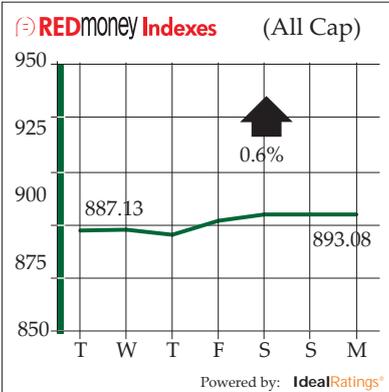


10th October 2012



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The ADB: A new force to be reckoned with

The Asian Development Bank (ADB) recently signed an agreement with the Islamic Financial Services Board (IFSB) to promote the adoption of standardized Islamic regulation in member countries. Seen as a major step forward in international multilateral cooperation, could this mark the entry of a serious new player in the support of global Islamic finance?

The ADB

The ADB is already a key player in the support of developing countries in the Asia and the Pacific, dedicated to the eradication of poverty among the 1.8 billion poor in the region, as well as promoting sustainable growth and regional integration. From 31 members at its establishment in 1966, the bank has grown to encompass 67 members, of which 48 are countries from within Asia.

In 2011, the ADB approved direct financing of US\$14.02 billion along with US\$7.69 billion by co-financing partners. Of its direct approvals, US\$12.61 billion were in the form of loans, while it also issued US\$239 million in equity investments, US\$614 million in grants, US\$417 million in guarantees and US\$148 million in technical assistance. Its top recipients in 2011 (including cofinancing) were Vietnam with US\$3.6 billion in financing, India with US\$3.13 billion, Pakistan with US\$2.89 billion, Bangladesh with US\$2.29 billion and China with US\$1.59 billion.

Swift growth

The ADB has over the past decade developed rapidly in the multilateral development arena; with financing increasing by 115% over the last five years from just US\$10.1 billion in 2007 to a total of US\$21.7 billion in 2011. In comparison, the

World Bank in 2011 agreed on a package of US\$49.3 billion over the next three years through its International Development Agency arm to fund the development of the world's poorest nations — less than the past three years' total financing from the ADB. The Islamic Development Bank (IDB) in 2011 disbursed US\$4.2 billion in financing to its member countries — a fifth that of the ADB. Clearly, the ADB is a force to be reckoned with as an international development agency with clout.

Promoting Islamic finance

The ADB has a number of key sectors in which it operates: including agriculture, energy, education, health, transport and water. The bank has also been a staunch supporter of financial sector development in its member countries, and since 1966 financial sector operations have accounted for 11% of total ADB operations. 2010 saw it issue sovereign lending of US\$893.4 million to support the general financial sector, along with capital market development

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Arriving at the next level

Editor's Note

While the Islamic finance industry has achieved phenomenal growth in the last few years, market talk has increasingly focused on efforts to take the industry to the next level. Beyond just entering new markets, industry practitioners are now calling greater attention to areas such as risk management and product innovation, as part of wider measures to accomplish higher value-add in the industry.

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A fine example of
Shariah inspired innovation.

DEALS

Turkey issues second sovereign Sukuk

Qatar Islamic Bank jumps back into Sukuk market with US\$750 million issuance

Turkish Airlines and **Türk Telekom** said to be eyeing Sukuk issuances

Weststar Aviation Services sets up US\$295.35 million Sukuk program

Edaran SWM proposes US\$245.71 million Sukuk issuance

Trans-Caledon Tunnel Authority considers Sukuk issuance to fund water projects

South Africa's maiden sovereign Sukuk expected to be issued by the end of March 2013

Qatar First Investment Bank invests US\$150 million in **Kuwait Energy**

Saudi Hollandi Bank receives shareholder approval for issuance of US\$373.31 million Sukuk

Ithmaar Bank and **First Leasing Bank** merger reach advanced stage

NEWS

Century Banking Corporation bridges Africa and Middle East markets

Financing from the **IMF** will be Shariah compliant, says Egypt's president

Bursa Malaysia expects rapid growth of exchange-traded Sukuk and bonds

Local Islamic capital market to maintain growth momentum, says **Securities Commission Malaysia**

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Yayasan Iqra' sees role for Waqf funds in community development

Sukuk issuances maintain lion's share of Malaysian domestic private debt securities offerings

Malaysia's **SME Bank** to collaborate with IDB on US\$65.64 million Halal Industry Fund

Middle East Islamic financial institutions seen to be more Shariah compliant than Malaysia's, says scholar

Pakistan's Islamic finance industry poised for further growth

Reserve Bank of India calls for Islamic banking law

Prudential BSN Takaful widens coverage for PruBSN SmartLink plan

IFSB and **Asian Development Bank** sign MoU to develop Islamic finance in common developing member countries

Islamic banking in North Africa to accelerate on supportive socio-political factors and economic incentives, says **S&P**

GFH Capital said to eye 100% takeover of **Leeds United Football Club**

Sovereigns to drive Sukuk issuance next year, says **KFH Research**

National Bank of Abu Dhabi targets growth of Islamic business

GCC Sukuk issuances expected to continue its upward trajectory, says **S&P**

Abu Dhabi Islamic Bank to fund housing projects in Iraq

Al Hilal Bank signs MoU with **Emirates National Schools** to promote Islamic banking awareness

ISLAMIC INVESTOR

BLME acquires new property for Light Industrial Building Fund

Dow Jones Islamic Market indexes report positive performance in September

FTSE Group and **Bursa Malaysia** launch Shariah index of small cap stocks

RHB Investment Management declares distribution for RHB Islamic Bond Fund

The Investor for Securities Company and **Islamic Wealth & Asset Management** launch **Safa Investment Services**

RATINGS

RAM assigns rating to **Edaran SWM's** proposed US\$242.89 million Sukuk

MARC affirms rating on **KMCOB Capital's** US\$111.11 million Sukuk program

MARC withdraws rating on **1 Warisan's** US\$55.05 million Islamic medium-term notes program

MOVES

Amana Bank makes senior appointments

K&L Gates names **Omar Momany** as partner at Dubai corporate practice

Maples and Calder makes six senior appointments

Disclaimer: Islamic Finance news invites leading practitioners and academics to contribute short reports each week. Whilst we have used our best endeavors and efforts to ensure the accuracy of the contents we do not hold out or represent that the respective opinions are accurate and therefore shall not be held responsible for any inaccuracies. Contents and copyright remain with REDmoney.



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Islamic Finance news

The ADB: A new force to be reckoned with

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for microfinance, SMEs and regulatory reforms; while non-sovereign investment reached US\$1.03 billion, primarily in housing finance, microfinance and regional guarantees.

Fourteen of the ADB's member countries have a majority Muslim population, while many others host a significant minorities and in total its developing member countries (DMCs) represent around 80% of the world's total Muslim population. Up until recently the bank has not been heavily involved in Islamic finance, although support of the sector has been on its agenda since 2009. However, in the last few years it has become increasingly involved with the industry, and a number of operations including its first fully Shariah compliant financing in May 2012 have marked its arrival into the sphere.



Bindu

region: particularly in terms of developing best practice for prudential standards and corporate governance rules for central banks and regulators to enable the fair regulation of Islamic financial institutions. It also hopes to assist DMCs through technical assistance, loans, capital market development, the provision of credit enhancement in non-sovereign Shariah compliant transactions and the support of innovative new Islamic financing structures.

A big step forward

A key role that the ADB hopes to fulfil is that of supporting standard-setting organizations to encourage a more consistent global governance structure. On the 3rd October the bank took a key step towards this goal by signing an MOU with the IFSB to "facilitate international cooperation...in promoting the development of Islamic finance in common member countries".

The ADB has a strong presence in less developed countries, and will therefore be able to promote the introduction and development of Islamic finance standards in areas which may previously have been overlooked, in order to bring under-banked populations into the banking system. In the short-term, the bank plans to focus on Afghanistan, Bangladesh, Indonesia, Kazakhstan, the Maldives, Pakistan and the Philippines. "We look forward to working even more closely with IFSB under this MOU to address some of the key issues facing our member countries in the areas of financial inclusiveness and infrastructure financing," said Bindu.

Enhancing cooperation

The MOU provides a basis for joint activities and general cooperation based on a number of key objectives, including:

- Enhancing cooperation in the form of joint technical assistance and/or policy-based work in common developing member countries;

continued...

CLOSING BELL

Government to issue Sukuk

MALAYSIA: The government has re-opened a tender for RM2.5 billion (US\$814.41 million)-worth of profit-based notes maturing on the 30th August 2017. The tender will close on the 12th October 2012. (📌)

Rating withdrawn

MALAYSIA: MARC has withdrawn its 'AAID' rating on Tenaga Nasional's RM1 billion (US\$325.78 million) Bai Bithaman Ajil facility following its redemption of the final RM150 million (US\$48.86 million) tranche from the program on the 1st October 2012. (📌)

Notes redeemed

MALAYSIA: MARC has withdrawn its 'AA-ID' rating on WCT's RM100 million Islamic fixed-rate serial bonds after the final redemption of the amount outstanding from the facility and its cancellation on the 29th August 2012. (📌)

“ Up until recently the bank has not been heavily involved in Islamic finance, although support of the sector has been on its agenda since 2009 ”

A catalytic role

"The importance of Islamic finance in the development of Asia cannot be doubted, as can be seen by the significant increase in Shariah compliant financing in a number of ADB's developing member countries in recent years," said Bindu Lohani, the vice-president for knowledge management and sustainable development. The bank is now positioning itself to play what it terms as "a catalytic role" in the development of Shariah compliant finance in the

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The ADB: A new force to be reckoned with

Continued from page 3

- Promoting the development of Islamic finance in common member countries and in particular strengthening the capacity of regulating and supervising Islamic financial services institutions, Islamic capital markets and Islamic liquidity management, and;
- Stimulating joint research and the exchange of information, which will be used as critical evidence to support policy areas of mutual interest, as well as to enhance knowledge-sharing between both organizations.

Relationship-building

Although the agreement marks an exciting step forward in international cooperation for the development of Islamic finance in the region, it is actually just the most recent step in a process of relationship-building with the Islamic finance industry (and in particular with the IFSB) that the ADB has been undertaking over the last several years.

In March 2009 the ADB in collaboration with the IDB provided a technical assistance grant of US\$850,000 for 'The Development of Prudential and Supervision Standards for Islamic Financial Markets' to support the IFSB in developing a set of international prudential standards "to promote and enhance the soundness and stability of the Islamic financial services industry," especially in "overlapping member countries". This support built upon an even earlier technical assistance agreement to develop a set of international standards for the industry. Completed in June 2011, the project mandated specific IFSB and ADB member countries (Malaysia, Indonesia and Singapore) to "take actions to harmonize prudential standards, data collection and commercial risk measurement based on the performance targets and indicators," and several international prudential standards were developed.

However, the project was criticized in some quarters for an over-reliance on workshops and

capacity-building programs to encourage voluntary implementation of standards, and a lack of direct engagement. The ADB concluded that: "What is needed is a comprehensive strategy for implementation and a framework for countries who have implemented the standards to share information and assist countries who have not implemented but are interested to implement the standards." Following the recent MOU with the IFSB, a new technical agreement has been included in the ADB 2012 pipeline which it is hoped will push this target forward.

“ The potential of ADB involvement in the Islamic finance industry does not lie only in the development and implementation of international standards ”

Infrastructure potential

However, the potential of ADB involvement in the Islamic finance industry does not lie only in the development and implementation of international standards. While this is a vital aspect, other more immediate financial advantages may derive from the increased involvement of the bank. The most significant of these is in the area of infrastructure development; and the recent MOU includes the target of encouraging member countries to align their infrastructure financing needs with Islamic finance.

"In the context of Asia's developmental needs," said Jaseem Ahmed, the

secretary-general of IFSB, "I especially look forward to working with ADB in encouraging cross-border cooperation in the use of Islamic finance to address the challenges of widening financial and social inclusion in Asia, and in meeting Asia's enormous need for innovative financial mechanisms for its infrastructure spending."

Based on an internal ADB study, an estimated US\$4.7 trillion will be needed over the next 10 years for the Asia region's infrastructure requirements, while finance sector development requirements for the region are also likely to be sizeable, with an estimated US\$197 billion in investments needed to capitalize banks up to 2020 in South Asia alone.

New frontiers

Putting its money where its mouth is, the ADB has been working towards developing its capability for Shariah compliant finance. Although the number of projects so far has been limited, its involvement is increasing. In November 2009 the bank financed a research project into improving access to financial services in Pakistan through Islamic finance, which resulted in the decision to fund an Islamic Finance Academy in the country, led by the State Bank of Pakistan.

In May 2012 an even bigger milestone was reached with the first Shariah compliant project financing from the ADB. In collaboration with the IDB, the bank provided financing worth a total of US\$66.61 million to finance the Foundation Wind Energy I and II projects to build wind farms in Pakistan. Following a request from the Fauji Foundation, the majority investor in the project, that all financing be Shariah compliant, the ADB worked with the IDB to create an innovative partial credit guarantee structure similar to Ijarah with a term of 12 years, while the remainder of the project was financed by a consortium of Pakistani banks through a Musharakah structure.

Speaking on the deal Siddhartha Shah, a senior investment specialist in the private sector operations department of the ADB, said that: "This transaction allows the ADB to be more responsive to borrower

continued...



The ADB: A new force to be reckoned with

Continued from page 4

demand and provides an opportunity to participate in the fast-growing Islamic finance market.”

“**The ADB is familiar with Shariah structures as it has co-financed several transactions with the IDB**”

The Islamic Infrastructure Fund

The balance of equity for the transaction was provided by the Islamic Infrastructure Fund (IIF), a joint venture established in 2009 by the ADB and IDB to create Asia’s first major multi-country Islamic infrastructure fund. The first

Shariah compliant special fund from the ADB, the IIF targets Shariah compliant investments in the 12 countries that are borrowing members of both banks: Afghanistan, Azerbaijan, Bangladesh, Indonesia, Kazakhstan, the Kyrgyz Republic, Malaysia, the Maldives, Pakistan, Tajikistan, Turkmenistan and Uzbekistan. “With increasing demand for Islamic finance by both investors and clients, we expect the fund to attract capital not only from the Islamic world, notably the Middle East region, but from a wide range of institutional investors all over the world,” said Walid Abdelwahab, the director of the IDB’s country operations department (Asia), at its launch in 2009. The fund is managed jointly by CIMBSA (CIMB Strategic Assets, previously CapAsia and originally CIMB Standard, a joint private equity venture between CIMB Group and Standard Bank) and US-based The Rohatyn Group, and has around US\$500 million in assets under management.

Collaboration

The ADB has developed a valuable close working relationship with the IDB which has led to a number of transactions including the New Bong Escape Hydropower, Uch-II Power and Patrind Hydropower projects in Pakistan; and the joint provision in June 2011 of loans totaling US\$581 million to develop sustainable energy sources in Bangladesh. In addition, the ADB is familiar with Shariah structures as it has co-financed several transactions in which IDB has provided a Shariah tranche alongside its own conventional loan tranche.

This involvement, together with the promising new agreement with the IFSB to implement international prudential standards, suggests that the ADB is ready to take a significant step forward onto the Islamic finance stage. With its financial clout and its wide sphere of influence, its influence on the industry can only be positive. Let’s hope that other multilateral agencies follow its example. ☺ — LM

Arriving at the next level

Editor’s Note

While the Islamic finance industry has achieved phenomenal growth in the last few years, market talk has increasingly focused on efforts to take the industry to the next level. Beyond just entering new markets, industry practitioners are now calling greater attention to areas such as risk management and product innovation, as part of wider measures to accomplish higher value-add in the industry.

An important component of arriving at a more well-developed industry is the participation of key market players; as highlighted in our cover story this week which looks at the Asian Development Bank (ADB)’s growing involvement in Islamic finance. Given its key role in nurturing the growth of Asia’s developing countries and its strength in the global financial arena, we explore the potential

for the ADB to act as a game-changer for our industry, especially following its recent agreement on Islamic finance regulations signed with the Islamic Financial Services Board.

The secondary market for Islamic instruments is another area in which industry players have long urged for greater development. Moreover, secondary market trading is sometimes seen as risky; and our issue this week considers this conundrum in an article by Asim Hameed Khan of Meezan Bank, who suggests that Shariah rules and Shariah compliant instruments can provide a safe solution for secondary market trading.

We also take a rare look at the Islamic finance market in Canada, where Rehan Huda, the co-founder and director of Shariah compliant financial solutions firm Amana Canada Holdings, writes on

opportunities for Islamic investing in the country.

Muhammed Umer of Takaful Pakistan contributes our Takaful feature this week on the accounting practices of General Takaful companies in Pakistan, while Insider uncovers further details on HSBC’s move to restructure its Islamic business.

Our IFN Reports cover prospects for Islamic finance in China and more highlights from our IFN Asia Forum 2012; and our IFN Correspondents write on developments in Qatar, Yemen and the US.

Meet the Head talks to Mansour Ndiaye, the director of microfinance for the Alliance for Sustainable Community Development; and our Case Study highlights Qatar Islamic Bank’s US\$750 million Sukuk issuance. ☺

DEALS

Another Turkish Sukuk

TURKEY: The government has issued a TRY1.62 billion (US\$903.72 million) Turkish lira-denominated Sukuk: its second sovereign Islamic bond offering since its debut sale just two weeks ago.

The treasury announced that it sold the two-year notes at a profit rate of 3.7% after receiving TRY3.28 billion (US\$1.83 billion)-worth of bids. (2)

QIB issues Sukuk

QATAR: Qatar Islamic Bank (QIB) sold US\$750 million-worth of Sukuk on the 3rd October 2012, two years since its last foray into the Sukuk market.

The five-year notes will pay a profit rate of 2.5%, equivalent to 175 basis points over midswaps.

Deutsche Bank, HSBC, Standard Chartered and QInvest, a QIB subsidiary, were the mandated joint lead managers for the transaction. (2)

Turkish corporates eye Sukuk

TURKEY: Turkish Airlines and Türk Telekom have reportedly approached banks to arrange Sukuk issuances for the respective companies.

The news follows the government's US\$1.5 billion debut sovereign Sukuk issuance on the 18th September 2012. (2)

Aviation Sukuk in the pipeline

MALAYSIA: Weststar Aviation Services, an offshore aviation services firm, has announced plans to issue Sukuk under a RM900 million (US\$295.35 million) program.

MARC, which assigned a preliminary 'AA-IS' rating on the program, said that funds raised from the offering will be used to refinance Weststar's existing debt worth up to RM870 million (US\$285.5 million). (2)

Sukuk for waste management firm

MALAYSIA: Edaran SWM, an associate firm and the main sub-contractor of waste management concessionaire SWM Environment, has proposed a RM750 million (US\$245.71 million) Sukuk issuance under a planned 20-year Islamic

medium-term notes program of up to RM1 billion (US\$327.61 million).

Proceeds from the sale will be used to fund the acquisition of assets required for Edaran SWM's services, said RAM, which has assigned a 'AA3' rating on the proposed issuance. (2)

Sukuk for South African water projects?

SOUTH AFRICA: Trans-Caledon Tunnel Authority, a state-owned body set up to finance and implement bulk raw water infrastructure, is reportedly considering a Sukuk issuance to fund two large projects worth at least ZAR26 billion (US\$3.06 billion).

According to ZodwaMbele, its executive manager for project finance and treasury, the authority will decide on whether to raise Islamic debt or secure loans following the South African government's planned debut Sukuk sale, expected by March 2013. (2)

South Africa Sukuk on track

SOUTH AFRICA: The government's planned debut Sukuk offering is expected to be issued by the end of March 2013, said Thuto Shomang, the head of asset and liability management at the National Treasury.

The treasury announced plans for the issuance in December 2011 and in July this year said that it hired Al Baraka Banking Group, BNP Paribas, Liquidity Management House, Nova Capital Partners, Regiments Capital and Standard Bank to arrange the transaction. (2)

QFIB funds energy firm

GLOBAL: Qatar First Investment Bank (QFIB) will invest US\$150 million in oil and gas producer Kuwait Energy, via a convertible Murabahah facility.

The funds will be used to finance Kuwait Energy's expansion in the Middle East. (2)

Sukuk for Saudi Hollandi

SAUDI ARABIA: Saudi Hollandi Bank's shareholders have approved the bank's proposal to issue SAR1.4 billion (US\$373.31 million)-worth of Sukuk, according to an announcement on the Saudi stock exchange.

The bank did not disclose any further details regarding the issuance. (2)

Ithmaar Bank and First Leasing Bank merger reach advanced stage

BAHRAIN: Ithmaar Bank has announced that discussions on a proposed merger with its associate, First Leasing Bank, have reached an advanced stage; one year since Islamic Finance *news* first reported the deal.

In a statement, Mohammed Bucheerei, CEO and a board member of Ithmaar, said that the merger has been approved by the banks' boards, while the Central Bank of Bahrain has also granted its initial approval for the deal.

The transaction will involve a share swap between the two banks, he said. The merger will be proposed to the banks' shareholders at extraordinary general meetings slated to be held at the end of this month.

If the shareholders approve the deal, the proposal will then need final approval from the central bank and Bahrain's ministry of industry and commerce.

"Since Ithmaar's reorganization in April 2010 with its then wholly-owned subsidiary Shamil Bank and its subsequent transformation from an investment bank into an Islamic retail bank, Ithmaar has focused on developing its retail and commercial banking operations. In doing so, we allow for an exclusive focus on our retail banking operations. More importantly, this also creates a powerful synergy within the new, rationalized group structure," said Mohammed Bucheerei.

Ithmaar currently owns 21.32% of First Leasing Bank, which is licensed by the central bank as a wholesale conventional bank. However, it is principally engaged in the provision of operating equipment leasing via Ijarah, while it also provides asset management and trade finance. (2)

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DEAL TRACKER

Full Deal Tracker on page 32

ISSUER	ISSUING CURRENCY	SIZE (US\$)	DATE ANNOUNCED
Edaran SWM	RM	325.51 million	5 th October 2012
International Islamic Liquidity Management Corporation	US\$	200 to 500 million	4 th October 2012
Turkish Airlines	TBA	TBA	4 th October 2012
Danainfra Nasional	RM	488.4 million	4 th October 2012
Weststar Capital	RM	293.04 million	4 th October 2012

AFRICA

Open for business

MAURITIUS: Century Banking Corporation, the country's only fully-fledged Islamic bank, is targeting to complete one major deal in 2013 as it looks to arrange equity investments from the Middle East into companies in Kenya and South Africa.

Nik Joharris Nik Ahmad, its CEO, also said that the bank is aiming to launch retail banking operations in its home market next year. ⁽²⁾

Egypt wants Islamic funding

EGYPT: Mohamed Morsi, the country's president, has stressed that a US\$4.8 billion financing requested by the government from the IMF will be Shariah compliant.

The government, which asked the IMF for the financing in August, hopes to reach an agreement for the funding by the end of this year. ⁽²⁾

ASIA

Boost to capital market

MALAYSIA: Stock exchange operator Bursa Malaysia is projecting rapid growth in the market for exchange-traded bonds and Sukuk (ETBS) following the introduction of tax incentives for the instruments under Budget 2013.

Tajuddin Atan, CEO of Bursa Malaysia, said that the listing of EBTS will provide a cost-effective method for companies to raise capital and provide investors with price transparency. ⁽²⁾

Continued growth seen

MALAYSIA: The local Islamic capital market is projected to maintain its

current growth momentum going forward but must overcome challenges and build critical mass, said Dr Nik Ramlah Mahmood, the deputy chief executive of Securities Commission Malaysia (SCM), during the IFN Asia Forum 2012.

She said factors to be considered include strong governance, disclosure, due diligence, transparency, ethics and corporate and social responsibility. ⁽²⁾

BIMB Holdings to start talks on takeover of Dubai Financial Group's stake in Bank Islam Malaysia

MALAYSIA: BIMB Holdings, which owns 51% of Bank Islam Malaysia, has announced that it has received approval in principle from the central bank, Bank Negara Malaysia (BNM), for it to begin discussions with Dubai Financial Group (DFG) to take over the UAE firm's 30.5% interest in Bank Islam.

"The negotiations are to be completed on or before the 31st March 2013," it said, adding that the talks will also involve pilgrims fund Lembaga Tabung Haji, which owns 51.76% of BIMB and 18.5% of Bank Islam.

Speculation has been rife that DFG has been looking to sell assets following the indebtedness of its parent, Dubai Group, which owes around US\$10 billion in loans.

DFG emerged as a major shareholder in BIMB in 2006, when it acquired a 40% stake in the Malaysian firm, which also owns Syarikat Takaful Malaysia. DFG's interest in BIMB was then reduced to 30.5% in 2010 when it chose not to take up an issuance of new preference shares during a cash call by the Malaysian firm.

continued...

Oman's new Islamic banks to struggle at launch, says Fitch

OMAN: Newly set up Islamic banks in the sultanate will struggle to compete with conventional peers as customers are likely to opt for banks with established names, said Fitch.

In its report on Islamic banking in Oman, the rating agency noted that: "We believe the combination of a well-known brand, an established network and service quality and cost-efficiency savings will give the incumbents a significant advantage. While the established banks will need to keep their existing and Islamic operations separate at the point of contact with the customer, there will be plenty of opportunities for cost savings at the operational level."

Fitch highlighted incumbents such as BankMuscat and HSBC Bank Oman, which are setting up Islamic banking windows and are expected to pose stiff competition to newly created Islamic banks in the sultanate. To date, Bank Nizwa and Alizz Islamic Bank are the only two fully-fledged Islamic banks in Oman. Both have been set up in the past two years.

Fitch also said that difficulties faced by the Islamic banking sector in Oman will be two-pronged; as Shariah compliant banks will have to compete with conventional banks in addition to having to compete with Islamic windows of the conventional banks.

It cited Qatar's experience with Islamic banking, noting that: "When rule changes barred conventional banks from offering Islamic financial services, Islamic banks had expected an influx of customers as people with Shariah compliant accounts switched banks. In practice the impact was small and many customers decided to switch back to conventional accounts with their existing banks instead."

The same is expected to occur in Oman, with customers likely to retain their existing and conventional bank accounts, "assuming there are no significant differences in the terms on offer," said Fitch.

Nonetheless, the rating agency noted that substantial government spending will create opportunities for Islamic banks to expand, especially in the area of retail banking. ⁽²⁾

continued...

Meanwhile, in its announcement, BIMB also noted that the consent from BNM does not constitute an approval for its proposal to take over DFG's interest in Bank Islam, with further approvals needed from the ministry of finance, with the recommendation of the monetary authority, before any deal is struck.

Although the Malaysian financial group has been dogged by a legacy of non-performing financing, analysts have increasingly grown to favor BIMB as it represents the only pure-play Shariah compliant stock listed on the Malaysian stock exchange. In a report on BIMB's second quarter financial results, Maybank IB Research noted that it has raised its 2012-14 forecasts for the financial group, projecting total net income of RM1.67 billion (US\$544.95 million), RM1.8 billion (US\$587.37 million) and RM1.95 billion (US\$636.32 million) for the three years, respectively.

If its talks with DFG conclude positively, then BIMB could be in for even larger earnings contributions from Bank Islam going forward. (3)

Acquisition completed

SINGAPORE: Sabana Real Estate Investment Management, the manager of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (Sabana Shari'ah Compliant REIT), has completed the acquisition of 23 Serangoon North Avenue 5, a property in Singapore, to add to the REIT's portfolio.

Sabana disclosed that SGD61 million (US\$49.62 million)-worth of proceeds from its SGD80 million (US\$65.07 million) convertible Sukuk issued in September this year was used to fund the property acquisition, while the remainder was put towards general corporate purposes and expenses related to the property purchase and Sukuk sale. (3)

Important role for Waqf

MALAYSIA: Islamic microfinance foundation Yayasan Iqra' sees a vital role for corporate Waqf funds in financing projects and community-based activities.

The foundation has proposed that individuals and corporates commit shares or financial instruments as endowment, with part of the profits returned channelled towards community projects.

IdrisJusoh, a member of the foundation's board of trustees, said that the foundation is now discussing the plan with several government entities and Islamic religious councils. (3)

Sukuk still at the fore

MALAYSIA: Gross issuances of domestic private debt securities (PDS) increased to RM94.9 billion (US\$30.83 billion) in the nine months to the 30th September 2012, with Sukuk making up 63% of the total value, according to data from RAM Ratings.

Issuances in the nine-month period were 80% higher from a year earlier, while PDS issuances in the third quarter of the year amounted to RM32 billion (US\$10.47 billion), 34% higher than in the second quarter. (3)

Islamic fund for Halal industry

MALAYSIA: SME Bank will partner with the IDB to provide a RM200 million (US\$65.64 million) Halal Industry Fund to support Halal industry exports.

The establishment of the fund, which will provide seed capital to small and medium-sized enterprises for the production of Halal goods, was announced by Najib Razak, the Malaysian prime minister, during his tabling of Budget 2013 on the 28th September 2012. (3)

Harmonizing Shariah rules

MALAYSIA: Dr Amir Shaharuddin, the deputy dean (academic and research) at the faculty of economics and Muamalat at Universiti Sains Islam Malaysia (Islamic Science University), said that Islamic financial institutions in the Middle East are seen to be more Shariah compliant than those in Malaysia.

continued...

Pakistan's Islamic finance industry poised for further growth

PAKISTAN: The Securities and Exchange Commission of Pakistan has released its draft regulations on Sukuk, as regulatory backing for Islamic finance in the country gains rapid pace.

The draft rules — which cover the eligibility of issuers; conditions for issuances; the appointment of Shariah advisors and trustees; underwriting, disclosure and reporting requirements; disciplinary proceedings; and financial reporting and accounting treatment - are open for public comment until the 15th October this year.

Local Sukuk issuances are expected to see a boost as a result of the proposed legislation, in a market where corporate offerings have been slow to take off; although the government has issued Sukuk regularly in the last few years. Since 2010, the government has issued around PKR369 billion (US\$3.86 billion)-worth of Sukuk.

Pakistan's central bank also recently prepared an investor guide for the government's issuances of Sukuk Ijarah, outlining procedures for investing in the papers and highlighting the benefits of investing in the notes. "These securities provide higher returns to the investor, as compared to most bank deposits," it noted.

The latest developments in Islamic finance in Pakistan come on the back of authorities' recent push to encourage the progress of the industry in the country. During our IFN Roadshow in Pakistan last month, Kazi Abdul Muktaadir, the deputy governor of the central bank, revealed that the authority is in the process of developing a five-year strategic plan for the Islamic banking industry from 2013 onwards. The central bank is also working on a comprehensive framework for Shariah governance in the country's Islamic financial institutions.

With strong support from the authorities and new legislation for Sukuk, Pakistan's Islamic banking industry looks poised for further growth. (3)



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Amir, who was recently appointed the first visiting fellow of the Securities Commission Malaysia and the UK's Oxford Center for Islamic Studies scholar-in-residence program, said that as such, he will conduct research on the harmonization of Shariah rules in Islamic finance to verify and find ways on how to overcome the perception. (2)

RBI calls for Islamic banking

INDIA: The central bank, Reserve Bank of India (RBI), has appealed to the government to restructure the country's banking laws to allow for Islamic banking, said Dr D Subbarao, its governor. (2)

Enhanced Takaful plan

MALAYSIA: Prudential BSN Takaful has enhanced its existing PruBSN SmartLink plan to include coverage for unborn babies at least 20 weeks into gestation.

The plan, which was earlier limited to children aged between one-18 years, is eligible for mothers aged between 19-45 years. (2)

GLOBAL

IFSB and ADB team up

GLOBAL: The Islamic Financial Services Board (IFSB) and the Asian Development Bank (ADB) have signed a memorandum of understanding (MOU) to develop Islamic finance in common developing member countries (*See Cover Story*).

The collaboration will focus on financial inclusiveness and infrastructure financing and aims to enhance cooperation in the areas of technical assistance and policy-based measures in the institutions' common developing member countries; as well as promoting the development of Islamic finance and spearheading joint research and the exchange of information. (2)

Islamic banking to grow in North Africa

GLOBAL: Standard & Poor's (S&P) has projected that Islamic banking in North Africa will accelerate on the back of supportive socio-political factors and government-backed economic incentives.

Nonetheless, it said that the industry could take up to three years to increase

its market penetration, as the region needs a stable political environment, clearly defined legal and supervisory frameworks and marketing initiatives to attract and retain customers. (2)

Takeover heats up

GLOBAL: GFH Capital is believed to have proposed a 100% takeover of Leeds City Holdings, the owner of Leeds United Football Club (LUFC), in a transaction that will be settled fully in cash.

David Haigh, the deputy CEO and chief operating officer of GFH Capital, who is known to be a faithful supporter of LUFC and believed to be behind GFH Capital's plan to acquire the football club, is also seen as a frontrunner for the position of the club's chairman. (2)

Sovereigns to lead

GLOBAL: Sukuk issuances next year will be driven by government or sovereign issuers, said Kuwait Finance House Research.

The Sukuk market is also expected to be supported by funding needs for large infrastructure projects in Asia and the GCC. (2)

Expanding Islamic business

GLOBAL: National Bank of Abu Dhabi (NBAD), which officially launched NBAD Malaysia on the 8th October 2012, sees its Malaysian arm playing a key role in the group's target for its Islamic finance business to contribute 10% to profits by 2020, said Michael Tomalin, its group chief executive.

The bank, which plans to apply for an Islamic banking license in Malaysia after it has achieved scale in the country, is also targeting to launch Shariah compliant services in countries such as Egypt and Oman. (2)

More GCC Sukuk seen

GLOBAL: Sukuk issuances out of the Gulf are expected to continue their strong upward trajectory in the coming quarters, as corporates increasingly rely on Islamic debt as a source of funding, according to a new report by S&P.

The rating agency, which noted that Sukuk offerings have outpaced those of conventional bonds in the GCC, also said that further issuances will be driven

continued...

RATINGS

Bright outlook

MALAYSIA: RAM has assigned an 'AA3' rating to Edaran SWM's proposed initial Sukuk issuance of RM750 million (US\$242.89 million) from its planned 20-year, RM1 billion (US\$323.85 million) Sukuk program. (2)

Outlook downgraded

MALAYSIA: MARC has affirmed its rating on KMCOB Capital's RM343.1 million (US\$111.11 million) Sukuk program at 'A+IS', but downgraded its outlook on the notes to negative from stable. (2)

Rating withdrawn

MALAYSIA: MARC has withdrawn its 'AAIS(fg)' rating on furniture company 1 Warisan's RM170 million (US\$55.05 million) Islamic medium-term notes program. The withdrawal follows 1 Warisan's early redemption of the notes outstanding from the program and the cancellation of the facility on the 27th September 2012. (2)

Not just countries

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by funding needs for infrastructure, the region's sound liquidity and investors' strong appetite for debt. (2)

MIDDLE EAST

Funding for residential projects

IRAQ: Abu Dhabi Islamic Bank (ADIB) will provide funding for the construction of housing projects in the country as the government signs MOUs with six firms to develop residential property, according to Muhammed Al Darraji, its minister of construction and housing.

ADIB's involvement will be via its branch in Iraq. (2)

Raising awareness

UAE: Al Hilal Bank has signed an educational memorandum of understanding (MOU) with the Emirates National Schools (ENS) to develop an education project increasing students' awareness of Islamic banking and personal finance.

The initiative will be implemented across ENS' three campuses in the UAE. (2)

Coming up...

Volume 9 Issue 41 — 17th October 2012

Meet the Head

Khaldoun Malkawi, chairman & CEO, Al Sanabel International Holding.

Features

Hukum Syara' in Islamic banking and finance in Brunei, practical legal issues – Part I; By Muhd Jamil Abas Abdul 'Ali, legal advisor with Abrahams, Davidson & Co.

Islamic derivatives; By Salman Ahmed Shaikh, ex-head of Islamic Financial Advisory, BMC Pakistan and research associate and faculty member at Institute of Business Administration.

Takaful concept: Proving its mettle in product innovation and profitability in insurance; By Abass Mohamed, corporate risk and research manager at Takaful Insurance of Africa.

MOVES

Amana Bank

SRI LANKA: Amana Bank has appointed **Jeroen Thijs** and **Wahid Ali** to its board of directors. Thijs is the chief risk officer at Bank Islam Malaysia, which owns 20% of Amana Bank. Wahid is the chief compliance officer at Bank Islam Malaysia.

The bank has also appointed **Mohamed Azmeer** as its chief operating officer. (2)

K&L Gates

UAE: K&L Gates has named **Omar Momany** as a partner in its corporate practice in Dubai. Omar was previously attached to legal firm Freshfields Bruckhaus Deringer. (2)

Maples and Calder

CAYMAN ISLANDS: Law firm Maples and Calder has appointed six funds partners to its Cayman Islands office.

The new partners are: **Heidi de Vries**, **Julian Ashworth**, **Sheryl Dean**, **David Marshall**, **Philip Millward** and **Gwyneth Rees**. (2)

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IFN Asia Forum: Harnessing a new frontier

The recent IFN Issuers and Investors Forum held in Kuala Lumpur on the 1st-2nd October was a great success, bringing together industry players, market participants, regulators and experts from around the world to discuss the most relevant issues affecting the Islamic finance industry today. We take a brief look at the key points raised during the conference and find out what some of the leading participants had to say.

The Islamic finance industry is at a turning point. It was evident at the 7th IFN Asia Issuers and Investors Forum 2012 this month that rapid changes in the global economy, increasing maturity within the industry and amongst market players, and a better understanding of Islamic banking products and structures is fast shaping the landscape of the Islamic banking and finance industry. These factors have become elemental in how industry players identify and re-assign their priorities.

Although Sukuk remains the buzzword particularly in Asia and the GCC, industry players have begun to place more emphasis on products and structures beyond the traditional debt capital market instruments. Afaq Khan, CEO of Standard Chartered Saadiq, and a speaker at the IFN Asia Forum, believes that Sukuk is a good indicator it is far from the be-all and end-all. "During the conference, I emphasized that although Sukuk is a good proxy for the health of the industry, we should be very careful. It is not the only proxy. Islamic banking is an alternative to the entire conventional banking space. In the conventional banking space, nobody says that if the capital markets are down, then the entire banking system is down. The same applies to Islamic banking. Trade finance and syndication are also growing sectors.

"Sukuk in and of itself is an instrument that allows medium-term capital raising. As and when the clients need medium-term capital, they currently have three options: to do bilateral financing, go to the syndications market, or go to the Sukuk market. But that is only a small part of it, clients are constantly doing treasury activities, buying products, using Islamic banks, doing trade finance and cash management activities too," he added.



The event, which was attended by top players in the Islamic finance industry from across the globe, including Europe, the Middle East and Africa, was described as "the venue to be for players looking to connect with the market," by Issam Al Tawari, the chairman and managing director of Rasameel Structured Finance in Kuwait. Yazit Yusuff, director of Islamic banking at OSK Investment Bank also commended the event for its ability to attract global players due to the quality of issues discussed and networking opportunities.

During the opening of the conference, chairperson Abdulkader Thomas, CEO of Shape Financial, elucidated on the need to improve on the quality of the Islamic finance industry. He said that when it comes to the future of the financial services the values, risks, opportunities and quality of service delivered into

the market, the growth of the human capital side and the inclusion of players of different calibers will create major opportunities in shaping the Islamic finance industry. Several key factors that have contributed to the success of the Islamic capital market were identified throughout the four sessions on the first day (the Issuers Day) which included regulations, tax and education.

Abdulkader also stressed that there were warnings given to the Islamic finance industry with regards to the issue of Sukuk pricing as well as Shariah interpretation. He further highlighted the general consensus of panelists on the ample liquidity in Malaysia and the lack of it in the global markets. This was particularly evident in infrastructure financing, where global banks are slowly retreating from new markets — perhaps

continued...

Continued



the most in need of infrastructure and development financing — due to a lack of liquidity compared to five years ago. The impact of Basel III on the liquidity of international banks was also discussed, and could potentially impact their medium and long-term plans.

In the CEOs session, Sabri Ulus, the head of treasury and markets at Bank Islam Brunei Darussalam, voiced his concern on the low pricing of Sukuk once the conventional markets are able to resolve their difficulties. He said that while the Sukuk market is attracting investors due to its low yield, it would have an impact in the long-term. “As I mentioned, the cost of funding is low but it is not going to stay at the same level for the next five to 10 years.”

Malaysia was touted as the favored destination for issuers in the Sukuk market at present, primarily for having the deepest and broadest market with comprehensive regulations that ease Sukuk issuances, a favorable tax regime and a very sophisticated investor base

as well as support from all issuers, regulators and investors. However, amongst the concerns highlighted were the lack of an available platform in Islamic capital markets outside of Malaysia and Saudi Arabia, as well as cross-border transactions involving swapping the ringgit to the currency of the issuer.

The keynote address on the second day of the Forum (the Investors Day) was delivered by Dr Nik Ramlah Mahmood, the deputy chief executive at Securities Commission Malaysia, who revealed that Malaysia’s Second Capital Market Masterplan (CMP2) currently has an average projected growth of 10.6% per year over the 10-year period to 2020, and is expected to raise its value to RM3 trillion (US\$983 billion) by the end of 2020 from the current RM1.05 trillion (US\$344 billion). She also stressed that the continued growth and sustainability of the Islamic finance industry was dependent on its ability to continue to manage potential vulnerabilities to the system by observing good governance,

to maintain prudential standards and manage risks.

Speakers at the Takaful and re-Takaful session addressed fundamental issues facing the Takaful industry, and upcoming legislations in relatively developed jurisdictions such as Malaysia which could potentially create a temporary roadblock in the industry’s growth. From a fund management perspective, it was revealed that there needs to be more sustainability in the market, with Daniel Choong, the executive director and head of business development at Nomura Islamic Asset Management, stating that overall yield and returns even in 2008 and 2009 have seen negative returns. He called for the industry’s regulators to focus more on these areas, whilst stating the need for portfolio diversification.

Risk management issues were also addressed, and comparisons between AAOIFI and IFSB guidelines were discussed; whilst Farzana Ismail, a principal at Actuarial Partners Consulting, questioned the upcoming implementation of IFRS-4 phase 2 guidelines for Takaful operators. Issues on surplus distribution and lack of investment avenues were also adeptly addressed by the forum’s panelists.

Winners of the 2012 IFN Islamic Investor Poll Awards were also honored during the event. Among the award recipients was Rami Sayegh, the head of international sales at NCB Capital, which won the Best Islamic Asset Management Company in the Middle East award. The Best Fund Distributor award was received by Masato Nakamura, CEO of Bank of Tokyo-Mitsubishi UFJ Malaysia; in a testament to the bank’s efforts in growing its Islamic fund management capabilities.

“In general, the IFN Asia Forum had a great turnout [and] the topics discussed were relevant — compared to most conferences which cover more generic topics. Usually, it is telling from the questions asked during a conference on the level of education amongst the audience and practitioners, and it was evident that we got to the next level at the forum,” said Monem Salam, the president of Saturna Capital. ☺ – NH

Hong Kong to weave its way into Islamic finance

A recent survey commissioned by law firm Latham & Watkins entitled 'The New Silk Road: Investing in and venturing with Middle Eastern companies' has highlighted growing trade and investment links between China and the Middle East, bringing with it increasing opportunities for the development of Islamic finance in China.

"According to respondents, Chinese trade and investment activity in the MENA region is expected to increase over the next 24 months; and they believe trade activity will increase slightly faster than investment activity. Bilateral trade between China and the MENA region is booming, with China seeking to lock up natural resources and with the MENA region eager to purchase China's goods and services," said the report.

Additionally, Chinese companies have been securing a large share of infrastructure, real estate development and oil and gas exploration contracts in the region, opening up room for the Chinese firms to tap Islamic funds; especially as Hong Kong has developed into a vibrant market for debt issuances.

"Hong Kong is doing great, economically. It now has a very active bond market. It has been a record issuance of bonds this year of all shapes and flavors and it is a great time for Hong Kong," said Bryant Edwards, a partner at Latham & Watkins (Hong Kong).

Nonetheless, the market will have to overcome its lack of regulation for Shariah compliant finance, which has thus far caused investors to shy away from buying into Islamic debt.

"I think most China investors investing in debt are more familiar with conventional finance as they don't have the same mandate Islamic countries have in buying Islamic products, but I think once they become more familiar with it and realize the benefits of buying a Sukuk over a conventional bond; they will increasingly understand it and invest in it sufficiently," said Edwards.

Edwards also highlighted the Hong Kong government's work on developing legislation for Islamic finance, adding that Hong Kong is seen to have ambitions

to create a multi-currency Sukuk market that can be marketed to the US.

“ Once Chinese investors become more familiar with the benefits of buying Sukuk, they will invest in it sufficiently ”

"The government is very focused on enacting a set of rules that will make Islamic finance tax neutral to conventional finance. Right now Sukuk will have 'Sukuk property', where the

tax on Sukuk needs to be transferred to a trustee. Under existing Hong Kong law, when you do that, there is a stamp tax and that makes Islamic finance more expensive than conventional finance," continued Edwards.

However this could change as Hong Kong levels the playing field through new legislation. Edwards also noted that Hong Kong is committed to making itself the center of Sukuk issuances in the region as it understands the increasing demand for Islamic finance from Southeast Asia.

With an overwhelming number of respondents to Latham & Watkins' survey regarding trade and investment in the MENA region as "very important" to China's economic future, it may be just a matter of time before the country increases its reliance on Islamic funds as a further gateway into the MENA region.  – LR

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Opportunities in Islamic finance rising in Qatar

QATAR

By Amjad Hussain, IFN Correspondent

Qatar's Islamic finance industry continues to slowly edge forwards on its path of steady growth and development. The macroeconomic indicators continue to show that Qatar will post growth this year and that the budget surplus will continue for a while yet. This, combined with a clear regulatory regime led by the Central Bank of Qatar's proactive stance, means that the industry is likely to continue to grow.

“ The secretary-general for The International Union for Muslim Scholars recently expressed concerns that in an effort to compete with conventional banks, Islamic banks are straying away from the Shariah banking values ”

This month has seen continued activity in the Islamic capital markets space. After the bumper sovereign Sukuk issuance over the summer, we observe that Qatar Islamic Bank (QIB) is joining in. QIB has successfully completed the issuance of a US\$750 million five-year Sukuk. The most intriguing feature of this issuance is that the book size reached in excess of US\$6 billion. QIB also received a Fitch rating of 'A(EXP)' for its trust certificate issuance program valued at US\$1.5 billion, which received approval last month. Continuing this trend, QIB is reported now to be considering a benchmark-sized Sukuk.

Continuing with the capital markets theme, Qatar-based Islamic bank Barwa Bank was recently selected as a co-manager for Turkey's first government Sukuk issuance, valued at \$1.5 billion. The

country is seen as an attractive market for Gulf-based investors, with many Gulf countries having a stake in local Shariah compliant participation banks.

Barwa Bank also hit the headlines recently following the launch of its First Investor GCC Equity Opportunities Fund. The fund aims to strengthen and provide greater opportunity for investments in equities and equity-related securities listed on stock exchanges across the Gulf. The open-ended Shariah compliant fund is part of a plan to achieve long-term capital growth through such investments. In terms of corporate finance, this month Barwa Bank has offered a QAR900 million (US\$243.2 million) Shariah compliant credit line to Al Meera Consumer Goods, a Qatar Exchange-listed supermarket company.

The appetite for Islamic paper shows no abeyance in Doha. There is talk in town about another major issuance by the authorities, although this is not yet confirmed. Qatar is also looking to launch its own ratings firm to supervise the valuation of domestic non-government debt issuers and bonds. The joint venture,

between Qatar Central Bank and Qatar Holding, is a significant step forward in establishing a framework for the development of Qatar's capital market. On the equity markets side, the Qatar Exchange is renewing efforts to kick start its new SME exchange, Qatar Exchange Venture Market. The aim is to encourage entrepreneurs to think about and tap the capital markets earlier in the process. The Qatar Exchange Venture Market has a more streamlined process which should make it easier for SMEs to list.

The secretary-general for The International Union for Muslim Scholars recently expressed concerns that in an effort to compete with conventional banks, Islamic banks are straying away from the Shariah banking values. Their call to the Qatar Central Bank to assist by focussing on this issue is unlikely to fall on deaf ears given that the new mega Islamic bank seems to be on course to open in Doha at the end of the year. ☺

Amjad Hussain is a partner at law firm K&L Gates' corporate and finance practices. He can be contacted at Amjad.Hussain@klgates.com.

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Yemen: Baby steps to economic recovery

YEMEN

By Moneer Hasan Saif, IFN Correspondent

The economy in Yemen is still considered to be in crisis and represents 80% of the country's problems. The new government has attempted to create a benign environment to attract investors and stimulate steady economic growth. Many countries have pledged increased support to overcome the current transitional phase (2012-14) and uphold economic and social development stability.

Absorption of external assistance

The lack of qualified staff in government to handle these contributions effectively and build economic capacity still stands as a significant hurdle. The lack of an effective coordination system, clear development planning and a functional database also hinders the government in utilizing and directing contributions to the affected sectors. As such, the World Bank is now working closely with the Yemeni government, represented by the

Ministry of Planning and International Cooperation, to set up a system for feasibility studies, development planning and effective distribution of money to the most affected sectors.

Banking sector

Financial figures at Tadhamon Bank indicate that there is an increase in the inflow of money into Islamic banks through the opening of new savings accounts; primarily due to the increased stability. Although deposits increased by more than 20%, investment activities remain unchanged due to higher interest rates than the market rational level. Saba Islamic Bank achieved 15% growth rate in the last two months, mainly due to the support shown by international communities towards the recovery of the country's economy.

Islamic banking vs interest rate

Higher interest rates in Yemen are hindering Islamic banks from distributing a good profit rate in competition with the conventional banks. When the interest

rate is around 12%, the Islamic banks offer customers between 13-15% as competitive profits. With the current interest rate at around 23%, this is no longer possible. In order to compensate for the wider gap, the Central Bank of Yemen recently issued a Sukuk where the profit distribution was lower than the treasury bills.

Sukuk

After issuing the second Sukuk, the Central Bank of Yemen and the Ministry of Finance are planning to expand the Sukuk finance limits to YER500 billion (US\$2.33 billion) in the coming weeks. Rasheed Al-Sakkaf, the treasurer of Tadhamon Islamic Bank, said the central bank has promised to increase the Sukuk return to at least equivalent to that given by the T-bills. This time, Sukuk will profitably finance the country's development projects and this may help to speed up its economic growth. 

Dr Moneer Hasan Saif is the assistant professor of Risk Management at Arab Academy for Banking and Financial Services and CEO at Yemen Capital for Development. He can be contacted at moneer05@gmail.com.

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The US and a global economic overview

US

By Saeid Hamedanchi, IFN Correspondent

The US economy continues to underperform both domestically and abroad as business activity is being weakened by the escalating problems around the world. The real GDP growth of about 2% this year is the best we can anticipate with about the same next year. Lack of new hiring remains a major soft spot in the expansion, limiting income gains and spending power. By the end of this year, fewer jobs (totaling 1.6 million) are expected to be added, compared to 1.8 million last year, keeping the unemployment rate at 8% - not much different than the beginning of the year.

Although sales of cars and homes are strong, they are not healthy enough to fuel growth in the rest of the economy. Sales of existing homes are likely to reach 4.6 million by end of this year, an increase of 7% from 2011. US government debt is expected to be downgraded by credit rating agencies next year if federal borrowing is not limited. Monetary policymakers are of the view that the central bank will buy bonds backed by

home mortgages at US\$40 billion a month for several months.

As the fiscal cliff approaches, business managers remain very uncertain over how much growth will soften and doubts about congress' plans for spending cuts and tax issues. Overall business investment will end this year up around 8%.

The euro crisis remains the greatest risk to the global economy. A break-up of the common currency would be extremely costly, pushing Europe into a sharp downturn and dragging the global economy down as well. It is estimated that more than 25 million people are jobless in the Eurozone. Manufacturing activity can recover quickly if the global economy improves but the Eurozone's chronic unemployment could limit the growth outlook for years to come. The German and Italian economies are expected to contract at an annualized rate of 0.8% and 1.4% in the fourth quarter.

The Chinese economy is weakening further in the fourth quarter as the impact of the ongoing crisis in the Eurozone is compounded by a synchronized slowdown in global manufacturing. GDP is forecasted to be around 7.2% in 2012

and 8% in 2013. September data showed the country's manufacturing sector is continuing to contract. Exports rose a weaker-than-expected 2.7% in August from a year earlier, while industrial output grew at its slowest annual pace in more than three years in the same month, rising 8.9%.

There are signs that infrastructure projects are being stepped up to support growth; announcements have been made to boost investment in industry, affordable housing and in energy preservation and emission-reduction measures. The investment comes at a crucial time as China is scheduled to undergo a leadership change in coming months that will reshape the top ranks of government.

Fitch's economic outlook in late September lowered India's growth projections for the current year to 6% from 6.5% estimated earlier as the crops are highly affected by the lack of the monsoon rain. The Indian economy driven by domestic consumption is expected to recover earlier than China.☺

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

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HSBC restructures Islamic banking business

HSBC sent shockwaves across the Islamic finance industry when it announced this month that it will cease to offer Shariah compliant retail products and services in key Muslim markets such as Bahrain and the UAE. Despite being a conventional lender, the bank has carved a name for itself as a leading provider of Islamic banking services; building its Shariah compliant business, offered via HSBC Amanah, into a recognizable brand in the Islamic finance space and developing its profile as a frontrunner in arranging Sukuk transactions globally.

However, HSBC's strong participation in landmark Sukuk issuances - especially in the last 12 months, where it has been involved in key sovereign Islamic bond offerings from Dubai, Indonesia, Malaysia, Qatar and Saudi Arabia, in addition to its role in bringing corporate issuers to the Sukuk market - appears to have allowed the flagging performance of its retail Shariah compliant offerings to slip the market's attention.

Speaking to Islamic Finance *news* Patrick Humphris, a spokesperson for HSBC, said that the bank's decision to scale back its retail Islamic banking business, which will also be carried out in Bangladesh, Mauritius, Singapore and the UK, follows a review of the business in tandem with the restructuring of the group's entire portfolio.

"We cannot continue to support areas which are sub-scale, or where returns are not acceptable," he said, stressing that the move does not however represent HSBC's withdrawal from Islamic banking; with the group to retain 83% of its Islamic banking revenues.

Impact of restructuring

The close of its retail Islamic banking business in the six countries will be effective immediately and follows earlier consultations with Shariah scholars and regulators, said Humphris. While it will not take on any new business, existing accounts will be maintained until the bank completes the closure of its business in the respective markets. In the UK, for example, existing products will be put into run-off, said Humphris. It is also unlikely that the bank will convert Shariah compliant accounts to conventional.

He also said that "by and large" there will be no retrenchments in the affected business lines. Although a "small number" of employees in specialist roles may be affected, the majority of staff involved in the cut back will not be retrenched and may be redeployed to other areas.

A point to note is that HSBC will maintain its wholesale Islamic banking business in the affected countries, and globally, through HSBC Saudi Arabia. Its restructuring will also see the bank focusing its Islamic finance offering in Malaysia and Saudi Arabia, while maintaining a limited presence in Indonesia. "We will be focusing our activities in Islamic finance in areas where we have sufficient scale; and where the returns and future prospects are strong," said Humphris.

“ We cannot continue to support areas which are sub-scale, or where returns are not acceptable ”

Clearly, it would not have been difficult for the banking group to choose to retain its wholesale Islamic banking operations, which has led in the market for arranging Sukuk in recent years. According to data from Dealogic, HSBC arranged 28 Sukuk transactions worth US\$10.13 billion in the last 12 months to the 9th October 2012, topping the data provider's league tables for top managers of Sukuk. During the same period HSBC's Saudi unit, SABB, arranged six Islamic financing facilities valued at US\$1.68 billion, also leading its league table for top arrangers of Islamic financing.

Group-wide measures

HSBC's Islamic banking haircut comes on the back of a group-wide restructuring instituted in May 2011 aimed at improving the banking giant's

profitability and cutting as much as US\$3.5 billion in costs, under a strategy expected to take at least another two years to complete.

Humphris noted that the group has since closed or exited 40 business lines since Stuart Gulliver, the group CEO of HSBC, announced the plans last year; with affected areas including its insurance business and retail lines in central US, Thailand and South Korea. When announcing the strategy, Gulliver said that HSBC possessed insufficient scale in 39 retail markets covering 420 branches, which together reported a pre-tax loss of US\$244 million in 2010.

Nonetheless, Humphris said that the group has not ruled out future entry into new markets, although its operations will have to be put through its "five filter" test which covers future economic potential, connectivity across the group, return on equity, cost efficiency and loan/deposit ratio.

Investment in existing markets

The banking group will also continue to invest in the business lines that it is maintaining. In a separate response to Islamic Finance *news*, HSBC Amanah Malaysia said that it plans to grow further with the opening of four additional branches in Malaysia by the end of the year, bringing the total size of its footprint in the country to 26 branches. According to the bank, the new branches comprise one each in the states of Sarawak, Negeri Sembilan and Malacca at the end of November and one in the state of Kelantan in December.

It added that: "The HSBC group believes Islamic finance will continue to increase its relevance in the Malaysian economy and the group's Shariah compliant operations in Malaysia will remain an important contributor to the group."

As at the end of June this year, its Malaysian Shariah compliant unit recorded RM12.74 billion (US\$4.15 billion)-worth of assets. It also reiterated that Shariah compliant products will continue to be offered in the country, with an aim of ensuring the sustainability of the Islamic business in addition to targeting strong return on equity for its investors. ☺ — EB

Qatar Islamic Bank's US\$750 million trust certificates

Qatar Islamic Bank (QIB) priced US\$750 million-worth of Sukuk under a US\$1.5 billion trust certificates program on the 3rd October 2012, marking its return to the debt markets following its debut issuance in 2010.

The five-year notes attracted US\$6 billion-worth of orders on strong demand from investors in a market which has not seen a Sukuk issuance from the Middle East since July this year.

“ The profit rate on the notes is said to be the lowest ever achieved by a Qatari financial institution for a public issue ”

Subscriptions and pricing

QIB priced its offering at 175 basis points (bps) over five-year mid-swaps, equivalent to a profit rate of 2.5%, after announcing a final price guidance of between 175-180 bps over five-year mid-swaps. Final pricing was completed following investor meetings in Abu Dhabi, Dubai, Kuala Lumpur, London and Singapore, which commenced on the 27th September. The bank had set an initial price guidance of five-year mid-swaps plus 190 bps.

The profit rate on the notes, which compares to a coupon of 3.86% for QIB's

last Sukuk issuance, also comprising a five-year, US\$750 million offering sold in October 2010, is also said to be the lowest ever achieved by a Qatari financial institution for a public issue.

Islamic Finance *news* understands that QIB received more than US\$2.3 billion-worth of orders within the first two hours of opening books for the offering; with the orderbook reaching US\$4 billion by the close of business in London. The final orderbook of US\$6 billion comprised subscriptions from 244 investors.

Jason Kabel, the head of fixed income at Bank of London and The Middle East, commented that: "The most remarkable feature of this issue is that the book size reached in excess of US\$6 billion. This demonstrates the pent-up demand in the market for Sukuk and should act as a stimulus for further issuance for the rest of 2012 and well into 2013.

"I expect this Sukuk to trade well in the secondary market. Unlike the recent Turkey government issue it will remain above par partly because it is a smaller transaction and partly because of QIB's higher rating of 'A' compared to 'Ba1' for the Government of Turkey."

Breakdown of investors

Investors of the notes comprised banks (42%), fund managers (39%), supranationals and agencies (10%), private banks (6%) and insurance/pension funds (3%).

Middle East investors took up 48% of the offering, followed by Asian investors (30%), UK & Europe (18%) and US offshore (4%). ☺ — EB

Qatar Islamic Bank US\$1.5 billion trust certificates program

US\$750 million



10th October 2012

Issuer	QIB Sukuk
Obligor	Qatar Islamic Bank
Issuance amount	US\$750 million
Tenor	Five years
Coupon rate / return	2.5%
Payment	Semi-annually
Currency	US dollars
Maturity date	10 th October 2017
Joint lead managers	Deutsche Bank, HSBC, QInvest and Standard Chartered
Co-managers	Qatar International Islamic Bank and Sharjah Islamic Bank
Rating	'A-' by S&P and 'A' by Fitch
Structure / instrument	Reg S certificates
Listing	Irish Stock Exchange



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Canada: Keeping pace with market realities

The Canadian market is becoming more attractive for international investors and there will continue to be opportunities for Islamic financial institutions. REHAN HUDA shares his views.

Over the past year, there have been several new initiatives in the Islamic finance space of Canada. Although relatively underdeveloped compared to some other western jurisdictions, namely the UK and the US, Islamic finance is making small but steady strides in the Canadian market.

The Canadian Muslim population is rich in cultural, ethnic and linguistic diversity and is fast growing with a current population estimated to be over 1.2 million. Toronto, Canada's largest city, is estimated to be home to over 600,000 Muslims. The Canadian Muslims are amongst the best-educated communities in the country and they have the lowest median age (28 years) as well as larger family sizes. The population of Muslims is projected to double within the next 10 years.

The growth in size and affluence of the Muslim community in Canada has been accompanied by growth in the level of observance, leading to a more vocal demand for Islamic financial products and services. Importantly, the level of home ownership among Muslims is well below the national averages, particularly when income is factored in. The majority of the Muslims in the country are seeking a Shariah compliant alternative to conventional mortgages. In addition, there is a significant demand for Shariah compliant investment products as families are saving for their children's education as well as retirement.

Islamic finance developments

One of the major developments in the Canadian Islamic finance space has been the recent partnership between Amana Canada Holdings, a Toronto-based firm specializing in structuring Shariah compliant product for the Canadian market, and SeaSpring Consulting, a financial consulting firm based in Bahrain and managed by Sheikh Isa Khalid Al Khalifa.

The goal of this joint venture is to source high quality Shariah compliant Canadian investment opportunities for GCC investors. Amana's management team and advisors include the former

head of the Canadian senate, the former president and CEO of the Toronto Stock Exchange, a former vice-president of Citibank Canada and one of the leading experts of Islamic finance in Canada.

The Canadian market is relatively new to most GCC investors though there has been a steady increase of investments in Canada from the GCC over the recent years. One of the leading Islamic financial institutions, Kuwait Finance House, formed a partnership with a Canadian entity to pursue real estate investment opportunities in Canada and this partnership has resulted in the acquisition of multi-family residential properties in Canada. A number other Islamic banks and financial institutions are exploring the Canadian real estate market among other sectors.

“The Canadian market is relatively new to most GCC investors though there has been a steady increase of investments in Canada from the GCC over the recent years”

A number of trade and cultural missions to the Middle East have taken place recently and this has fostered a number of business relationships between Canada and the GCC countries. The strength of the Canadian economy and its world-leading banking system has made Canada an attractive investment destination for international investors, including those from the Gulf region.

In addition, many GCC investors have had poor results from their investments in other western jurisdictions as well as in their own markets. With the best performing G8 economy over the past decade and a sound real estate sector, it is expected that Islamic funds may be more increasingly deployed in the Canadian market.

At the domestic level, there are several Shariah compliant mortgage products as well as investment funds. Islamic housing cooperatives continue to provide funding, though very limited, for home financing. Capital constraints prevent the cooperatives from expanding to meet the high demand for Shariah compliant mortgages. Consequently, only a handful of mortgages are being funded on an annual basis though initiatives are underway to develop home financing products for this market.

On the commercial finance side, there have been several Shariah compliant financing for purchases of Islamic centers, Islamic schools and commercial properties for Muslim businesses. These financings were done by Canadian financial institutions including several major credit unions. A number of real estate projects are currently being undertaken that will be financed using Shariah compliant commercial mortgage contracts.

In terms of Shariah compliant investment funds in Canada, the largest is the mutual of the Bullion Management Group, a firm specializing in investing in storing physical gold, silver and platinum bars. The fund has over CAD500 million (US\$507 million) under management and has had a stellar performance over the last decade due to the continuously rising prices in precious metals. The firm is also offering an investment product which physically stores the precious metals in a Canadian vault and this has been marketed to a number of GCC investors.

Another mutual fund is the Global Iman Fund which is owned by Global Growth

continued...

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Assets, which is a part of the global financial family of companies which is one of the largest independent financial institutions in Canada. The fund is currently managed by UBS and is based on the Dow Jones Islamic Index.

A number of funds are currently being structured for the Canadian Muslim community including Islamic mortgage financing and technology related funds. The growing Muslim population in Canada has resulted in an increased demand for Shariah compliant investment opportunities. As the Canadian government offers attractive tax benefits for retirement investing and even direct contributions for education investing, a market exists for quality Shariah compliant investment products.

Education initiatives

Education related to Islamic finance in Canada continues to be led by the Islamic Finance Advisory Board of Canada. A key function of the board is to create awareness about Islamic finance in the communities living in Canada. The board educates its clients and the community through workshops, seminars, certifications and training programs by experienced and qualified Islamic finance professionals.

The University of Toronto's Rotman Business School launched the first MBA course in Islamic finance. This was the first Islamic finance course to be taught at a leading North American business school. The course was very successful and plans are underway to repeat the course.

Conclusion

The recent developments indicate that there will be a future for Islamic finance in Canada and potentially the creation of local Islamic financial institutions. As the Canadian market is becoming more attractive for international investors, there will continue to be opportunities for Islamic financial institutions. (2)

Rehan Huda is the co-founder and director at Amana Canada Holdings. He can be contacted at rhuda@amanacanada.com.



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Issuers Day: Tuesday, 30th October 2012

Investors Day: Wednesday, 31st October 2012

Time: 9:00am to 5:00 pm on each day
Registration from 8:00am to 09:00am

Senior industry players are invited to participate as delegates, and will witness the largest and most impressive gathering of industry practitioners ever assembled on European shores.

Issuers Day – Key Topics

- Development of the Islamic capital markets in Europe
- Islamic capital markets & Sukuk - Innovation, development and structuring
- Product Presentation: A Fresh Look at European Sectors for Islamic Finance
- Shariah compliant syndicated financing - Regulation, structures and opportunities in European markets
- Case study: KT Sukuk Varlik Kiralama
- Issuers roundtable: Issues and challenges facing Islamic issuers in the region

Investors Day – Key Topics

- Islamic treasury and risk management products in European markets
- Opportunities and challenges in development and Islamic liquidity management instruments
- Case Study: UCITS-compliant Islamic Funds
- Country Presentation: Investing in Paris - New Islamic Finance Opportunities
- Country Presentation: Ireland and the Opportunity for Islamic Funds
- Facilitating Shariah compliant investment flows through innovative products, structures and channels
- Case study: Brewery Square Development (iREIT)
- Investors roundtable: The role of institutional investors and Takaful funds in the European Islamic investment landscape

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Assets-backed Islamic instruments: A tonic for the sustainability of the global financial market

ASIM HAMEED KHAN questions how safely investors can currently trade in the secondary market and suggests that Islamic Shariah guidance and Shariah compliant instruments are the solution.

Securitization is a common tool to generate sizable financing. Securitization is a risk sharing approach whereby the exposure of risk is spread among more than one prudent investor.

I will focus here on one conventional interest-based financial instrument: derivatives. The top derivatives experts estimate the size of the global derivatives market at US\$1.2 quadrillion dollars — 20 times larger than the global economy.

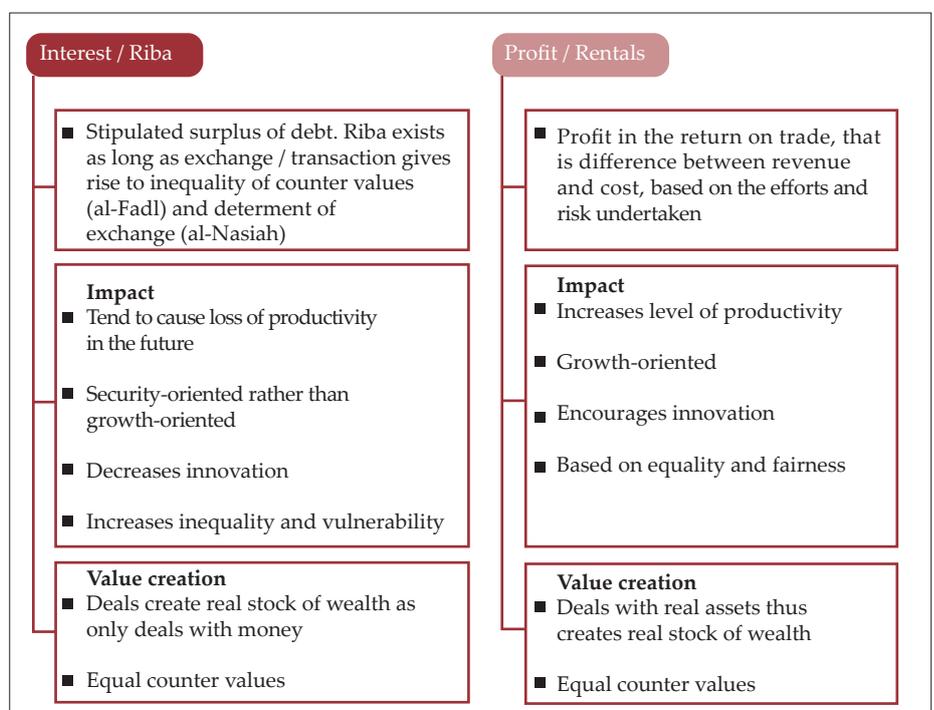
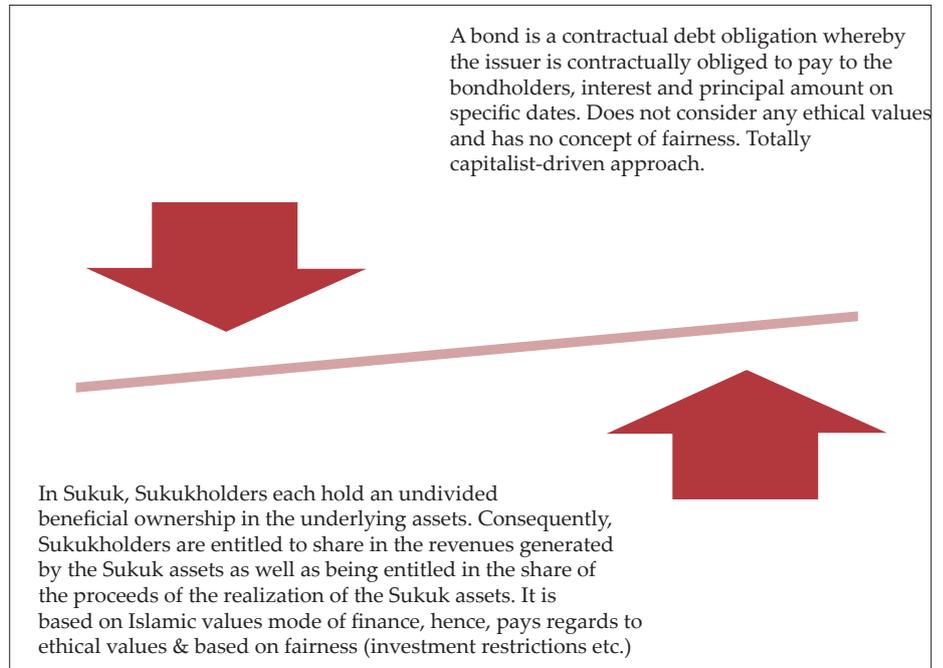
Last year, it was stated in a blog that the estimate of the notional value of the worldwide derivatives market had increased from US\$600 trillion to US\$1.5 quadrillion. A bond trader, Jeffrey Gundlach, said last year that we've got a quadrillion US dollar derivative overhang, and the US government hasn't done anything to fix the basic problems in the economy, so we'll have another crash.

Paul Wilmott, another derivatives expert, estimated the number last year at US\$1.2 quadrillion, and asked: "How big is the risk to the world economy from these derivatives?" According to Wilmott, it is impossible to know this unless you understand the details of the derivatives contracts. But since they're unregulated and likely to remain so, it is hard to gauge the risk.

The conventional financial instruments are inherently unstable, and the global financial crises in recent and distant past have shown that this happens due to the lack of actual and real asset-backed expansion of credit. Central to this is the ethical concern in the industry. In 2009, a study of conducted by officials of the IMF revealed that during the global financial crisis, Islamic financial institutions showed more resilience than their conventional counterparts.

Shariah compliant

So, how we can safely trade in the secondary market/over the counter? And what instruments hold up the market, unlike the conventional interest-based derivatives instruments. I would say:



only Islamic Shariah guidance and Shariah compliant instruments are the solution. The global demand for Shariah compliant instruments is significantly increasing. The factors in favor of a viable

secondary market for Sukuk trading are underway to be developed; it is just a matter of time. It is, therefore, advised

continued...

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Gross debt as percentage of GDP			
	2007	2010	2011
European Union	59%	80%	83%
US	62%	92%	102%
Austria	62%	78%	72%
France	64%	82%	86%
Germany	65%	82%	81%
Sweden	40%	39%	38%
Finland	35%	48%	49%
Greece	104%	123%	165%
Romania	13%	31%	33%
Bulgaria	17%	16%	16%
Czech Republic	28%	38%	41%
Italy	112%	119%	120%
Netherlands	52%	77%	65%
Poland	51%	55%	56%
Spain	42%	68%	68%
UK	47%	80%	86%
Japan	167%	197%	204%
Russia	9%	12%	10%
Asia	37%	40%	41%
Latin America	41%	37%	35%

Sources: International Monetary Fund, World Economic Outlook, Organization for Economic Co-operation and Development, Economic Outlook (advanced economies)

that rather than investing in interest-based debt, asset-backed financial instruments should be traded, such as Sukuk, for a large pool of finance, as this works for the betterment of society and economy, compared to the negative effect of interest-based finance.

It is interesting to note that as of September 2012, the US debt held by the public was approximately US\$11.27 trillion or about 72% of GDP. Intra-governmental holdings stood at US\$4.74 trillion, giving a combined total public debt of US\$16.02 trillion in July 2012, while US\$5.3 trillion or approximately 48% of the debt held by the public was owned by foreign investors, the largest of which are China and Japan at just over US\$1.1 trillion each.

A number of non-Muslim countries are showing keen interest in developing sovereign Shariah compliant instruments. The UK intends to become a hub of Islamic banking, Hong Kong is functioning to become a gateway to China for Islamic finance. The

governments of Japan, France, Singapore, Germany and South Korea are taking measures to introduce Islamic finance.

Numerous sovereign Sukuk have been issued so far by many countries: including Pakistan, Malaysia, Turkey and many others. Jordan and South Africa are also preparing to issue their first sovereign Sukuk in the market. A point to note is the intrinsic features of sovereign Sukuk which are captivating governments into switching towards it.

“ The responsibility rests with Islamic finance practitioners to educate the global business community ”

Awareness of Islamic finance

The responsibility rests with Islamic finance practitioners to educate the global business community both within and outside Muslim countries on the principles of Islamic finance; and instruct them on how they can benefit from it. In addition, for steady and orderly growth of the industry, proper education, clarification, elucidation and debates are vital for the investors and other stakeholders. The Sukuk market is rising while conventional markets continue to suffer. In fact, the global Sukuk markets have already exceeded their previous boom year peak.

Conclusion

Islamic financial markets have become more sophisticated and versatile because Islamic funding is now available for a number of new purposes and can be structured in innovative ways, and the volume of funding which can be raised is approaching benchmark levels in conventional finance. ⁽²⁾

Asim Hameed Khan is an Islamic finance professional at the Islamic financial advisory division of the product development and Shariah compliance department of Meezan Bank. He can be contacted at asim.hameed@meezanbank.com.

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Setting the pace

Cover Story

Singapore was placed on the Islamic finance map once again when Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (Sabana REIT) issued a SGD80 million (US\$64.96 million) 4.5% convertible Sukuk due in 2017.

This issuance pales in comparison to the mega-sized US\$9.86 billion Sukuk from Projek Lebuhraya Usahasama (PLUS) and the General Authority of Civil Aviation US\$4 billion guaranteed senior Sukuk, but Sabana's Sukuk has still managed to charter a number of firsts: including the first Sukuk convertible into units of a real estate investment trust as well as the first such issuance of its kind from the island republic. It is also the second convertible Sukuk issuance this year following Malaysian sovereign wealth fund Khazanah Nasional's US\$358 million Sukuk convertible into shares of Hong Kong-listed Parkson Retail Group, in which it has a 7.8% stake.

Sabana's move to tap the Islamic bond market can be regarded as timely as the high number of successive Sukuk issuances have soared to US\$68 billion, the highest ever in the industry and spurring estimates of over US\$100 billion in issuance by year end.

Since its debut on the Singapore Stock Exchange on the 26th November 2010 Sabana REIT, managed by Sabana Real Estate Investment Management, has managed to place Shariah compliant REITs as well as Singapore itself in the spotlight by remaining the world's largest Shariah compliant REIT by total assets. Not just strong in size, the REIT has managed to beat analysts' forecasts

in six straight quarters. As at the 30th June 2012, its aggregate leverage stood at 34.1% while its debt headroom was SG\$86.9 million based on 39% gearing which allowed further capacity to purchase additional quality industrial assets to diversify its portfolio and growth earnings.

“ Not just strong in size, the REIT has managed to beat analysts' forecasts in six straight quarters ”

At its initial public offering Sabana raised S\$664.4 million, sparking the interest of global conventional investors including Fidelity Investment Managers, a global mutual fund that took up a 4.4% stake in the REIT. It currently has a portfolio of 21 industrial properties in Singapore valued at more than SG\$1 billion (US\$812.48 million), with its latest acquisition valued at SG\$61 million (US\$49.03 million).

Sabana is the only Shariah compliant REIT among 20 listed on the Singapore Exchange and forms part of an elite fund in this asset class being offered to Shariah compliant investors. Singapore's industrial REIT is expected to perform well, based on Moody's latest report on Singapore's REITs (S-REIT), which gave a stable outlook for this sector reflecting the view that net property income

will rise 4-5% in 2012-13 supported by continued, albeit slower, GDP growth of 2-3% in Singapore. It also expects growth in net operating income of 4-6% for its rated industrial REITs during the next two years, supported by high portfolio occupancy rates, positive rental reversions on short-term leases and periodic rental increases pegged against the consumer price index (CPI) on long-term leases.

“Within the industrial sector, the factory and warehouse sub-segments have consistently high occupancy rates of over 90% and there is limited new supply available during the next 12-18 months. However, we expect growing pressure on the business park sub-segment because of a surge in new properties, including completions of office space outside the CBD in the second half 2013,” the report states.

Sabana is not the only REIT manager to issue a Sukuk. On the 16th July, Malaysia's Axis REIT issued a RM110 million (US\$34.49 million) 10-year Islamic medium term notes. As conventional investors continue to show a keen interest in the Sukuk market, Shariah compliant managers in Malaysia and Dubai, the only two other markets with such an offering, should take a leaf out of the respective books of these two issuances in order to promote and expand this nascent sector. (R) — RW

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New property for building fund

UK: Bank of London and The Middle East (BLME) has acquired another property for its Light Industrial Building Fund, bringing the fund's gross asset value to more than GBP20 million (US\$32.21 million).

The acquisition is valued at GBP4 million (US\$6.44 million). The property is a multi-let site housing six tenants. BLME did not disclose the location of the property.

BLME also said that its fund is on target for an annualized yield of over 8%.^(f)

Good returns

GLOBAL: The Dow Jones Islamic Market (DJIM) Titans 100 Index closed 2.76% higher in September, according to S&P Dow Jones Indices.

During the period, the DJIM Asia/Pacific Titans 25 Index advanced by 4.4%, the DJIM Europe Titans 25 Index rose by 3.16% and the DJIM US Titans 50 Index gained 2.38%.^(f)

Shariah stock index launched

MALAYSIA: FTSE Group and stock exchange operator Bursa Malaysia have launched the FTSE Bursa Malaysia Small Cap Shariah Index, providing investors with a benchmark for investing in small cap Shariah compliant stocks listed on the exchange.

Constituents of the index are chosen from the universe of the FTSE Bursa Malaysia Small Cap Index and screened in accordance to Securities Commission Malaysia's Shariah Advisory Council's methodology.^(f)

Positive return for Sukuk fund

MALAYSIA: RHB Investment Management has declared a gross distribution of six Malaysia sen (1.95 US cents) per unit for its RHB Islamic Bond Fund, equivalent to a gross distribution yield of 5%.

The distribution is based on the average net asset value per unit of the fund from the 1st October 2011 to the 31st August 2012.^(f)

New Shariah compliant portfolio manager

SAUDI ARABIA: Local investment firm The Investor for Securities Company and Geneva-based firm Islamic Wealth & Asset Management have launched Safa Investment Services, a global portfolio management service targeting Waqf and Takaful funds.^(f)

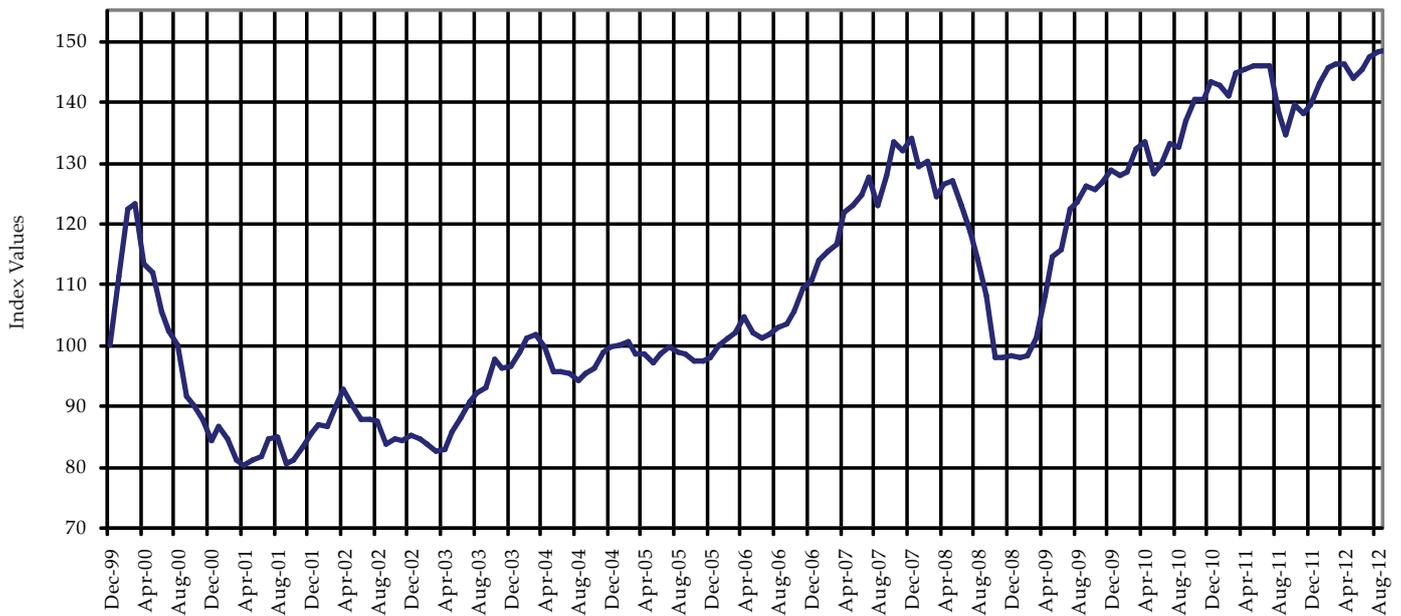
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FUNDS TABLES

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly Returns for Developed Markets Funds

Fund	Fund Manager	Performance Measure	Fund Domicile
1 DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	15.90	Ireland
2 AmPrecious Metals	AmInvestment Management	8.20	Malaysia
3 CIMB Islamic Greater China Equity	CIMB-Principal Asset Management	3.51	Malaysia
4 Al Madar US Index	Almadar Finance & Investment	2.89	Kuwait
5 EasyETF DJ Islamic Market Titans 100	BNP Paribas Investment Partners	2.82	France
6 JPM Islamic Global Dynamic Equity (USD) A (acc)	J.P. Morgan International Bank	2.73	Luxembourg
7 Global Equity - Musharaka	Riyad Bank	2.46	Saudi Arabia
8 Al-Mubarak Global Equity	Arab National Bank	2.33	Saudi Arabia
9 BNP Paribas Islamic Equity Optimiser - Classic	BNP Paribas Investment Partners	2.33	Luxembourg
10 The Iman	Allied Asset Advisors	2.01	United States
Eurekahedge Islamic Fund Index		1.63	

Based on 56.06% of funds which have reported August 2012 returns as at 4th September 2012

Top 10 Monthly Returns for Emerging Markets Funds

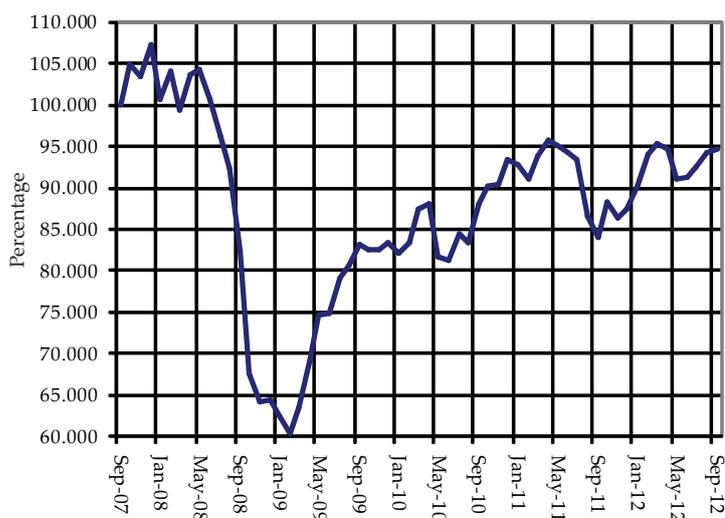
Fund	Fund Manager	Performance Measure	Fund Domicile
1 Amanah Growth Portfolio	SABB	8.26	Saudi Arabia
2 Al Baraka	Hermes Fund Management	7.05	Egypt
3 Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	6.28	Egypt
4 Markaz Islamic	Kuwait Financial Centre	6.02	Kuwait
5 Al Assjad IFA Islamic	International Financial Advisors	5.39	Kuwait
6 CIMB Islamic Global Emerging Markets Equity	CIMB-Principal Asset Management	4.77	Malaysia
7 Al Rajhi India & China Equity	Al Rajhi Bank	4.74	Saudi Arabia
8 Al-Aman Islamic	Al-Aman Investment Company	4.45	Kuwait
9 Al Fursan	Banque Saudi Fransi	4.03	Saudi Arabia
10 Public China Ittikal	Public Mutual	3.95	Malaysia
Eurekahedge Islamic Fund Index		0.09	

Based on 51.21% of funds which have reported September 2012 returns as at 9th October 2012

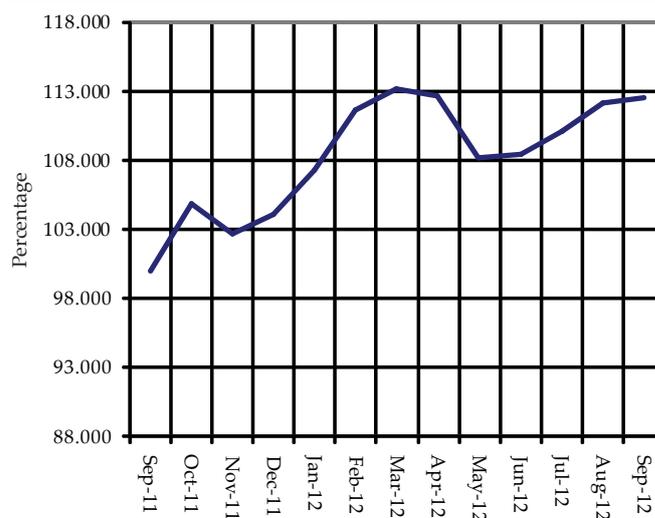
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, 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.

FUNDS TABLES

Eurekahedge Islamic Fund Equity Index over the last 5 years



Eurekahedge Islamic Fund Equity Index over the last 1 year



Top 10 Islamic Equity Funds by 3 Months Returns

Fund	Fund Manager	Performance Measure	Fund Domicile
1 Al Baraka	Hermes Fund Management	15.21	Egypt
2 Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	13.59	Egypt
3 Atlas Pension Islamic - Equity Sub	Atlas Asset Management	13.52	Pakistan
4 Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	12.12	Pakistan
5 NBAD UAE Islamic Fund (Al Nae'em)	National Bank of Abu Dhabi	11.65	UAE
6 Al Rajhi India & China Equity	Al Rajhi Bank	11.39	Saudi Arabia
7 Global Equity - Musharaka	Riyad Bank	10.36	Saudi Arabia
8 Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	8.77	Guernsey
9 Al Rajhi Global Equity	UBS	8.66	Saudi Arabia
10 Al Fursan	Banque Saudi Fransi	8.51	Saudi Arabia
Eurekahedge Islamic Fund Equity Index		4.44	

Based on 52.23% of funds which have reported September 2012 returns as at 9th October 2012

Top 10 Islamic Globally Investing Funds by 3 Months Returns

Fund	Fund Manager	Performance Measure	Fund Domicile
1 DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	20.65	Ireland
2 AmPrecious Metals	AmInvestment Management	10.67	Malaysia
3 Global Equity - Musharaka	Riyad Bank	10.36	Saudi Arabia
4 Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	8.77	Guernsey
5 Al Rajhi Global Equity	UBS	8.66	Saudi Arabia
6 EasyETF DJ Islamic Market Titans 100	BNP Paribas Investment Partners	7.65	France
7 JPM Islamic Global Dynamic Equity (USD) A (acc)	J.P. Morgan International Bank	7.35	Luxembourg
8 Al-Mubarak Global Equity	Arab National Bank	7.02	Saudi Arabia
9 BNP Paribas Islamic Equity Optimiser - Classic	BNP Paribas Investment Partners	6.65	Luxembourg
10 Al Shamekh Islamic Portfolio	Riyad Bank	6.40	Saudi Arabia
Eurekahedge Global Islamic Fund Index		4.00	

Based on 56.14% of funds which have reported September 2012 returns as at 9th October 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

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Addressing market myths

Cover story

It is a general misconception that a lack of capacity has been one of the main hurdles in growing the Takaful and re-Takaful sector in Malaysia and overseas. And as legislations evolve - with the impending introduction of the Risk-based Capital Framework in Malaysia, such issues - although not as dire as previously predicted - are expected to be addressed.

According to Dr Mohd Rafick Khan, the regional manager at Munich Re ReTakaful, in terms of capacity for the Takaful and re-Takaful sector globally, there are no issues. In fact, he adds, there is an oversupply in both the Life and General sectors. The real issue, Rafick believes, is appetite. "Takaful and re-Takaful companies are selective in choosing whether or not they would like to engage in the business, and we have to be selective because we need to address the interest of the pool."

He adds that the General Takaful industry in particular is too close a replica of the conventional insurance industry. "There is no real pooling on the General side because every company wants to protect their own interests. And essentially this is what separates the conventional industry from the Takaful industry. Without pooling, the capacity is not enhanced, and therefore from an outside perspective, the industry does not reflect strength; instead we see individual pools and companies."

According to Rafick, the greatest hindrance to the Islamic insurance industry at present is a lack of regulation,

transparency and control in terms of what the operators have to do, as opposed to meeting client needs: "In the market, when direct companies approach us (re-Takaful players) they tell us that they do not want to pool — and this is quite common amongst the General Takaful players. The problem therefore occurs when the client dictates conditions which are against the spirit of Takaful. As a re-Takaful company, our options are very limited, and if we do not comply with the request of the client, the client will go to the next player. This is because you have many re-Takaful companies of varying ratings."

“ The concept of Takaful funds is not addressed adequately, and regulatory and supervisory bodies have failed to question the actual available capacity ”

A possible solution, Rafick suggests, is for representatives from different companies to sit on the risk fund to encourage companies to pool. "Takaful operators do not own the risk fund, and this belongs

to the participants. I believe contributors to the fund should also receive more transparency via annual reports. Shareholders get the annual reports, but do the contributors? Currently, in today's market practice, participants are not getting that information. Perhaps by having an independent board, selected by the contributors - which to a certain extent plays a role in looking at the performance of that risk fund - this would encourage people to pool as they too have a vested interest. This could also be a good marketing tool, especially on the Life side."

Another challenge in upholding the spirit of Shariah in the Takaful industry, Rafick says, is the almost blasé application of the concept of Darurat (necessity) when it comes to investments. "We need to work with more Sukuk issuers. While the money which is raised is to some extent used to meet certain Shariah guidelines, this does not apply to the Takaful industry. The concept of Takaful funds is not addressed adequately, and regulatory and supervisory bodies have failed to question the actual available capacity. I believe this has been a hindrance to the industry's growth when we could grow at a much higher rate if regulators ensure that Takaful is at the forefront when it comes to Sukuk-related business." ☺ — NH

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Accounting practices of General Takaful companies in Pakistan

MUHAMMED UMER highlights the need for a proper understanding of the Takaful framework by the regulators, auditors and taxation authorities in Pakistan.

Globally, Takaful regulations vary by jurisdiction with most jurisdictions regulating corporate governance either identical or very similar to conventional insurance operations. Takaful is informally also regulated by AAOIFI. There are several jurisdictions which explicitly require compliance with AAOIFI standards.

Established markets of the world have put in place laws that regulate the Takaful industry, thereby raising the issue of whether Takaful can be regulated under a conventional set-up. Does this ensure proper regulation and adequate protection for the participants? Do regulators have enough knowledge and understanding of the Takaful concept, operations framework and Shariah knowledge? Sharing the experience faced by the operators in Pakistan, the mixed and unclear reporting guidelines have led to confusion in apprehending the optimal value of Takaful. Even the sponsors sometimes fail to understand the dogma of mutual cooperation on which the foundation of Takaful is based.

The current model leaves very little margin for the investor in the present regime, which is evident from the fact that none of the sponsors have been able to reap a single penny from their investments and still it will be some time before there is much hope of enjoying any dividends as they have huge accumulated losses to overcome, particularly with the participants of the Takaful fund. Takaful operators in Pakistan follow the Wakalah Waqf model which underpins the question of the legal status of the Waqf and its separate accounting requirement along with the separate entity of the operator. However, the current accounting regulations do not deal with the existence of the participants of the Takaful Fund (PTF).

International Financial Reporting Standards-4

Presently the Takaful operators are required to follow the same accounting

regulations as issued for insurance companies and due to the unavailability of the established and specified accounting and reporting standards in Pakistan, the players have adopted the different policies, which make it quite complex to apprehend the performance of the funds – for example, the participants’ fund and shareholders’ fund. Interestingly, the International Financial Reporting Standards-4 (IFRS-4) is also applicable to Takaful companies and careful study reveals that the IFRS is all about substance over form whereas Shariah law is very much about compliance with legal form.

Now the question is should the IFRS apply to Takaful and if it does, should it apply to the operator’s fund or Takaful risk pool or should it apply to both the funds and should the operator’s fund be separate, combined or consolidated with the participant Takaful fund? Based on the assumption that Takaful falls under the scope of the IFRS, one of the key issues for Takaful operators would be the discount rate to use for Takaful (the time value of money).

In Pakistan, the core issues which may change the outcome of the performance indicators are the amortization of the Wakalah fee, contribution deficiency reserve, tax status of PTF, etc. As far as the amortization of Wakalah fee is concerned, there has been a difference of opinion on whether this should be recognized upfront or deferred over the life in accordance with the other acquisition cost and direct expenses.

The current development is to follow a hybrid model which allows part of the Wakalah fee to be recognized upfront and part to be deferred over the period of the risk. This has led to the issue of the treatment of an unrecognized Wakalah fee in the PTF for solvency purposes. Again, for the calculation of contribution deficiency reserve, the question arises whether to include Wakalah fee in the calculation or just exclude and calculate the reserve in line with the guidelines

provided for the conventional insurance companies.

Furthermore, there has been an expert who simply raises the point that in the presence of Qard-e-Hasana, is there any need to calculate the contribution deficiency reserve at all for the PTF? The existence of the Waqf as a separate legal entity requires the separate taxation treatment for the PTF as there would eventually be no transfer of reserve from the PTF to the shareholder’s fund (SHF).

The fourth schedule of the companies’ ordinance allows the regulators to specify reserve which may be considered for determining income subject to tax. Due to the cut throat competition and highly unregularized market, no general Takaful operator has been able to distribute surplus.

The current Takaful rules do not categorically trigger the eventuality of Qard-e-Hasana from the SHF to the PTF which results in heavy accumulated deficit in the PTF. In the future, where more players would enter the Takaful market, it is imperative to provide a guideline for a standard set of accounting policies for all General Takaful operators.

Conclusion

The above factors highlight the need for a proper understanding of the Takaful framework by the regulators, auditors, taxation authorities and the lawyers. It is inevitable that as the industry progresses and Takaful operations expand, the need for proper guidelines on such regulation will be needed, especially from the apex authorities who issue licenses for Takaful and have to contribute to the development of the concept. (2)

Muhammad Umer is the chief financial officer and company secretary at Takaful Pakistan. He can be contacted at m.umer@Takaful.com.pk.

Q “ Following Turkey’s successful US\$1.5 billion sovereign Sukuk issuance, are we likely to witness rapid growth in the republic’s ‘participation banking’ industry and what, if anything, still needs to be addressed? ”

A The successful sovereign Sukuk raised money for the Turkish government, but the participation banks in Turkey are listed companies and therefore there is no direct link with government finances. Nevertheless the sovereign Sukuk provides a pricing benchmark for corporate Sukuk issuances by the participation banks, and Bank Asya, one of the largest participation banks, has already announced that it is planning a Sukuk.

Nevertheless it is important to realize that Sukuk issuance increases debt obligations and bank leverage. Sukuk can be a useful source of funding, but new equity issuance should accompany Sukuk funding in the longer term to ensure a balance. Sukuk funding should not be viewed as a substitute for bank deposits, and Turkish participation banks should continue to raise most of their funding from customer deposits which tend to be stable in the longer-term. Sukuk behave like bonds and therefore should not be relied on excessively to fuel banking growth.

RODNEY WILSON
Emeritus Professor, Durham University

A Turkey’s successful sovereign Sukuk formally puts the country on the global Sukuk map as a recipient destination for investment and might trigger a follow up at the sovereign and corporate level. Whilst corporate Sukuk probably will be restricted to the participation banks, surprise issuance by big Turkish corporates is not to be excluded.

So far, the participation banking industry has been growing organically as predicted, and in a sustainable way. Acceleration could come from a new market entry that has been in the pipeline

for some time now. The creation of the Istanbul Financial Center might also trigger the possibility of foreign Islamic windows, which in turn might offer such rights to local conventional banks. The balance is shifting - time will tell how fast.

PAUL WOUTERS
Lawyer Antwerp Bar Association (Belgium), Azmi & Associates — Advocates & Solicitors (Singapore) and Senturiyon Global (Indonesia)

A Turkey is right on track to become the next hub of Islamic banking and finance. Given the historical legacy of leadership of the Muslim world (reference to the Ottoman empire), the Turkish government needed to show its commitment to Islamic finance so that other players in the industry would join in building a vibrant Islamic banking industry. The recent successful US\$1.5 billion sovereign Sukuk issuance has put Turkey on the global platform of Islamic banking and finance. It is expected that many Middle Eastern Islamic banks and financial institutions will now contemplate entering the Turkish market.

The likes of Kuwait Finance House (KFH) went to Turkey in 1989, well before an explicit commitment came from the government of the time, which was rather hostile towards any non-secular developments. It was also far ahead of KFH’s move to enter the Malaysian market. Similarly, Albaraka Bank set up a participation bank in 1984 in Turkey, although it is until today yet to enter the Malaysian market. I am not suggesting that Turkey is going to pose any competitive threat to Malaysia, but it remains a fact that for many institutions in the Middle East it makes more logistic sense to do business in Turkey rather than travelling to Asia.

Both Malaysia and Turkey are certainly aware of the value of close cooperation in order to mutually benefit from the global growth in Islamic banking and finance. Malaysia must adopt the Middle Eastern Shariah standards to remain attractive to most of the global players in Islamic finance, and Turkey must learn from the Malaysian experience if it wants to be considered a credible player in Islamic banking and finance.

“ Whilst corporate Sukuk probably will be restricted to the participation banks, surprise issuance by big Turkish corporates is not to be excluded ”

The recent visit by Ali Babacan, the Turkish deputy prime minister, and his keynote speech at a recent conference in Kuala Lumpur, along with the warm welcome accorded to him by the governor of Bank Negara Malaysia, Dr Zeti Akhtar Aziz, point towards a possible Turkey-Malaysia alliance to promote Islamic banking and finance. In order to promote Islamic banking in the country, Turkey must commit itself to the global Islamic financial services industry by investing in an enabling infrastructure similar to that which Malaysia has achieved in the last two decades. Being a predominantly Hanafi (a stricter school

continued...

Continued

of Islamic jurisprudence) country, Turkey is bound to bring the kind of Shariah authenticity that Malaysia has yet to develop. Hence, a Turkey-Malaysia alliance will not only help to promote Islamic banking in Turkey but is also expected to bring a new juristic approach to product development and structuring.

Turkey and Malaysia together can achieve a lot, which Malaysia alone could not do in its past attempts to convince Middle Eastern Islamic financial institutions to do business together. It is important for Malaysia to strike a deal with Turkey to have a physical presence in the country of institutions such as the Islamic Financial Services

Board, International Islamic Liquidity Management Corporation and INCEIF, before Turkey decides to develop such institutions independently.

Sharing its leadership role with others is in the best interests of Malaysia. Allowing Malaysia to export its Islamic financial expertise is an efficient way of acquiring the required skills for Turkey to promote Islamic banking domestically.

Turkey is also poised to further develop Islamic banking and finance in Europe, given its strategic location. It has the potential to serve as a bridge between the west and the central Asian Muslim states. Islamic banking and finance offers

a strategic opportunity for Turkey to promote a moderate and modern Islamic lifestyle built around Islamic banking and finance, a phenomenon already known and accepted in many western European countries, especially in the UK. The idea of Islamic (or participation) banking is very close to the German model of cooperative banking. Turkey can strengthen cooperative banking in Germany by helping its participation banks to develop their operations therein.

PROFESSOR HUMAYON DAR
Chairman, president & CEO, Edbiz Consulting

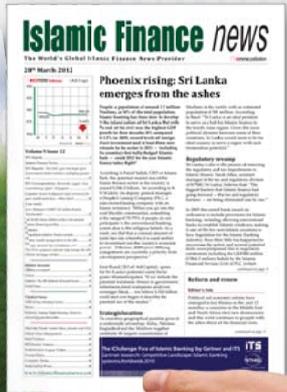
Next Forum Question:

What are the current investment trends for high net worth investors in the face of ongoing global volatility and how should Islamic wealth managers approach this period?

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 19th October 2012.









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Mansour Ndiaye, director of microfinance, Alliance for Sustainable Community Development (ASCODEV)

Mansour Ndiaye specializes in developing financial products and the establishment of institutions with an innovative approach to governance and best practices. He was responsible for the establishment of the first mutual institution practising Islamic microfinance in West Africa.

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

I am a financial expert in microfinance and information systems, and a management advisor and trainer for the Consultative Group to Assist the Poor (CGAP), a group which aims at assisting poor people (composed of 33 multilateral partners led by the World Bank). I have been involved in the microfinance sector for 17 years.

“The refusal of the authorities for almost 10 years to work fairly on regulation has been an obstacle for the development of Islamic finance”

In 2002 I settled a working group to develop what was supposed to be the first mutuality institution practicing



microfinance in West Africa (Senegal, Togo, Benin etc.) I am in charge of a mutuality institution network operating in rural finance in Senegal.

What does your role involve?

Since 2002 I have focused on the need for diversification of the financial sector. I started to work with committees of children, women, students, bank professionals and journalists. I got the media involved in creating awareness among the community about Islamic finance, and how this type of financing has helped in decreasing poverty and youth financial involvement. I have also worked with different target groups in West Africa.

What is your greatest achievement to date?

We have used Islamic financial products and services such as Mudarabah, Musharakah, Salam (with the farmers) and Ijarah. We worked on a document for the capitalization of this first experience, which has never taken place before in Africa, and with the practice of real tools, mechanisms and principles of Islamic finance.

Which of your products/services deliver the best results?

The best product is Murabahah, or 'food credit' for the urban and for the families of rural areas. Ijarah has also been useful for us. Microenterprises have

been financed with investment deposits in order to promote the mechanism of Musharakah. In short, there are three important products which have been tested and distributed through the mutuality network.

What are the strengths of your business?

The strength of this work resides with the appropriateness of the cultural elements of our society. In addition to this, there is a strong need for product diversification. In poor countries, there is a real need to find different ways to resolve the increasing pressure related to the guarantee of the credit.

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

The factors contributing to the success of our work consist of its institutional anchorage in relation to an environment that promotes and accepts the principles of Islamic finance. Senegal is a 'community of faith' where the two main religions recommend the practice of Islamic finance. Next to this, our 14 years of experience in conventional finance and its weaknesses and difficulties are of course a real asset to promote the dynamism of microfinance in West Africa.

What are the obstacles faced in running your business today?

The refusal of the authorities for almost 10 years to work fairly on regulation has been an obstacle for the development of Islamic finance.

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

The future of the Islamic finance industry is important to Senegal. The Senegalese prime minister has highlighted the importance of the promotion of Islamic finance. Sensitization and reinforcement of capacities is important, as the level of understanding and mastering still remains weak.

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

My greatest hope is to capitalize on this opportunity to develop Islamic finance in some developing countries in Africa. (2)

ISSUER	SIZE	DATE ANNOUNCED
Edaran SWM	RM1 billion	5 th October 2012
International Islamic Liquidity Management Corporation	US\$200 to 500 million	4 th October 2012
Turkish Airlines	TBA	4 th October 2012
Danainfra Nasional	RM1.5 billion	4 th October 2012
Weststar Capital	RM900 million	4 th October 2012
Dubai Electricity and Water Authority	AED4.5 billion	3 rd October 2012
Tunisia sovereign	TBA	30 th September 2012
Bank Asya	TRY150 million	25 th September 2012
Qatar Islamic Bank	US\$1.5 billion	16 th September 2012
TH Plantation	RM1.5 billion	14 th September 2012
Bolton	RM380 million	6 th September 2012
HSBC Amanah	RM3 billion	4 th September 2012
Sime Darby	US\$1.5 billion	3 rd September 2012
Malakoff Corporation	RM1.8 billion	17 th August 2012
Putrajaya Holdings	RM3 billion	13 th August 2012
Indonesia sovereign	US\$1 billion	10 th August 2012
Indonesia sovereign	US\$750 million	10 th August 2012
Tanjung Bin Power	RM4.5 billion	7 th August 2012
Kuala Lumpur Kepong	RM1 billion	1 st August 2012
Kimanis Power	RM1.16 billion	16 th July 2012
Syarikat Prasarana Negara	RM4 billion	12 th July 2012
Türkiye Finans Katılım Bankası	US\$300 million	9 th July 2012
Sudan sovereign	US\$758 million	5 th July 2012
South Africa sovereign	TBA	4 th July 2012
Indonesia sovereign	IDR500 billion	3 rd July 2012
National Treasury South Africa	US\$500 - 700 million	3 rd July 2012
Qatar sovereign	US\$4 billion	2 nd July 2012
Indosat	IDR300 billion	20 th June 2012
Sadara	SAR1.4 billion	13 th June 2012
UEM Group	RM2.2 billion	13 th June 2012
General Authority of Civil Aviation	TBA	24 th May 2012
Morocco sovereign	TBA	23 rd May 2012
Amer Group Holding	EGP2.7 billion	14 th May 2012
Emirates NBD	US\$500 million	7 th May 2012
Epmex	RM1.35 billion	25 th April 2012
Noor Islamic Bank	US\$1 billion	19 th April 2012
Encorp	RM1.58 billion	18 th April 2012
Banque Saudi Fransi	US\$2 billion	18 th April 2012
Islamic Development Bank	RM400 million	17 th April 2012
Indosat	IDR2.5 trillion	17 th April 2012
Johor Corp Group	RM3 billion	13 th April 2012
Citra Marga	IDR1.2 trillion	12 th April 2012
Nakheel	AED240 million	11 th April 2012
Development Bank of Kazakhstan	US\$500 million	30 th March 2012
Ethical Asset Management	TBA	30 th March 2012
National Australia Bank	US\$500 million	29 th March 2012
Jebel Ali Free Zone	AED2.4 billion	21 st March 2012

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

AUSTRALIA: Gerhard Bakker
director, Madina Village

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

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BERMUDA: Belaid A Jheengoor
director of asset management, PwC

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

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

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

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

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

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INDIA: Kevur Shah
partner, KPMG

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chairman, Center for Islamic Studies in Finance, Economics, and Development

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Islamic finance expert, SEO

IRAQ: Khaled Saqqaf
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IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland

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president, Japan Islamic Finance

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MALDIVES: Aishath Muneeza
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MALTA: Reuben Buttigieg
president, Malta Institute of Management

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

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

NIGERIA: Hajara Adeola
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senior associate, Al Busaidy Mansoor Jamal & Co

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partner, King & Spalding

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Islamic finance advisor, Africa Islamic Finance Corporation

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managing director, Absa Islamic Bank

SINGAPORE: Yeo Wico
partner, Allen & Gledhill

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

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

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

TURKEY: Ali Ceylan
partner, Baspinar & Partners

UAE: Moinuddin Malim
CEO, Mashreq Al Islami

UK: Siraj Ibrahim
associate, Credit Agricole CIB

US: Saeid Hamedanchi
CEO, ShariahShares

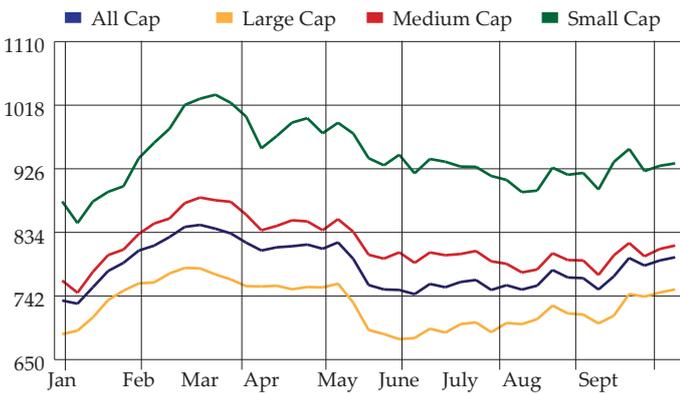
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

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SHARIAH INDEXES

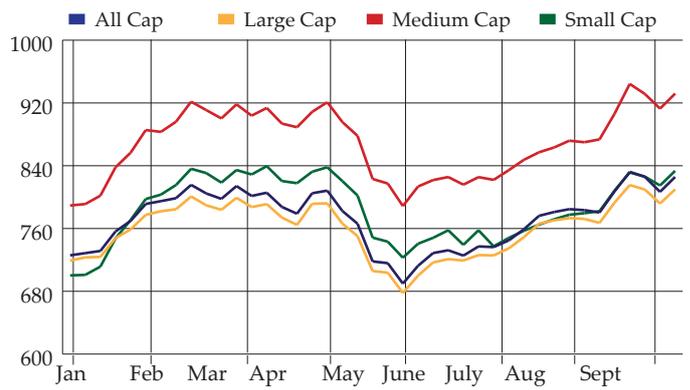
REDmoney Asia ex. Japan

6 Months



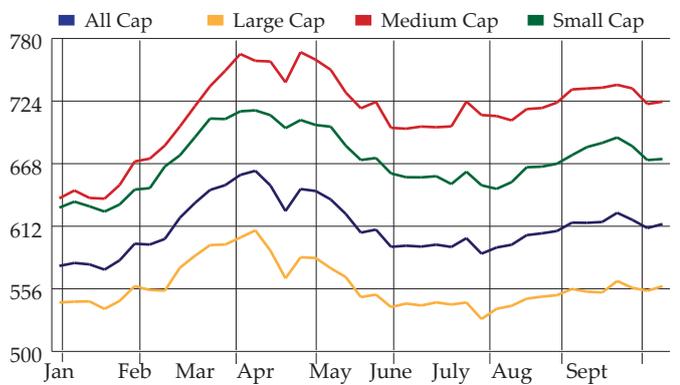
REDmoney Europe

6 Months



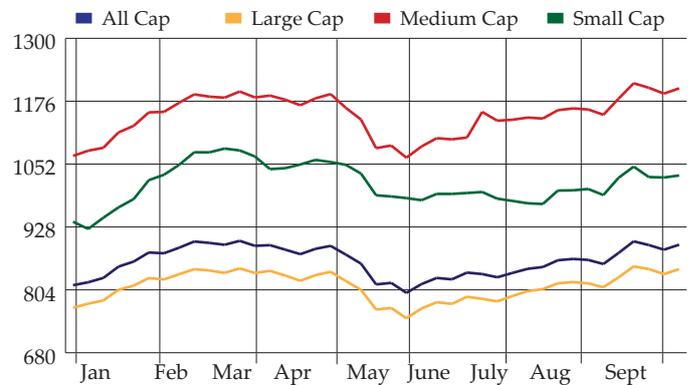
REDmoney GCC

6 Months



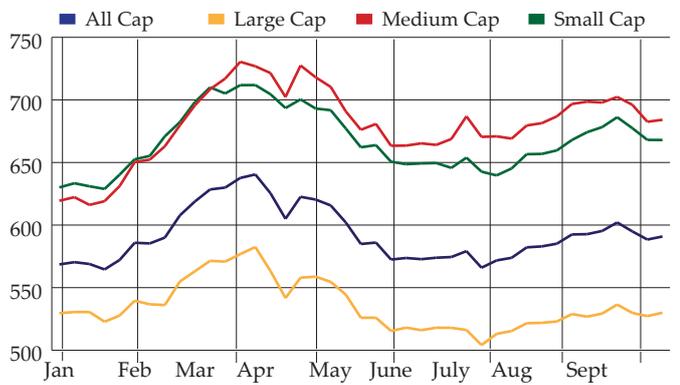
REDmoney Global

6 Months



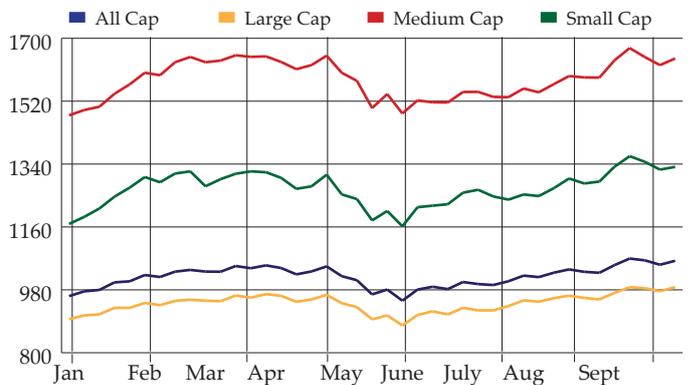
REDmoney MENA

6 Months



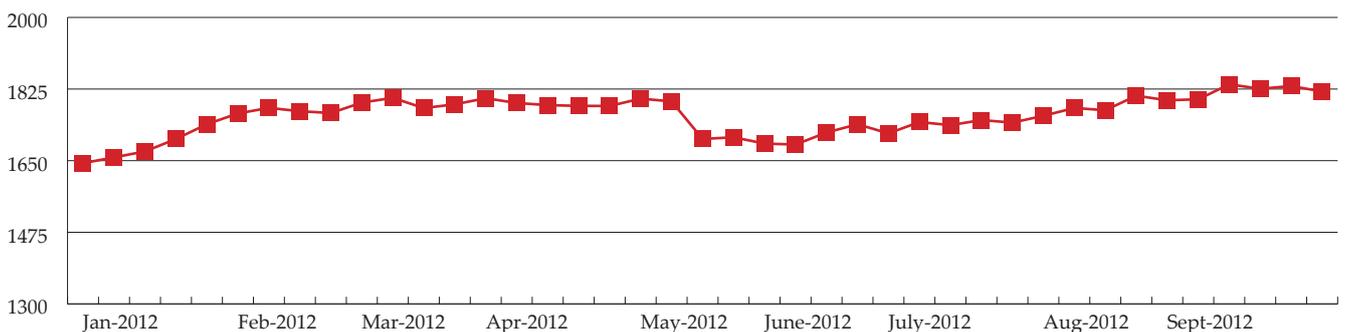
REDmoney US

6 Months



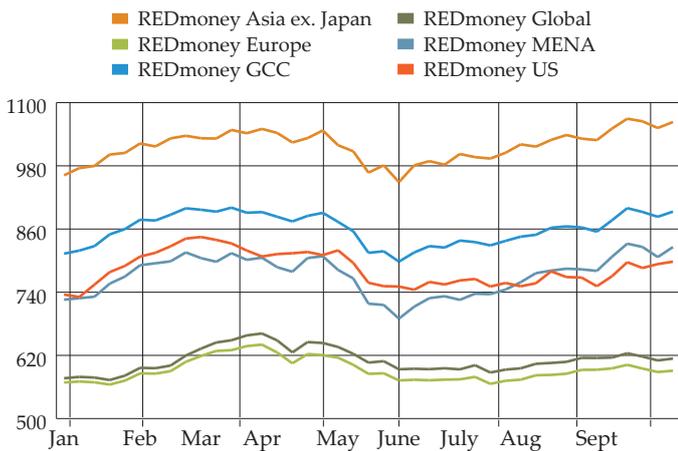
SAMI Halal Food Participation (All Cap)

6 months

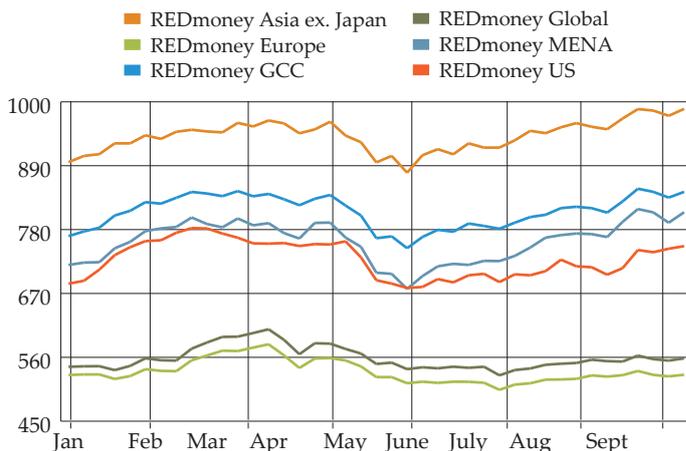


SHARIAH INDEXES

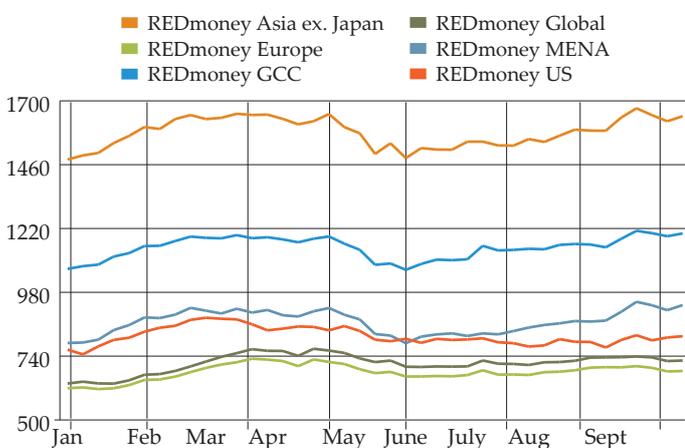
REDmoney Global Shariah Index Series (All Cap) 6 Months



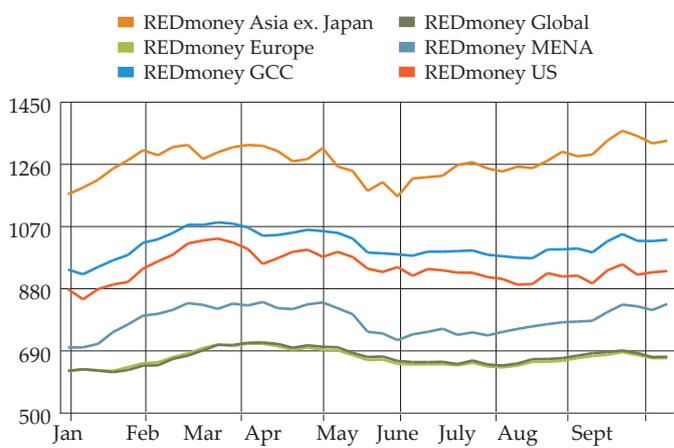
REDmoney Global Shariah Index Series (Large Cap) 6 Months



REDmoney Global Shariah Index Series (Medium Cap) 6 Months



REDmoney Global Shariah Index Series (Small Cap) 6 Months



REDmoney Global Shariah

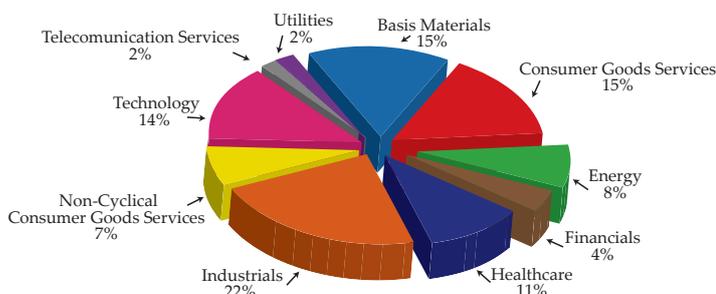
Equities are considered eligible for inclusion into the REDmoney Global Shariah Index Series only if they pass a series of market related guidelines related to minimum market capitalization and liquidity as well as country restrictions.

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.

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REDmoney Global Shariah Index Series

REDmoney Indexes **IdealRatings®**

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LEAGUE TABLES

Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US\$ (mln)	Managers
4 th Oct 2012	Edaran SWM	Malaysia	Sukuk	Domestic market public issue	245	Hong Leong Bank, CIMB Group
3 rd Oct 2012	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest
1 st Oct 2012	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	651	CIMB Group, AmInvestment Bank
20 th Sep 2012	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,500	HSBC, Kuwait Finance House, Citigroup
20 th Sep 2012	MISC	Malaysia	Sukuk	Domestic market public issue	163	HSBC, CIMB Group, AmInvestment Bank
20 th Sep 2012	HSBC Amanah Malaysia	United Kingdom	Sukuk	Domestic market public issue	163	HSBC, AmInvestment Bank, Hong Leong Islamic Bank, Maybank Investment Bank
18 th Sep 2012	Malaysian Airline System	Malaysia	Sukuk	Domestic market private placement	165	Maybank Investment Bank
7 th Sep 2012	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	321	CIMB Group, Maybank Investment Bank
3 rd Sep 2012	Cagamas	Malaysia	Sukuk	Domestic market public issue	160	RHB Capital
29 th Aug 2012	Malakoff Corporation	Malaysia	Sukuk	Domestic market private placement	577	Maybank Investment Bank
28 th Aug 2012	Syarikat Prasarana Negara	Malaysia	Sukuk Murabahah	Domestic market public issue	644	RHB Capital, Kenanga Investment Bank, CIMB Group
15 th Aug 2012	Tanjung Bin Power	Malaysia	Sukuk	Domestic market private placement	1,346	CIMB Group, Maybank Investment Bank
14 th Aug 2012	Celcom Transmission (M)	Malaysia	Sukuk Murabahah	Domestic market public issue	1,605	HSBC, CIMB Group, Maybank Investment Bank
10 th Aug 2012	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	806	Kenanga Investment Bank, DRB-HICOM, CIMB Group, AmInvestment Bank
9 th Aug 2012	Kuala Lumpur Kepong	Malaysia	Sukuk Ijarah	Domestic market public issue	322	CIMB Group, Maybank Investment Bank
1 st Aug 2012	SME Bank	Malaysia	Sukuk	Domestic market public issue	159	Kuwait Finance House, AmInvestment Bank, Maybank Investment Bank
19 th Jul 2012	Kimanis Power	Malaysia	Sukuk	Domestic market public issue	272	HSBC, CIMB Group
17 th Jul 2012	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	260	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
12 th Jul 2012	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Noor Islamic Bank, Al Hilal Bank, Barwa Bank
12 th Jul 2012	First Resources (Indonesia)	Indonesia	Sukuk	Foreign market public issue	189	RHB Capital

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter

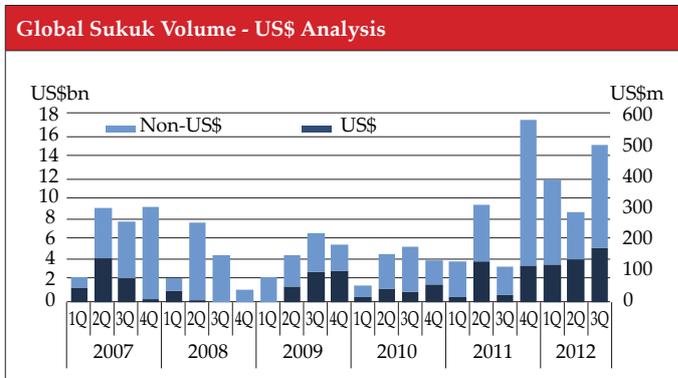
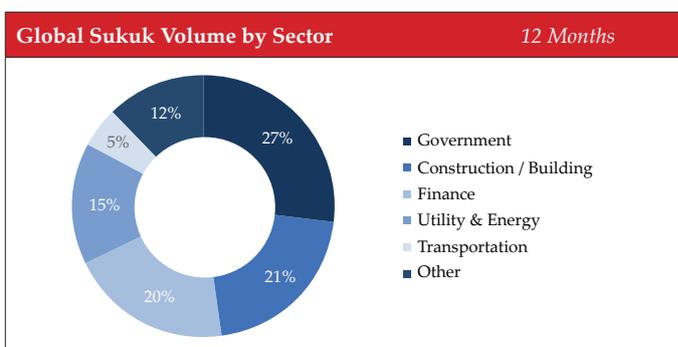
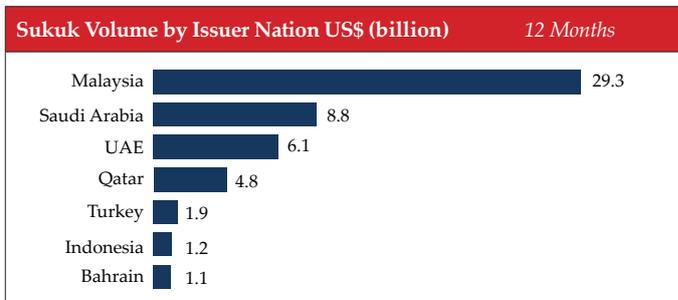
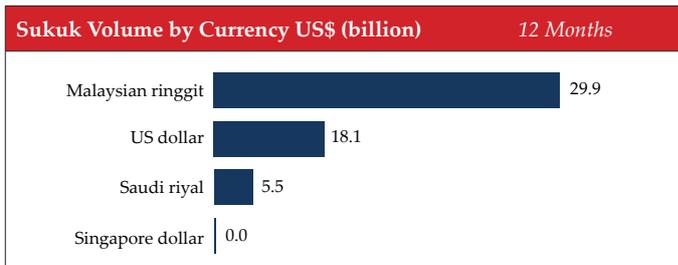


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Top 30 Issuers of Global Sukuk							12 Months
Issuer	Nationality	Instrument	Market	US\$ (mln)	Iss	Managers	
1	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	9,610	17.9	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	State of Qatar	Qatar	Sukuk	Euro market public issue	4,000	7.5	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest, Barwa Bank
3	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	7.5	HSBC
4	Saudi Electricity Company	Saudi Arabia	Sukuk	Euro market public issue	1,750	3.3	Deutsche Bank, HSBC
5	Celcom Transmission (M)	Malaysia	Sukuk Murabahah	Domestic market public issue	1,590	3.0	HSBC, CIMB Group, Maybank Investment Bank
6	Manjung Island Energy	Malaysia	Sukuk Ijarah	Domestic market public issue	1,545	2.9	Lembaga Tabung Haji, CIMB Group
7	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,500	2.8	HSBC, Kuwait Finance House, Citigroup
8	Tanjung Bin Power	Malaysia	Sukuk	Domestic market private placement	1,298	2.4	CIMB Group, Maybank Investment Bank
9	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	1,250	2.3	HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Citigroup
10	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	1,110	2.1	CIMB Group, Maybank Investment Bank
11	Tanjung Bin Energy Issuer	Malaysia	Sukuk Tawaruq	Domestic market private placement	1,089	2.0	HSBC, OCBC, RHB Capital, DRB-HICOM, CIMB Group, Affin Investment Bank, Maybank Investment Bank
12	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	1,071	2.0	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
13	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	1.9	Standard Chartered Bank, HSBC, Citigroup
13	EIB Sukuk	UAE	Sukuk	Euro market public issue	1,000	1.9	Standard Chartered Bank, HSBC, RBS, National Bank of Abu Dhabi, Citigroup, Emirates NBD, Dubai Islamic Bank, Credit Agricole
15	Johor Corporation	Malaysia	Sukuk	Domestic market public issue	939	1.8	CIMB Group, Affin Investment Bank, AmInvestment Bank, Maybank Investment Bank
16	Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	817	1.5	Maybank Investment Bank
17	Maxis	Malaysia	Sukuk Musharakah	Domestic market public issue	805	1.5	CIMB Group, Maybank Investment Bank
18	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	800	1.5	Saudi National Commercial Bank, Standard Chartered Bank, BNP Paribas, HSBC, CIMB Group
19	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	1.5	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
20	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1.5	CIMB Group, Maybank Investment Bank
21	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	752	1.4	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
22	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	1.4	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest
22	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1.4	Standard Chartered Bank, BNP Paribas, Citigroup
22	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1.4	Deutsche Bank, Citigroup, Credit Agricole
25	Khazanah Nasional	Malaysia	Sukuk	Domestic market private placement	652	1.2	Kenanga Investment Bank, DRB-HICOM, CIMB Group, AmInvestment Bank
26	Jafz Sukuk	UAE	Sukuk	Euro market public issue	650	1.2	Standard Chartered Bank, Abu Dhabi Commercial Bank, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
27	Syarikat Prasarana Negara	Malaysia	Sukuk Murabahah	Domestic market public issue	644	1.2	RHB Capital, Kenanga Investment Bank, CIMB Group
28	Malakoff Corporation	Malaysia	Sukuk	Domestic market private placement	577	1.1	Maybank Investment Bank
29	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	561	1.1	Maybank Investment Bank
30	TASNEE	Saudi Arabia	Sukuk	Domestic market private placement	533	1.0	HSBC
Total				53,559	100		

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Top Managers of Sukuk		12 Months		
Manager	US\$ (mln)	Iss	%	
1	HSBC	10,133	28	18.9
2	CIMB Group	9,111	38	17.0
3	Maybank Investment Bank	9,043	41	16.9
4	AmInvestment Bank	4,310	22	8.1
5	RHB Capital	3,235	33	6.0
6	Standard Chartered Bank	2,727	17	5.1
7	Deutsche Bank	2,213	5	4.1
8	Citigroup	2,130	10	4.0
9	Lembaga Tabung Haji	1,137	5	2.1
10	QInvest	988	2	1.8
11	Dubai Islamic Bank	868	7	1.6
12	Barwa Bank	863	2	1.6
13	National Bank of Abu Dhabi	797	6	1.5
14	Kuwait Finance House	678	5	1.3
15	Kenanga Investment Bank	666	4	1.2
16	Affin Investment Bank	468	4	0.9
17	Emirates NBD	439	5	0.8
18	JPMorgan	425	2	0.8
19	BNP Paribas	410	2	0.8
20	Abu Dhabi Islamic Bank	409	5	0.8
21	Hong Leong Bank	374	3	0.7
22	Credit Agricole	350	2	0.7
23	DRB-HICOM	348	8	0.7
24	OCBC	235	5	0.4
25	Abu Dhabi Commercial Bank	218	2	0.4
26	Saudi National Commercial Bank	160	1	0.3
27	Riyad Bank	153	2	0.3
28	Bank of America Merrill Lynch	125	1	0.2
29	Royal Bank of Scotland	99	2	0.2
30	Nomura	83	1	0.2
Total	53,559	130	100.0	



Top Islamic Finance Related Project Finance Mandated Lead Arrangers		12 Months		
Mandated Lead Arranger	US\$ (million)	No	%	
1	Public Investment Fund	1,011	4	9.0
2	SABB	873	3	7.8
3	Arab National Bank	860	3	7.7
4	Samba Financial Group	676	4	6.0
5	Banque Saudi Fransi	537	3	4.8
6	HSBC Holdings	447	3	4.0
7	Riyad Bank	428	3	3.8
8	Sumitomo Mitsui Financial Group	404	2	3.6
9	KfW Bankengruppe	369	2	3.3
10	Mitsubishi UFJ Financial Group	360	1	3.2

Top Islamic Finance Related Project Financing Legal Advisors Ranking		12 Months		
Legal Advisor	US\$ (million)	No	%	
1	Allen & Overy	4,198	2	21.2
2	White & Case	3,579	2	18.1
3	Skadden Arps Slate Meagher & Flom	3,281	1	16.6
4	Al-Jadaan & Partners Law Firm	1,586	2	8.0
4	Baker & McKenzie	1,586	2	8.0
4	Clifford Chance	1,586	2	8.0
7	Baker Botts	917	1	4.6
7	Chadbourne & Parke	917	1	4.6
9	Linklaters	684	2	3.5
10	Saudilegal	386	1	2.0

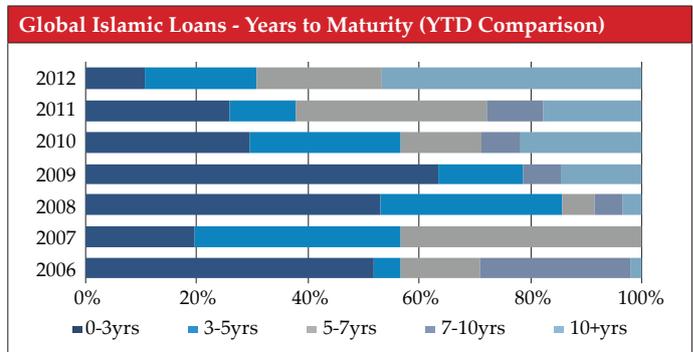
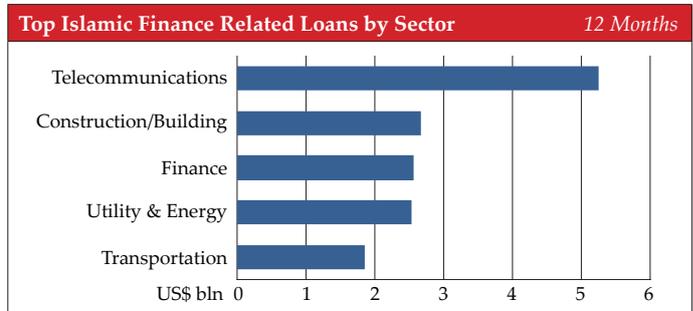
LEAGUE TABLES

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking				
12 Months				
	Mandated Lead Arranger	US\$ (mln)	No	%
1	SABB	1,684	6	8.6
2	Banque Saudi Fransi	1,232	5	6.3
3	Samba Capital	1,093	5	5.6
4	Al-Rajhi Banking & Investment	1,075	5	5.5
5	Saudi National Commercial Bank	991	5	5.0
6	Arab National Bank	906	3	4.6
7	Maybank Investment Bank	819	5	4.2
8	AmInvestment Bank	704	3	3.6
9	CIMB Group	679	2	3.5
10	Standard Chartered Bank	636	9	3.2
11	RHB Capital	631	1	3.2
12	Emirates NBD	621	6	3.2
13	HSBC	584	6	3.0
14	Noor Islamic Bank	566	7	2.9
15	Saudi Hollandi Bank	538	2	2.7
15	Riyad Bank	538	2	2.7
17	Abu Dhabi Islamic Bank	495	8	2.5
18	Dubai Islamic Bank	487	3	2.5
19	Citigroup	460	5	2.3
20	Barwa Bank	378	3	1.9
21	Standard Bank	289	1	1.5
21	National Bank of Kuwait	289	1	1.5
21	Gulf Bank	289	1	1.5
21	DBS	289	1	1.5
21	Credit Agricole	289	1	1.5
26	Mashreqbank	226	4	1.2
27	Al Hilal Bank	224	6	1.1
28	Qatar Islamic Bank	223	2	1.1
29	Qatar International Islamic Bank	213	1	1.1
29	Masraf Al Rayan	213	1	1.1

Top Islamic Finance Related Loans Mandated Lead Arrangers				
12 Months				
	Bookrunner	US\$ (mln)	No	%
1	Credit Agricole	867	1	11.4
1	Banque Saudi Fransi	867	1	11.4
1	Al-Rajhi Banking & Investment	867	1	11.4
4	QInvest	517	2	6.8
5	HSBC	500	4	6.6
6	Abu Dhabi Islamic Bank	470	5	6.2
7	Emirates NBD	408	4	5.4
8	Standard Chartered Bank	399	6	5.3
9	Citigroup	390	4	5.1
10	Noor Islamic Bank	330	3	4.3

Top Islamic Finance Related Loans Deal List				
12 Months				
Credit Date	Borrower	Nationality	US\$ (mln)	
13 th Dec 2011	Barzan Gas	Qatar	5,442	
12 th Feb 2012	Mobily	Saudi Arabia	2,667	
25 th Jul 2012	Zain Saudi	Saudi Arabia	2,600	
11 th Jun 2012	DanaInfra Nasional	Malaysia	2,525	
2 nd Dec 2011	Hajr for Electricity Production	Saudi Arabia	1,981	
4 th Jul 2012	Dubai Duty Free	UAE	1,749	
14 th Feb 2012	Power & Water Utility for Jubail & Yanbu	Saudi Arabia	1,200	
13 th Jun 2012	Jebel Ali Free Zone	UAE	1,198	
30 th Jun 2012	TIBAH	Saudi Arabia	1,193	
25 th Jun 2012	Bawabat Al Shamal Real Estate Company	Qatar	1,154	

Top Islamic Finance Related Loans by Country				
12 Months				
	Nationality	US\$ (mln)	No	%
1	Saudi Arabia	9,496	8	48.2
2	UAE	3,461	8	17.6
3	Malaysia	3,035	5	15.4
4	Qatar	1,317	2	6.7
5	Turkey	1,256	5	6.4
6	Sri Lanka	350	2	1.8
7	Pakistan	233	6	1.2
8	Singapore	207	1	1.1
9	Indonesia	183	4	0.9
10	Brunei Darussalam	170	1	0.9



Are your deals listed here?

If you feel that the information within these tables is inaccurate, you may contact

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

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

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

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

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

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

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

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

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

27th – 28th November 2012
2012 International Real Estate Finance (IREF) Summit
 London, UK (*ICG Events*)

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

3rd December 2012
Alpha Asia 2012
 Singapore (*All Events Group*)

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

4th – 6th December 2012
8th World Islamic Economic Forum
 Johor Bahru, Malaysia
 (*WIEF Foundation*)

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

8th – 10th December 2012
Global Islamic Microfinance Forum
 Dubai, UAE
 (*Al Huda CIBE*)
 9th – 11th December 2012

The 19th Annual World Islamic Banking Conference
 Manama, Bahrain (*MEGA Events*)

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