns will depend on the performance of the domestic equity market. Due to the inherently volatile nature of equity markets, investors in equity funds should generally adopt a medium to long-term investment horizon of at least three years.

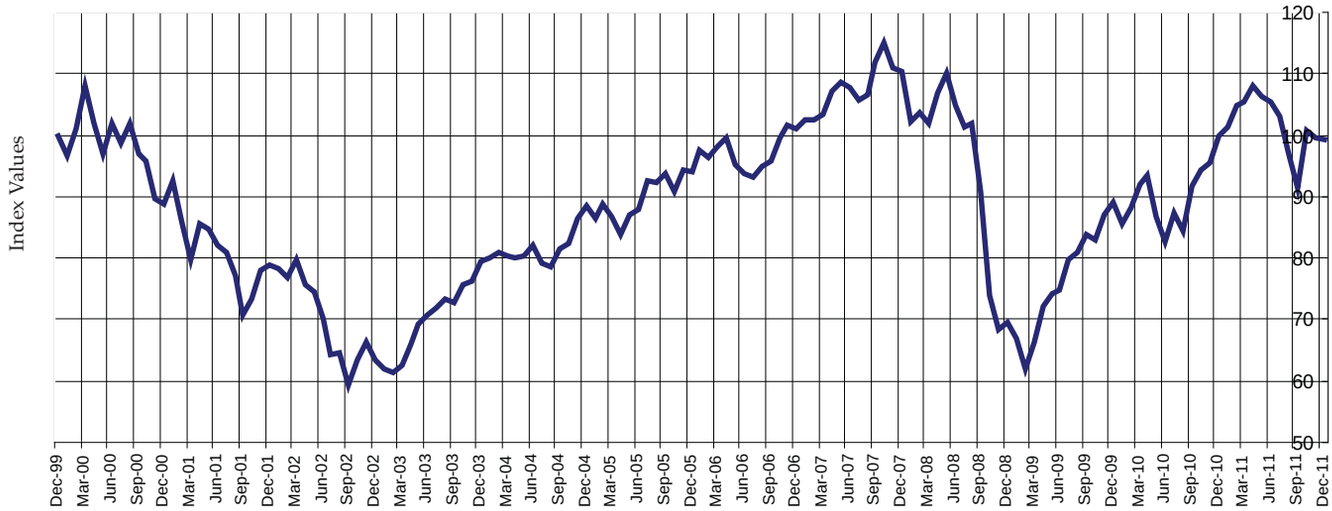
What is the market outlook for this fund?
Bursa Securities has outperformed most regional markets and was the third best performing market in Asia last year due mainly to its defensive nature vis-à-vis other regional markets. For the three-year period to the 31st December 2011, the FTSE Bursa Malaysia EMAS Shariah Index achieved a total return of 73.12%.

Looking ahead, Shariah compliant stocks listed on the domestic equity market remain supported by below trend to fair valuations and offer attractive investment opportunities for medium to long-term investors.

Q&A source: Yeoh Kim Hong, CEO of Public Mutual

Fact sheet	
Fund Managers	Mohd Isa bin Ibrahim and Andrew Seah
Trustee	AmanahRaya Trustees
Shariah Advisor	ZI Shariah Advisory Services
Benchmark	90% FTSE Bursa Malaysia EMAS Shariah Index and 10% three-month Islamic Interbank Money Market Rate
Domicile	Malaysia
Launch Date	15th December 2011
Fund Characteristics (as at 16th January 2012)	**Fund Type** Open / Closed Income (Open-ended) **Fund Size** RM14.33 million (US$4.71 million) **NAV per share** RM0.2497 (8.19 US cents) **Minimum Initial Investment** RM1,000 (US$328.9) **Minimum Additional Investment** RM100 (US$32.9) **Management Fee** 1.5% per annum of the NAV **Dividend policy** Annual income

Eurekahedge North America Islamic Fund Index



Top 10 Annualized returns for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Taurus Ethical B	Taurus Asset Management	30.10	India
2	Shariah Benchmark Exchange Traded Scheme (Shariah BeES)	Benchmark Asset Management Company	19.62	India
3	ETFS Physical Gold	ETFS Metal Securities	18.57	Jersey
4	Kagiso Islamic Equity	Kagiso Asset Management	18.10	South Africa
5	Public Islamic Select Enterprises	Public Mutual	16.61	Malaysia
6	Futuregrowth Albaraka Equity	Futuregrowth Specialist Asset Management	15.62	South Africa
7	Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	15.47	Guernsey
8	Danareksa Syariah Berimbang	Danareksa Investment Management	15.41	Indonesia
9	ETFS Physical Silver	ETFS Metal Securities	15.26	Jersey
10	Danareksa Indeks Syariah	Danareksa Investment Management	15.10	Indonesia
	Eurekahedge Islamic Fund Index		**2.22**	

Based on 95.10% of funds which have reported December 2011 returns as at 31st January 2012

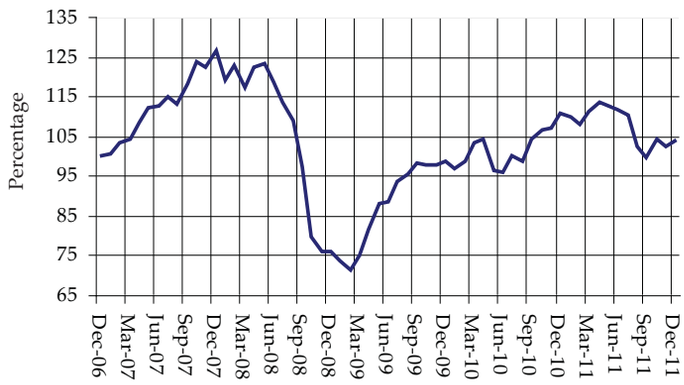
Top 10 Annualized Standard Deviation for ALL funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	RHB Islamic Income Plus 1	RHB Investment Management	0.09	Malaysia
2	Public Islamic Money Market	Public Mutual	0.15	Malaysia
3	PB Islamic Cash Management	Public Mutual	0.16	Malaysia
4	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.19	Malaysia
5	RHB Cash Management Fund - Institutional	RHB Investment Management	0.21	Malaysia
6	Kenanga Islamic Money Market	Kenanga Investors	0.22	Malaysia
7	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.24	Saudi Arabia
8	CIMB Islamic Deposit	CIMB-Principal Asset Management	0.26	Malaysia
9	PB Islamic Cash Plus	Public Mutual	0.26	Malaysia
10	AlAhli Euro Murabahat	The National Commercial Bank	0.31	Saudi Arabia
	Eurekahedge Islamic Fund Index		**8.98**	

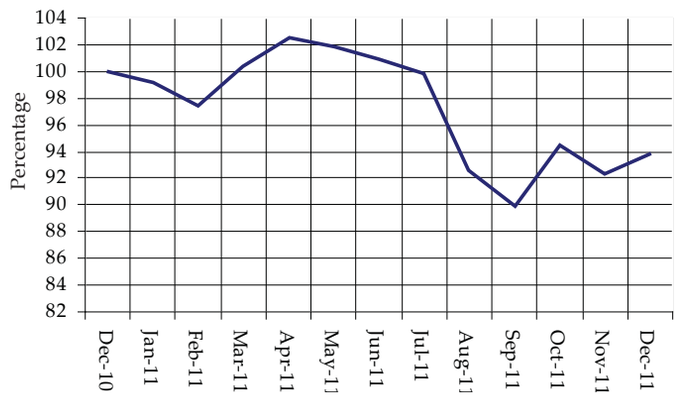
Taking into account funds that have at least 12 months of returns as at 31st January 2012

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 Equity Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Returns for Islamic Equity Funds by 3 month returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	TA Dana Fokus	TA Investment Management	16.61	Malaysia
2	Public Islamic Sector Select	Public Mutual	16.20	Malaysia
3	Al-Beit Al-Mali	Qatar National Bank	15.00	Qatar
4	CIMB Islamic Small Cap	CIMB-Principal Asset Management	14.26	Malaysia
5	ING Ekuiti Islam	ING Funds	14.21	Malaysia
6	Public Islamic Optimal Growth	Public Mutual	14.11	Malaysia
7	Public Islamic Select Treasures	Public Mutual	13.65	Malaysia
8	AmIslamic Growth	AmInvestment Management	12.85	Malaysia
9	Prudential Dana Al-Ilham (PRUdana al-ilham)	Prudential Fund Management	12.54	Malaysia
10	OSK-UOB Dana Islam	OSK-UOB Unit Trust Management	12.43	Malaysia
	Eurekahedge Islamic Fund Equity Index		**4.28**	

Based on 95.53% of funds which have reported December 2011 returns as at 31st January 2012

Top 10 Returns for Islamic Globally Investing Funds by 3 month returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	EasyETF DJ Islamic Market Titans 100	BNP Paribas Asset Management	10.24	France
2	HSBC Amanah Global Equity Index	HSBC Amanah Central Shariah Committee	10.09	Saudi Arabia
3	SWIP Islamic Global Equity - Class A	Scottish Widows Investment Partnership	9.30	United Kingdom
4	JPM Islamic Global Dynamic Equity (USD) A (acc)	J.P. Morgan International Bank	9.27	Luxembourg
5	Al Rajhi Global Equity	UBS	9.03	Saudi Arabia
6	AlAhli Global Real Estate	The National Commercial Bank	8.62	Saudi Arabia
7	Pacific Dana Dividen	Pacific Mutual Fund	8.49	Malaysia
8	Allianz RCM Islamic Global Equity Opportunities - A - USD	Allianz Global Investors Luxembourg	8.31	Luxembourg
9	BNP Paribas Islamic Equity Optimiser - Classic	BNP Paribas Asset Management	8.09	Luxembourg
10	iShares MSCI World Islamic	Barclays Global Investors Ireland	8.00	Germany
	Eurekahedge Global Islamic Fund Index		**2.30**	

Based on 100.00% of funds which have reported December 2011 returns as at 31st January 2012

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

Takaful news

Brought to you by Takaful IKHLAS

1st February 2012

Survival of the fittest

Cover story

Middle Eastern insurers have been met in recent years with the sudden and often aggressive rise of Takaful. The rapid growth and multiplication of these new entrants has been impressive, but has occasionally brought into question the stability of their business model, which focuses heavily on illiquid investment assets: notably equity and real estate. These assets are then balanced against presumed expansion, with operators targeting double digit growth in annualized premiums and gross written premiums, driven primarily by Family Takaful uptake.

As many Takaful operators are start-ups seizing the potential to enter an emerging marketplace, many have struggled to meet their initial business plans; particularly those that have tried to be strict in their definition of Takaful and Shariah compliance. As such, many Takaful operators have relaxed their criteria and have become more flexible in accepting conventional risks in order to allow them to compete in what has become a crowded marketplace.

When compared with conventional insurance companies, Takaful operators can generally be characterized as remaining under-developed due to the short-term and illiquid nature of investment and their current low capitalization; which has resulted in the under-utilization of capacity and as a result their immediate potential to compete in the short to medium term.

Furthermore, Takaful operators are generally unable to generate sufficient surpluses within their Takaful funds as management expenses and fees charged are generally higher. As a result, Takaful operators' financial performance tends to be inferior to conventional insurers. Instead of product differentiation being a unique selling point, Takaful operators are all too often competing on price. These inherent dangers will likely remain implicit within Takaful insurance for the foreseeable future.

The main attribute of this rise in Takaful companies has helped to create new classes of insurable activity changing regional consumer mindsets, particularly in the retail sector. According to Standard & Poor's (S&P), insurance buyers are now seeking quotations from compliant Takaful and cooperative insurers, with many preferring them over traditional providers if they can offer competitive pricing and good service quality. Even in the commercial sector, buyers will seek quotations from Takaful and cooperative companies if they know their insurer financial strength to be secure. As a result a well-designed, well-managed Takaful policy can be attractive to all, as conventional assurance risks continue to prove contentious for many in the region.

According to S&P, taking a purely analytical perspective, many of the specific features of a fully compliant Takaful insurance have little direct bearing on an insurance or reinsurance company's fundamental performance or financial strength. Whether conventional, cooperative or Takaful, an insurer will still receive revenue from both policyholders and investments, and pay claims and expenses out of this income. Ideally, they will be left with a surplus that can be either distributed in whole or in part, or retained to help reinforce solvency.

As S&P states, it is not particularly relevant (analytically at least) how or to whom profits are distributed. The important consideration in financial strength terms is that both the balance sheet and income statement be resilient, with total income reliably exceeding total outgoings in a normal year. This allows risk-bearing capital to be built up over time on both the policyholder and shareholder accounts through the retention of earnings. This helps to maintain appropriate levels of solvency relative to underwritten and investment exposures, which are likely to be increasing over time.

While consolidation has been widely mooted, no candidates have emerged as possible M&A targets, suggestive that the industry has yet to make a viable business case for itself. Ultimately, competition is healthy for the industry. Until an operator can emerge in the region with significant enough scale premised purely on Shariah compliant operations it is unlikely that the Takaful industry will be able to go much further beyond its current retail-focused niche. — SW

In this issue...

Positive growth

QATAR: Doha Insurance Company, which operates Doha Takaful, has reported a net profit of QAR65.8 million (US$18.07 million) for its 2011 financial year against QAR60.7 million (US$16.67 million) in 2010.

Its earnings per share rose to QAR3.66 (US$1) from QAR3.37 (92.54 US cents).

Eyeing a bigger share

MALAYSIA: ING Public Takaful Ehsan is aiming for a 10% share of the local Takaful market by 2015, from around 1% currently.

Saiful Yazan Ahmad, its CEO, also said that the insurer expects to achieve RM23 million (US$7.5 million)-worth of total contributions from its overall agency retail business this year; backed by its employee benefits product and the medical rider. The Takaful operator will launch a Takaful plan for education later this year.

The company will also increase its agency force to over 1,500 from 300 and expects to sign up 28,000 new policy holders through its bancaTakaful channel and 14,000 from its agency retail segment by the end of this year.

Saiful added that in order for the firm to enhance its distribution network and product offering, it will partner with two or three third-party banks and double its panel of hospitals to 150.

On reports of a potential takeover of ING's Asian operations by AIA Group, which is said to be worth US$6 billion, Saiful said that the matter covers the regional level and therefore does not affect the day-to-day running of ING Public Takaful Ehsan.

Prospects for insurance companies to open Takaful windows

ASIM HAMEED KHAN highlights the draft Takaful Rules 2012 and how they will affect the Takaful industry in Pakistan.

The Securities and Exchange Commission of Pakistan (SECP) has approved the draft Takaful Rules through notification SRO No. 29 (I)/ 2012 dated the 13th January 2012, and they have been published in order to elicit public opinion.

The 2012 draft Takaful Rules suggest the establishment of a Central Shariah Board at the SECP, allowing conventional insurers to establish Takaful windows; the formulation of risk management and rating procedures by Takaful operators; and the proposal of separate solvency requirements for each participant Takaful fund. The document also contains rules for Shariah compliance audit, accounting and reporting; the responsibilities of a Shariah advisor; and the detailed conduct of Takaful business.

Over the years, a number of practical issues were highlighted in the existing rules (issued in 2005) by the stakeholders regarding their implementation. These concerns are addressed and an SECP-constituted committee has reviewed the existing rules and recommended possible enhancements.

The draft rules are based on the committee's recommendations and succeeding detailed discussions. The SECP reviewed the draft rules and after seeking the expert opinion of Shariah scholars and legal experts they are being disseminated for public comment.

Ramifications of the Takaful Rules

Subsequent to the new rules, the number of insurance service providers in Pakistan will increase substantially as all life and non-life insurance companies will also be allowed to offer Takaful products. The local and multinational insurance companies have a wide distribution network in the country.

This will enable them to tap into the large market which refrains from conventional insurance products, considering them un-Islamic. Consequently, this will increase the span of industry and allow easy penetration in Pakistan; and will provide robust support by backing assets of Islamic banks in Pakistan. At present, three General Takaful (non-life insurance) companies and two Family Takaful (life insurance) companies are operating in Pakistan. The notification will also allow arresting foreign investments in Pakistan if they are adequately administered.

Shariah perspective of insurance

Some religious scholars, such as Maulana Abul Kalam Azad, have highlighted the significance of insurance for Muslims. The majority of the scholars, who declare insurance as haram, provide the following reasons for its non-permissibility.

- Gharar — Uncertainty
- Riba — Interest
- Maysir — Gambling

Therefore, the Islamic alternative to traditional insurance, Takaful, has been developed. This is based on the principles of joint assistance in compliance with the provisions of the Shariah, and provides for joint financial aid to the participants in case of occurrence of certain contingencies and whereby the participants mutually agree to contribute to the common fund for that purpose. This provides a risk sharing mechanism, where no transfer of risk is involved. On the other side, conventional insurance is based on a risk transfer mechanism where the insured substitutes certainty for uncertainty.

> ***"Over the years, a number of practical issues were highlighted in the existing rules (issued in 2005) by the stakeholders regarding their implementation"***

Conclusion

I believe that there is an enormous need for heavy investment in the Takaful sector globally. Such initiatives as these enacted by the Pakistani body have opened a new avenue for the rest of the world. Moreover, the level of such commitment highlights the acceptability, potential and growth of Islamic finance in Pakistan, which will positively add value to global assets of the industry: which is currently estimated at nearly US$1 trillion. Globally, there are now more than 120 Takaful operators with an annual growth rate of 15-20%, in comparison with the growth rate of the conventional insurance business.

Asim Hameed Khan is an Islamic banking and finance professional. He can be contacted at asimhameedkhan@hotmail.com.

Next Forum Question:

"Where does the UAE fit in terms of an Islamic finance hub?"

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 3rd February 2012.

Janab Mohammad Abdul Mannan, managing director & CEO, Islami Bank Bangladesh

Janab Mohammad Abdul Mannan joined IBBL as a public relations officer in 1983. In a banking career spanning nearly three decades his leadership, technology insight and operational expertise have strengthened IBBL's culture of innovation and expanded the company into new markets.

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

On May 2010, I was appointed as the managing director and CEO of Islami Bank Bangladesh (IBBL), the largest private bank in Bangladesh. Before this, I worked in multiple capacities at the bank for 28 years.

In my capacity as a deputy managing director, I headed the bank's investment wing for three years, responsible for expanding and consolidating its credit portfolio as per Shariah guidelines. From 1995 to 2000, I served as the bank's marketing and development representative in Saudi Arabia overseeing the entire Gulf region, and did the extensive groundwork for facilitating expatriate remittance to the country as well as to the bank.

My role and unique contribution towards the expatriate Bangladeshis and official remittance has earned me the reputation of a 'remittance ambassador of Bangladesh'.

What does your role involve?

My role includes policy formulation and implementation, ensuring the interests of stakeholders. I am also currently heading the task committee of the Islamic Banks Consultative Forum – the apex body of Shariah-based financial institutions in Bangladesh.

My role also involves leading the Islamic banking industry in Bangladesh to grow, arranging professional training for the manpower to ensure service excellence and popularizing Islamic financial products among the people.

What is your greatest achievement to date?

As a professional banker, I have tried to contribute as much as I could for the betterment of the institution and the Islamic banking industry. Now I work towards the fulfillment of Shariah objectives for Islamic banking through human development and financial inclusion.

I also led the bank's international banking practice for two years and helped it attain its top position in the trade finance and foreign exchange business. I was awarded with gold medals as the best manager of the bank on different occasions.

Which of your products/ services deliver the best results?

I believe that all of our products (both deposit and investment) deliver astounding results that have made IBBL a leader in the banking industry.

What are the strengths of your business?

Our adherence to Shariah principles, dedicated manpower, corporate management, efficient board of directors, the support and guidance of the regulatory authorities as well as the confidence of depositors and investment clients in us are the strengths of our business.

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

Observance of Shariah principles in all of our operations, honesty, sincerity and dedication and competency of our employees, experienced and efficient management, adequate liquidity and high asset quality are the main facts contributing to the success of IBBL.

What are the obstacles faced in running your business today?

Although there are no major obstacles, the absence of a legal framework for Islamic banking, the absence of an Islamic money market and the lack of Shariah compatible regulatory and supervisory standards can sometimes affect the progress of the industry.

> ***"I hope that the Islamic financial system will emerge as the superior alternative for global development and human well-being"***

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

I believe that there are tremendous prospects for the Islamic finance industry, particularly in Bangladesh. The Islamic microfinance model can be a better option in alleviating poverty.

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

Consequent upon worldwide protest against capitalism and slow growth in major economies, I hope that the Islamic financial system will emerge as the superior alternative for global development and human well-being.

ISSUER	SIZE	DATE ANNOUNCED
Majid Al Futtaim	US$1 billion	24th January 2012
Musteq Hydro	RM80 million	24th January 2012
General Authority for Civil Aviation	TBA	24th January 2012
Indonesian finance ministry	IDR2 trillion	24th January 2012
Albaraka Turk Katilim Bankasi	US$200 million	23rd January 2012
Albaraka Banking Group	TBA	23rd January 2012
AirAsia X	US$200 million	17th January 2012
1Malaysia	TBA	16th January 2012
HSBC Amanah	TBA	12th January 2012
Bank Muamalat Indonesia	IDR1.25 trillion	9th January 2012
Indonesian finance ministry	TBA	5th January 2012
Sudan	TBA	3rd January 2012
Malaysian Airline System and Air Asia	RM12 billion	23rd December 2011
Emery Oleochemicals Group	US$151 million	20th December 2011
Sarawak Energy	RM1.5 billion	13th December 2011
Saudi Arabia	TBA	13th December 2011
General Authority of Civil Aviation	US$7.2 billion	11th December 2011
South Africa	TBA	6th December 2011
KMCOB Capital	RM343.1 million	5th December 2011
Emirates NBD	TBA	29th November 2011
Solum Asset Management	TBA	27th November 2011
Indonesian finance ministry	TBA	24th November 2011
Albaraka Turk Katilim Bankasi	US$200 million	21st November 2011
Majid Al Futtaim	US$500 million	21st November 2011
Bank Syariah Mandiri	IDR500 billion	18th November 2011
UEM Group & EPF	RM33 billion	17th November 2011
PLUS Expressways	RM30 billion	16th November 2011
Abu Dhabi Islamic Bank	US$500 million	9th November 2011
Emirates Airline	TBA	8th November 2011
Poh Kong Holdings	RM150 million	1st November 2011
DRB Hicom	RM1.8 billion	1st November 2011
Sabah Credit Corporation	RM1 billion	28th October 2011
Credit Agricole	TBA	27th October 2011
Anih Berhad	RM2.5 billion	24th October 2011
Axis Real estate Investment Trust	RM300 million	24th October 2011
Finance ministry of Pakistan	TBA	20th October 2011
Goldman Sachs	US$2 billion	19th October 2011
Almaraj, Saudi Arabia	TBA	16th October 2011
Mydin	RM350 million	13th October 2011
Barwa Bank	TBA	11th October 2011
Mashreq Al Islami	TBA	10th October 2011
Dow Chemical Company & Saudi Arabian Oil Company	TBA	9th October 2011
National Iranian Oil Company	TBA	1st October 2011
Qatar International Islamic Bank	TBA	28th September 2011
Tamweel	US$300-US$500 million	27th September 2011
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Bank Negara Malaysia	RM1 billion	6th September 2011

IFN Correspondents

AFGHANISTAN: Dr Alam Hamdard Khan
deputy chief of Islamic banking, Bank Mille Afghan

AUSTRALIA: David Wood
partner, Mallesons Stephen Jaques

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

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

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

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

FRANCE: Antoine Saillon
head of Islamic finance, Paris Europlace

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

INDIA: Keyur Shah
partner, KPMG

INDONESIA: Rizqullah
president director, BNI Syariah

IRAN: Majid Pireh
Islamic finance expert, SEO

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

IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

JAPAN: Serdar A. Basara
president, Japan Islamic Finance

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

KAZAKHSTAN: Timur Alim
area manager, Al Hilal Bank

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Company

LUXEMBOURG: Marc Theisen
partner, Theisen Law

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

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

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

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

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

QATAR: Jaime Oon
solicitor, Eversheds

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

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

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

UAE: Neil D Miller
global head of Islamic finance, KPMG

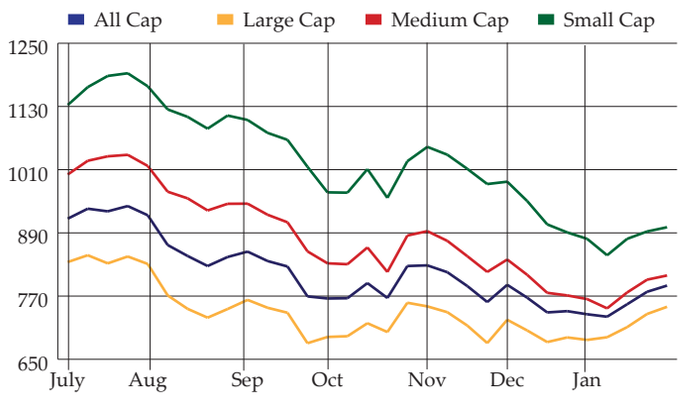
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

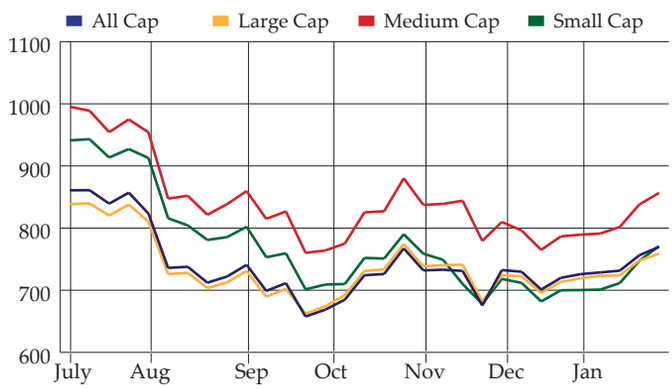
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

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

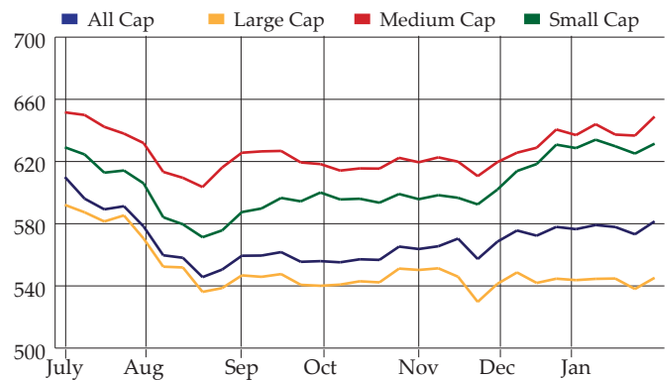
REDmoney Asia ex. Japan *6 Months*



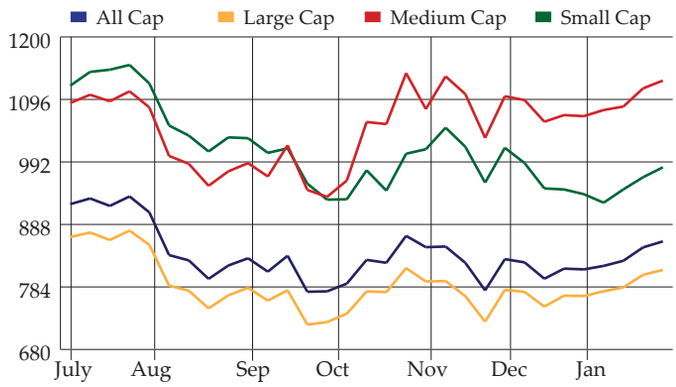
REDmoney Europe *6 Months*



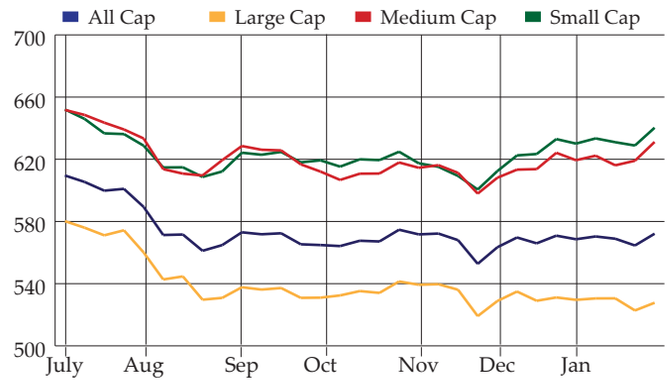
REDmoney GCC *6 Months*



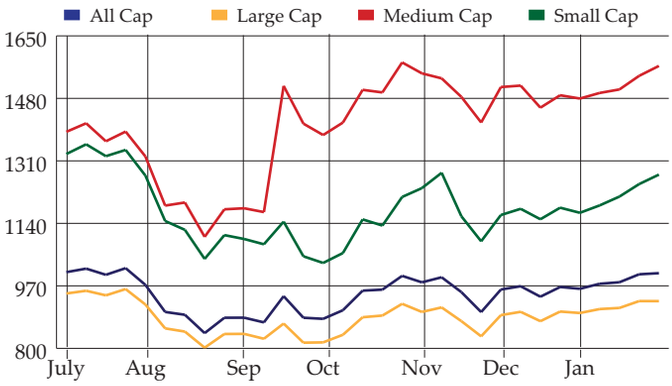
REDmoney Global *6 Months*



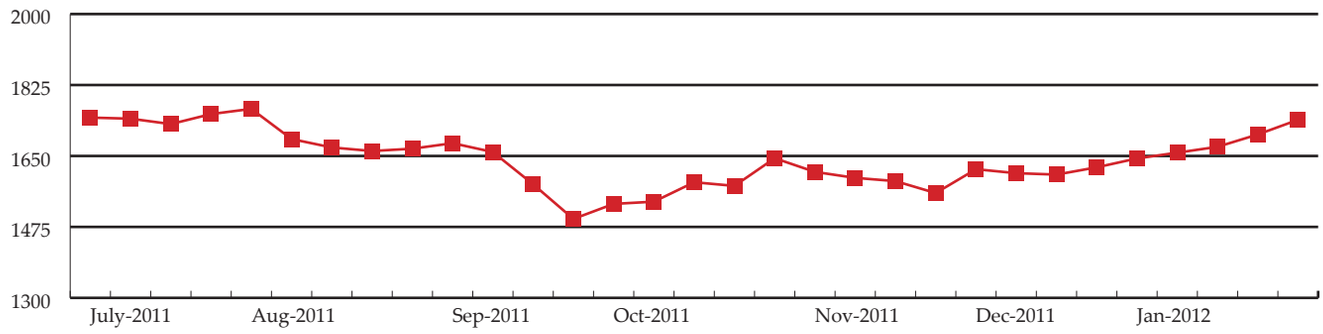
REDmoney MENA *6 Months*



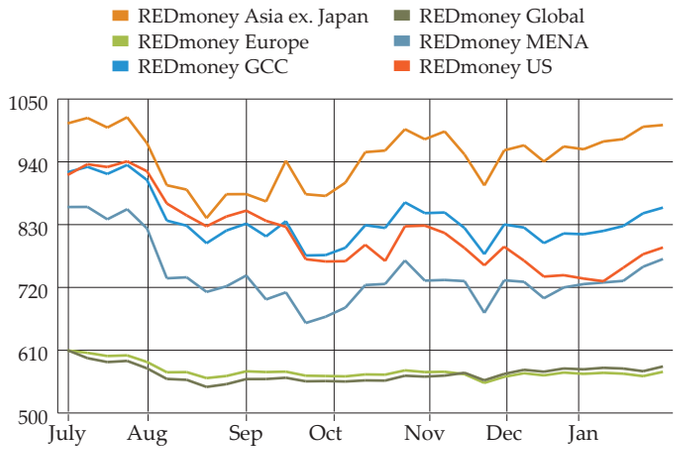
REDmoney US *6 Months*



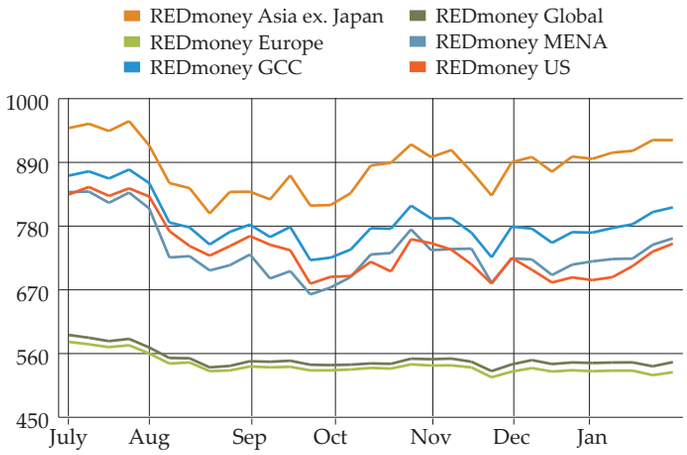
SAMI Halal Food Participation (All Cap) *6 months*



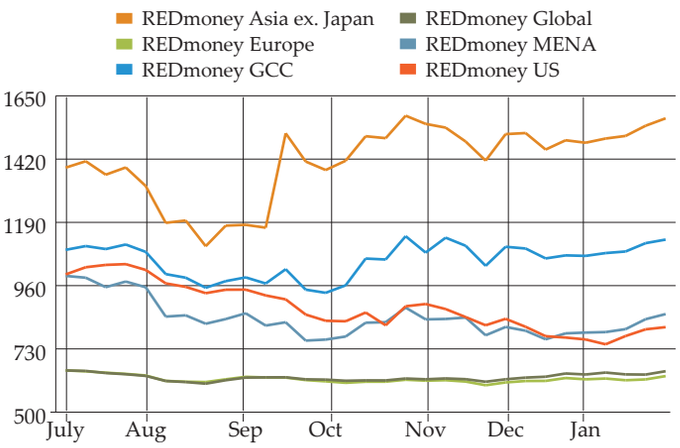
REDmoney Global Shariah Index Series (All Cap) *6 Months*



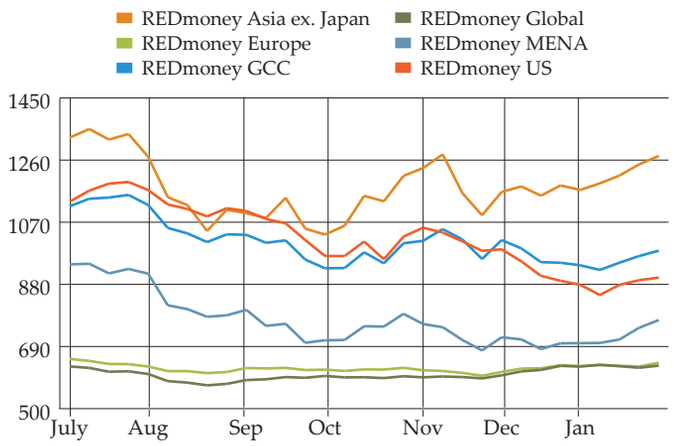
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



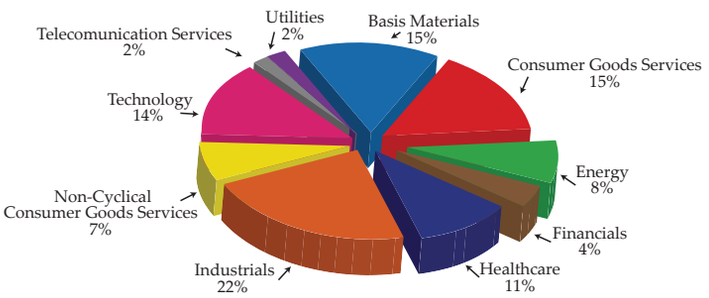
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

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Managing Director, REDmoney Group

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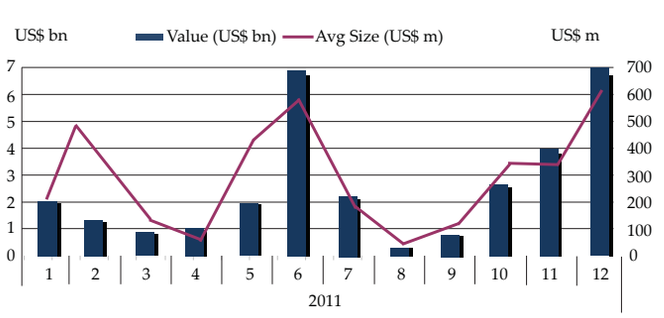
Tel +603 2162 7800

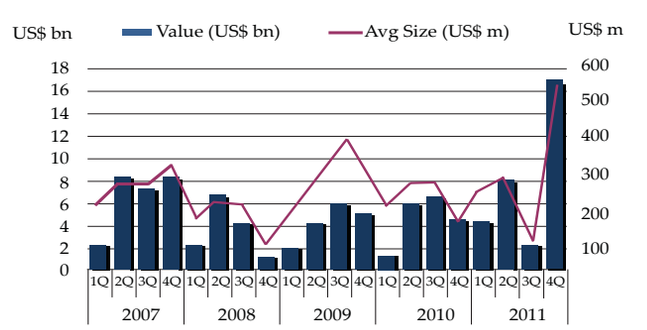
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
17th Jan 2012	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	HSBC
12th Jan 2012	Tamweel	UAE	Sukuk	Euro market public issue	300	Standard Chartered, Dubai Islamic Bank, Citigroup
11th Jan 2012	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
11th Jan 2012	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
10th Jan 2012	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	6,155	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
16th Dec 2011	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	3,455	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Dec 2011	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	JPMorgan
28th Nov 2011	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	132	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup, KFH, Commerzbank Group
24th Nov 2011	ANIH	Malaysia	Sukuk	Domestic market private placement	786	CIMB Group, Maybank Investment Bank
22nd Nov 2011	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
16th Nov 2011	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	Standard Chartered Bank, BNP Paribas, Citigroup
16th Nov 2011	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14th Nov 2011	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	Standard Chartered, HSBC, Citigroup
2nd Nov 2011	Pengurusan Air SPV	Malaysia	Sukuk Ijarah	Domestic market private placement	139	CIMB Group
25th Oct 2011	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	Lembaga Tabung Haji, CIMB Group
20th Oct 2011	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	190	Public Bank, 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	2	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	1	HSBC
3	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market public issue	2,388	3	HSBC, CIMB Group, Maybank Investment Bank
4	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
5	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	1,783	2	RHB Capital, AmInvestment Bank, Kenanga Investment Bank
6	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	1	Lembaga Tabung Haji, CIMB Group
7	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk	Euro market public issue	1,000	1	Standard Chartered, HSBC, Citigroup
8	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
9	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1	CIMB Group, Maybank Investment Bank
10	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1	Standard Chartered, BNP Paribas, Citigroup
10	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
12	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
13	First Gulf Bank	UAE	Sukuk Wakalah	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
14	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
14	FGB Sukuk	UAE	Sukuk Wakalah	Euro market public issue	500	1	Standard Chartered, HSBC, National Bank of Abu Dhabi, Citigroup
14	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD
14	Abu Dhabi Commercial Bank	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, JPMorgan, Abu Dhabi Commercial Bank, Bank of America Merrill Lynch
14	ADIB Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, Nomura, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Citigroup
19	Saudi International Petrochemical	Saudi Arabia	Debut issue	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
20	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	400	1	Standard Chartered, HSBC
21	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	397	10	CIMB Group, AmInvestment Bank, Maybank Investment Bank
22	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	371	1	Lembaga Tabung Haji, RHB Capital, CIMB Grop, AmInvestment Bank, Maybank Investment Bank
23	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	350	1	Standard Chartered, HSBC, KFH, Abu Dhabi Islamic Bank, Commerzbank Group
24	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
25	Tamweel	UAE	Sukuk	Euro market public issue	300	1	Standard Chartered Bank, Dubai Islamic Bank, Citigroup
25	Gulf International Bank	Bahrain	Sukuk	Euro market private placement	300	1	JPMorgan
27	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
28	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
29	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
30	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	263	3	CIMB Group, AmInvestment Bank, Maybank Investment Bank
	Total				**36,888**	**101**	

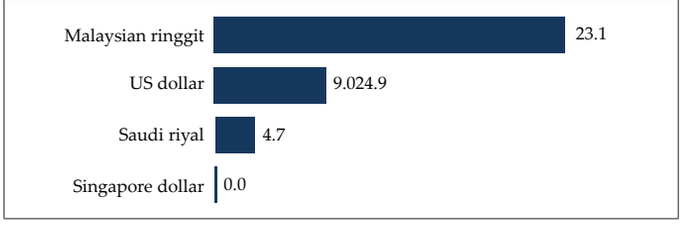
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	7,270	28	19.7
2	HSBC	7,014	15	19.0
3	Maybank Investment Bank	6,896	29	18.7
4	AmInvestment Bank	4,823	29	13.1
5	RHB Capital	2,681	15	7.3
6	Standard Chartered Bank	1,774	11	4.8
7	Citigroup	1,692	8	4.6
8	Lembaga Tabung Haji	847	2	2.3
9	JPMorgan	558	3	1.5
10	BNP Paribas	438	2	1.2
11	Deutsche Bank	427	2	1.2
12	National Bank of Abu Dhabi	292	3	0.8
13	Kenanga Investment Bank	265	1	0.7
14	Riyad Bank	240	1	0.7
15	Affin Investment Bank	189	5	0.5
16	OCBC	168	6	0.5
17	Abu Dhabi Islamic Bank	153	2	0.4
18	Hong Leong Bank	141	4	0.4
19	Bank of America Merrill Lynch	125	1	0.3
19	Abu Dhabi Commercial Bank	125	1	0.3
21	Public Bank	118	4	0.3
22	KFH	109	2	0.3
23	Dubai Islamic Bank	100	1	0.3
24	RBS	83	1	0.2
24	Nomura	83	1	0.2
24	Emirates NBD	83	1	0.2
27	Commerzbank Group	70	1	0.2
28	DRB-HICOM	67	1	0.2
29	Malaysian Industrial Development Finance	40	1	0.1
30	OSK	16	3	0.0
	Total	**36,888**	**101**	**0.0**

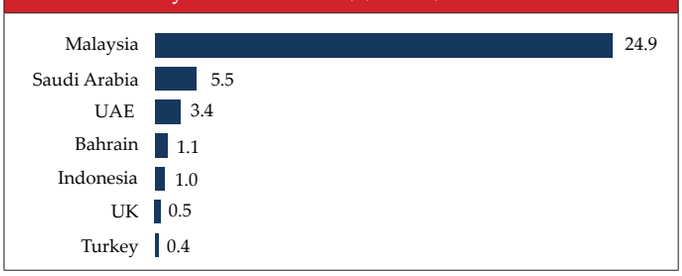
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	921	3	9.2
2	HSBC Holdings	771	3	7.7
3	Samba Financial Group	592	4	5.9
4	Public Investment Fund	463	2	4.6
4	Arab National Bank	463	2	4.6
6	Sumitomo Mitsui Financial Group	404	2	4.0
7	KfW Bankengruppe	369	2	3.7
8	Mitsubishi UFJ Financial Group	360	1	3.6
9	Australia & New Zealand Banking Group	289	1	2.9
9	Mizuho Financial Group	289	1	2.9

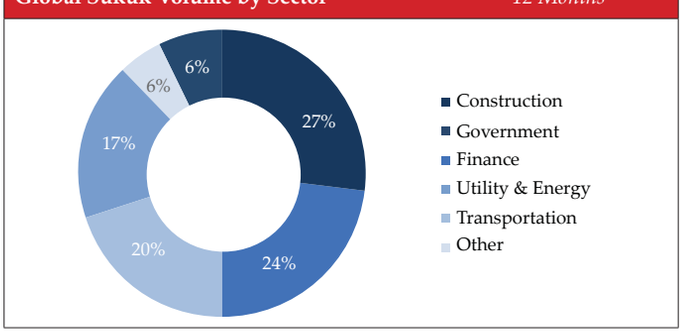
Sukuk Volume by Currency US$ (billion) *12 Months*



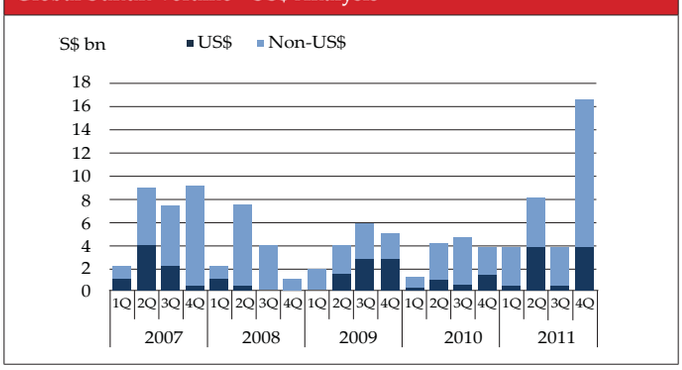
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



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

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

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	826	5	11.3
2	Citigroup	501	8	6.9
3	Samba Capital	472	3	6.5
4	Standard Chartered Bank	368	7	5.1
5	CIMB Group	304	3	4.2
6	Noor Islamic Bank	297	3	4.1
7	Barwa Bank	266	2	3.7
8	RBS	233	1	3.2
9	Saudi National Commercial Bank	219	1	3.0
9	Banque Saudi Fransi	219	1	3.0
9	Arab National Bank	219	1	3.0
12	Qatar Islamic Bank	213	1	2.9
12	Qatar International Islamic Bank	213	1	2.9
12	Masraf Al Rayan	213	1	2.9
15	Deutsche Bank	204	2	2.8
16	Arab Banking Corporation	172	4	2.4
17	Abu Dhabi Islamic Bank	171	4	2.4
18	RHB Capital	164	1	2.3
18	Maybank Investment Bank	164	1	2.3
18	Lembaga Tabung Haji	164	1	2.3
18	AmInvestment Bank	164	1	2.3
22	Emirates NBD	160	3	2.2
23	Bank of America Merrill Lynch	126	3	1.7
24	Bank of China	93	1	1.3
25	OCBC	88	1	1.2
26	WestLB	70	2	1.0
27	Bank Al-Jazira	68	1	0.9
27	Alinma Bank	68	1	0.9
27	Al-Rajhi Banking & Investment	68	1	0.9
30	National Bank of Abu Dhabi	61	1	0.8
30	Commerzbank Group	61	1	0.8

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Citigroup	618	8	8.5
2	HSBC	305	2	4.2
3	Samba Capital	233	1	3.2
3	RBS	233	1	3.2
5	Abu Dhabi Islamic Bank	219	4	3.0
6	Standard Chartered Bank	165	3	2.3
7	Emirates NBD	122	2	1.7
8	Bank of China	93	1	1.3
9	National Bank of Kuwait	87	1	1.2
10	Dubai Islamic Bank	72	1	1.0
10	Deutsche Bank	72	1	1.0

Top Islamic Finance Related Loans Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
13th Dec 2011	Barzan Gas	Qatar	5,442
2nd Dec 2011	Hajr for Electricity Production	Saudi Arabia	1,981
15th Oct 2011	Maaden Bauxite & Alumina	Saudi Arabia	929
15th Sep 2011	Dubai Ports World	UAE	850
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
31st Mar 2011	National Central Cooling)	UAE	757
17th May 2011	Emaar Properties	UAE	699
23rd May 2011	Natrindo Telepon Seluler	Indonesia	450
22nd Sep 2011	Albaraka Turk	Turkey	344

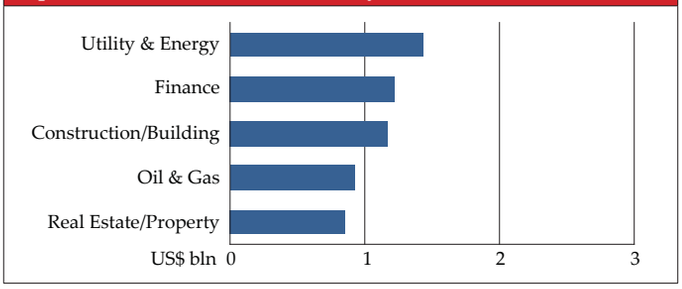
Top Islamic Finance Related Loans by Country

12 Months

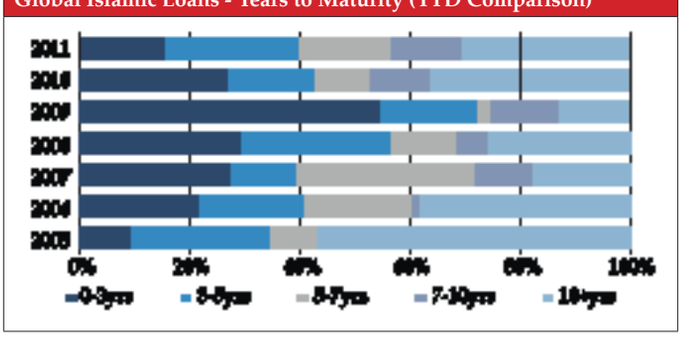
	Nationality	US$ (mln)	No	%
1	UAE	1,756	8	24.1
2	Saudi Arabia	1,511	3	20.7
3	Malaysia	1,190	3	16.3
4	Turkey	998	6	13.7
5	Qatar	850	1	11.7
6	Indonesia	501	3	6.9
7	Pakistan	203	4	2.8
8	China	93	1	1.3
9	Kuwait	87	1	1.2
10	Russian Federation	60	1	0.8

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

7th — 8th February 2012
The 8th Middle East Insurance Forum
Bahrain (*MegaEvents*)

15th — 16th February 2012
Credit Risk Asia
Singapore (*Fleming Gulf*)

21st – 24th February 2012
Islamic Finance Africa
Africa *(IIR South Africa)*

8th March 2012
EUMCCI's Quarterly Financial Panel Discussion 2012
KL, Malaysia (*EUMCCI*)

13th March 2012
IFN Roadshow Singapore
Singapore *(REDmoney events)*

27th – 28th March 2012
2nd Annual World Islamic Finance Conference
London *(Fleming Gulf)*

16th — 17th April 2012
IFN Indonesia Forum
Jakarta *(REDmoney events)*

16th — 17th April 2012
The 7th Annual World Takaful Conference
Dusit Thani, Dubai (*MEGA Events*)

18th April 2012
The 2nd Annual Middle East Islamic Finance and Investment Conference
Dusit Thani, Dubai (*MEGA Events*)

24th April 2012
IFN Roadshow Thailand
Bangkok *(REDmoney events)*

8th May 2012
IFN Roadshow Australia
Sydney *(REDmoney events)*

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

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

30th May 2012
IFN Roadshow Hong Kong
Hong Kong *(REDmoney events)*

3rd – 4th June 2012
IFN Saudi Arabia Forum
Riyadh, Saudi Arabia *(REDmoney events)*

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

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

TBA
The 3rd Annual World Takaful Conference: Family Takaful Summit
Kuala Lumpur (*MEGA Events*)

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

1st October 2012
IFN Roadshow Egypt
Cairo *(REDmoney events)*

4th October 2012
IFN Roadshow Turkey
Istanbul *(REDmoney events)*

22nd – 23rd October 2012
IFN Europe Forum 2012
London, UK *(REDmoney events)*

TBA
The 2nd Annual International Summit on Islamic Corporate Finance
Abu Dhabi (*MEGA Events*)

5th – 6th November 2012
IFN Asia Forum 2012
Kuala Lumpur *(REDmoney events)*

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

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

Islamic Finance *news*

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