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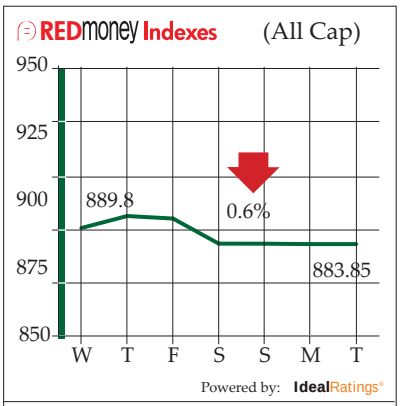

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The death of Islamic retail banking?

The Islamic finance industry is thought to be growing at a rate of 20% a year, with global assets of over US$1 trillion. Yet how much of this is made up of retail banking assets? While the capital market booms, the retail side of Shariah compliant finance has struggled to survive — especially in countries without a strong Islamic legal framework. This week, we look at whether Islamic retail banking is really a viable proposition in the current global marketplace.

Much has been made of the advantages of Islamic banking over conventional — more ethical, less risk and so on. And there is no doubt that there is a huge pool of Muslims seeking Shariah compliant methods of finance. The question is whether this really applies to everyday banking. Islamic investments such as Sukuk and Shariah compliant fund management have seen a surge in growth in recent years as investors seek safe havens and show increased interest in Shariah compliant options as, in turn, the market itself has becoming ever more sophisticated. But some have concerns that this growth has not extended to the retail side.

Jawad Ali, the managing partner of King & Spalding Middle East offices and global deputy head of the firm's Islamic finance practice based in Dubai, explains that: "I really feel that the Islamic finance model is not suited for retail banking in all countries. It obviously is working in Malaysia and in Saudi Arabia but Islamic retail banking is not going to work everywhere — it is not 'one size fits all countries'. Just because there is a Muslim population does not automatically translate into success. It depends on the country, the people, the laws and the competition."

Profitability

Recent events have displayed a sharp reminder that while Islamic banking may be based on principles of no interest, it must still make a profit in order to survive. HSBC recently pulled out of all its Islamic retail markets apart from Malaysia, Saudi Arabia and Indonesia; citing poor performance. However, the banking group will remain involved in its successful capital markets business and focus more on its corporate banking franchise in the Islamic space, suggesting that it is only the retail side that is struggling with profitability. "The business is obviously not making enough money," says one UAE-based banker. "Barclays and Deutsche Bank are also scaling back their teams — it suggests that their presence is costing them too much in comparison to the profits they are making."

A question of size

And although much fanfare has been trumpeted around the estimated US$1.3 trillion size of the Islamic banking market, there is little to no data suggesting where

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Change is a-coming

Editor's Note

On the 23rd October 2012 Barack Obama, the president of the US, completed the third and final round of debates with presidential hopeful Mitt Romney, in a war of words seen as crucial to deciding votes when the country goes to the polls come the 6th November. As during the 2008 presidential race, Obama's rhetoric on change which shaped the platform of his inaugural campaign continues to ring wide and true across the global...

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DEALS

Bahrain issues short-term Sukuk

US$328.5 million Malaysian SME development fund to be financed through Sukuk

Egypt in talks with 10 banks for issuance of first Sukuk

Cerah Sama proposes to issue up to US$246.8 million-worth of Sukuk

Emirates District Cooling Company secures US$215.84 million Islamic financing facility

Bahrain's monthly issuance of Sukuk Al Salam oversubscribed

Tüpraş receives US$200 million Islamic financing facility from nine banks

The Savola Group to propose Sukuk issuance to shareholders

Hong Kong's **Noble Group** completes maiden Sukuk sale

NEWS

Gulf Finance House restructures financing for **Royal Ranches Marrakech** property project

LBS Bina Group makes partial early redemptions for two Sukuk

Malaysian Sukuk issuances reach US$72.16 billion at the end of August 2012

OSK Investment Bank to expand Islamic business

CIMB Bank Singapore launches two Shariah compliant deposit accounts

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Pos Malaysia to deliver Islamic finance services abroad?

Takeover of **Islamic Bank of Britain** still in the works

Barclays' Islamic business gathers momentum

GFH Capital implements Shariah compliance plan for **Leeds United Football Club**

Domestic Islamic banking assets to overtake conventional by 2020, says **KPMG Oman**

Abu Dhabi Islamic Bank reports US$89.41 million in third quarter profit

Jordan Islamic Bank announces US$39.92 million in third quarter net profit

Islamic Holding Group reports US$1.54 million in third quarter profit

Qatar Islamic Bank reports marginal growth in nine-month profit

Sharjah Islamic Bank signs agreement with **Etisalat** for data protection

Tamweel reports dismal nine-month results

TAKAFUL

AMMB Holdings plans to buy back stake in Takaful and insurance units

Central Bank of Bahrain calls for more Takaful training

Prudential BSN Takaful reports strong first half results

Etiqa Takaful optimistic on further business expansion

Takaful industry needs regulatory authority, says **Ernst & Young**

Weqaya Takaful Insurance and Reinsurance Company reports third quarter profit

RATINGS

Fitch assigns final rating on **Qatar International Islamic Bank**'s US$700 million Sukuk

RAM reaffirms ratings on **Sarawak Power Generation**'s US$70.32 million Sukuk

Fitch rates **Islamic Bank of Thailand** at 'BBB-'

Fitch affirms ratings on **MNRB Retakaful**

MARC affirms ratings on **Alloy Properties'** US$78.6 million Sukuk

MOVES

CEO and president quit **Citigroup**

IILM appoints **Dr Rifaat Ahmed Abdel Karim** as CEO

StanChart appoints **Motasem Duweik** as Qatar head of origination and client coverage

The death of Islamic retail banking?

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this value actually lies. Taking into account the extensive assets in Islamic funds, in Sukuk and in real estate, there is an argument to suggest that of this impressive figure Islamic retail deposit accounts in actual fact make up just a tiny proportion.

Jawad agrees. "I would not say that retail banking is a high percentage of the estimated US$1 trillion Islamic finance market. Not compared to all the Sukuk issuances, the Shariah compliant investment funds, all the equipment leasing and asset finance — aircraft, ships, equipment, etc. I think you will find that the bulk of this estimate is in institutional money — investment funds, Shariah compliant family offices — not from the average Muslim."

The capital markets may be booming, but this is not translating into retail demand.

Core imbalance

This is the key issue at the center of the retail banking conundrum. There may be a lot of Muslims, but this does not necessarily mean they all want to bank Islamically — or even bank at all. Some experts believe that the Islamic retail model is fundamentally imbalanced; with the projected figures failing to materialize due to inhibiting factors such as pricing, purity of products and basic demand for banking services.

"Remember, the vast majority of Muslims are not rich," points out Jawad. "Out of the Muslim population in the world there is a big population hovering around the poverty line. There is a sliver of rich Muslims — and of these some invest Islamically and some don't." Current estimates put the total proportion of Muslims that bank Islamically at less than 10% — just a tiny fragmnt of the global Muslim population.

Pricing and purity

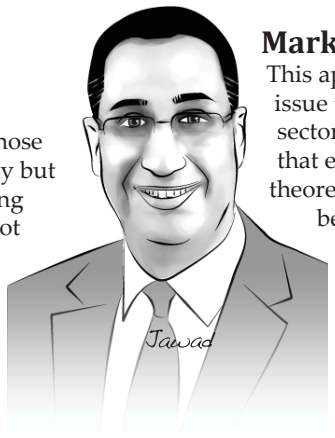
The target market that is currently not banking Islamically can be broadly divided into two sections: those that want to bank Islamically but are reluctant due to inhibiting factors, and those that are not interested or do not bank at all.

Of the first group, two of the biggest challenges are product pricing and purity. One banker explains that: "Cost is the key issue here. Banks charge more for many Islamic products because of the structuring issues and higher legal costs, meaning that not only do they have to charge higher fees but they make less profit out of them. So that doesn't work for either the bank or the customer."

And where the products are available, many Muslims question their integrity. Although this is particularly the case in some of the more devout Muslim countries — especially in Africa and the Middle East — it appears to apply across the board even in western markets and countries without a Muslim majority or an Islamic legal system.

> ***"There is an argument to suggest that of the US$1.3 trillion Islamic retail deposit accounts in actual fact make up just a tiny proportion"***

"The industry hasn't stood by its principles," Tarek El Diwany, a senior partner at UK-based Islamic consultancy Zest Advisory, is quoted as saying. "In many cases, products have become Islamised versions of interest-based debt. The normal Muslim on the street has not been convinced by what's on offer."



Market placement

This appears to be the biggest issue the Islamic retail banking sector is struggling with — that even in markets where theoretically demand should be high, this is failing to translate to real business. "If you reverse back six years to the first wave

continued...

CLOSING BELL

Alizz Islamic Bank's IPO closes

OMAN: Alizz Islamic Bank's initial public offering (IPO) worth OMR40 million (US$103.6 million), which closed for subscription on the 21st October 2012, is seen to have only attracted a minimal oversubscription of 1.2 times.

ICIEC and NCB sign MoU

SAUDI ARABIA: The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) has signed an MoU with National Commercial Bank (NCB) to support exports by small and medium-sized enterprises (SME).

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of Islamic banks, everyone had such high expectations," remembers Jawad. "Everybody thought OK, there are X number of Muslims in the UK with an average income of X, which should translate into X deposits in Shariah compliant accounts. But if you go back and look now, those figures did not translate into reality on the ground."

The UK is a prime example of how Islamic retail banking has failed to take off in a non-Muslim majority country. There are 2.8 million Muslims in the country according to the 2010 census, up from 1.6 million in 2001, with an average household income estimated at between GBP18-23,000 per year (US$28-36,000) along with around 5,400 Muslim millionaires (based on cash and stocks, not property). However, of all the institutions that launched Islamic operations to take advantage of this promising market, Jawad notes that: "Most of these banks are now more active in a wholesale capacity. Some of them are just doing real estate deals, or debt capital markets transactions built off the returns from portfolios. They are literally doing wholesale and investment banking rather than retail Islamic banking."

Today there is just one fully-fledged Islamic bank operating retail services in the UK. The Islamic Bank of Britain (IBB) has not made a profit since it opened in 2004. By 2009 it was reported to have just 50,000 customers — just 1.8% of the UK Muslim population — and in 2011 saw a loss of GBP9 million (US$14.4 million). The bank is a subsidiary of Qatar International Islamic Bank (QIIB) which owns 88.41%, and it was recently announced that QIIB will purchase the remaining share for GBP40 million (US$64 million) to take over the bank completely, in what seems to be a final admission of failure for the struggling retail bank. And in worse news, it is reported that QIIB is not even interested in keeping IBB for itself, but has confirmed that it is already in talks with Masraf Al Rayan to sell 70% of IBB straight on, with the government of Qatar reported to be buying the other 30%.

Glimmer of hope

Of course, the outlook is not this gloomy in all markets, and the outlook for Islamic retail banking is not as grim as it sounds. Despite HSBC's recent closure of its UK operations, the country still has a strong retail offering. Iain Lindsay, the British

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ambassador to Bahrain, commented at a recent conference that: "In the UK we have a proven record of developing and delivering retail domestic and wholesale international investment Islamic financial services and products and the necessary legal and financial skills and expertise to take full advantage of this key market." He added that: "We have 22 UK banks which offer Islamic banking of which five are fully Shariah compliant, more than any other Western country."

And of course the sector is still seeing strong growth in core markets in the Middle East and Asia. Standard Chartered reportedly saw revenue from its retail operations in the UAE grow by 65% in 2011, confirming that in the core markets for Islamic finance there is a real and growing demand that needs to be serviced.

Local focus

But no matter how much excitement is generated about the growth figures for Islamic finance, the industry will never be able to achieve serious size unless it is able to forge a successful model to appeal to the global Muslim population, including those in non-Muslim majority countries. In the US for example there are estimated to be over six million Muslims with an average household income of US$53,000 per year; yet the market remains woefully underserved with few retail offerings of any scale.

HSBC's recent restructuring suggests that international banks are struggling to maintain profitable operations, but that does not mean that the opportunity is not there. Some believe that it simply shows that local and regional banks are better placed than the big international banks to offer the appropriate products and services. "You need a strong understanding of the local market," says one banker. "It costs too much for a big international bank to get that off the ground, but local banks already have that presence, so they have a competitive edge."

Gloomy future

However, many experts remain concerned for the future of Islamic retail banking. "The numbers exist, the demand should be there, so why are Muslims not banking Islamically? It comes back to price and product integrity," says the banker. "Muslims want the best deal, just like everyone else."

Jawad agrees. "It is going to come down to a price comparison for the individual. So in a way it is a natural thing. HSBC are realizing that they just can't do it in all countries, especially where the populations of those countries are not strict Muslims. Where they have other choices they will not, on the retail side, necessarily voluntarily bank with an Islamic institution."

Until a viable, cost-effective and attractive proposition is developed that allows Islamic retail banking to realistically compete with conventional banking, it looks like the market will continue to flounder. — *LM*

Change is a-coming

Editor's Note

On the 23rd October 2012 Barack Obama, the president of the US, completed the third and final round of debates with presidential hopeful Mitt Romney, in a war of words seen as crucial to deciding votes when the country goes to the polls come the 6th November. As during the 2008 presidential race, Obama's rhetoric on change which shaped the platform of his inaugural campaign continues to ring wide and true across the global economic and financial landscape, as we continue to battle slow growth and an increasingly challenging environment for financial institutions.

Although inevitable, change however has many faces, good and bad. More often than not, only time will tell whether decisions taken now will pay off or prove to be more costly in the long-run. The Islamic finance industry itself is no stranger to change, such as HSBC's recent sweeping measures to slash its Islamic retail banking business; and this week, our cover story studies the further implications for Shariah compliant consumer banking amid a backdrop fraught with impediments.

Other markets which have seen change include Saudi Arabia, where Ahmed Butt of law firm Simmons & Simmons Middle East, in alliance with Hammad & Al Mehdar, writes on new mortgage laws and its implications for Islamic finance transactions.

On a more somber note, Hamid Harasani of law firm Taylor Wessing in London writes on what is the most permanent change of all, contributing a feature on Islamic laws on wills and inheritance.

Meanwhile, Jamal Hijres of Capinnova Investment Bank writes on Islamic structured finance; and Dr Syahida Abdullah of the International Shari'ah Research Academy for Islamic Finance (ISRA) contributes our Takaful feature this week on risk management.

Our IFN Reports cover investing in the Middle East; a proposed ban on the Islamic windows of conventional financial institutions operating in the Qatar Financial Center; and the merger of Islamic banks in the Gulf, while our IFN Correspondents write on developments in Kuwait and Saudi Arabia. Insider looks at Qatar International Islamic Bank's (QIIB) expansion plans.

Meet the Head talks to Mohamed Donia, CEO of IdealRatings; and our Case Study highlights QIIB's US$700 million Sukuk issuance.

DEALS

Fully subscribed

BAHRAIN: The government has issued BHD20 million (US$51.8 million)-worth of short-term Sukuk Al Ijarah, receiving subscriptions amounting to BHD52.5 million (US$135.96 million).

The expected return for the notes, maturing on the 18th April 2013, is 1.19%.

Sukuk for SMEs

MALAYSIA: A RM1 billion (US$328.5 million) fund for the development of small and medium-sized enterprises (SME), announced under Budget 2013, will be financed through the issuance of Sukuk, said Mukhriz Mahathir, the deputy minister of international trade and industry.

Egypt prepares Sukuk

EGYPT: The government is in talks with 10 international banks to arrange the issuance of its first Sukuk, worth up to EGP1 billion (US$163.32 million), according to Samy Khallaf, the head of the debt department at the finance ministry.

The Sukuk is expected to be issued once the IMF has approved the government's appeal for a US$4.8 billion financing package.

Sukuk for refinancing

MALAYSIA: CerahSama, which owns a toll highway operator, is seeking approval from Sukukholders for the issuance of a 20-year Islamic medium-term notes (IMTN) program of up toRM750 million (US$246.8 million) to refinance an existing IMTN program of the same amount.

The current outstanding from the existing program is RM380 million (US$124.57 million).

Islamic financing for Emicool

UAE: Emirates District Cooling Company (Emicool) has secured a 10-year, AED793 million (US$215.84 million) Islamic financing facility which will be used to refinance existing debt.

The firm received the funds from banks including Mashreq Bank. Other banks involved in the financing were not disclosed.

Al Salam oversubscribed

BAHRAIN: The government's monthly issue of Sukuk Al Salam worth BHD18 million (US$47.08 million) was oversubscribed by 243%.

The Sukuk will mature on the 23rd January 2013 and is expected to return 1.02%.

Tüpraş in Islamic deal

TURKEY: Local industrial conglomerate Tüpraş has signed a US$200 million Shariah compliant financing agreement with nine banks.

QInvest arranged the one-year facility, which also saw the participation of Ahli United Bank, Al Hilal Bank, Barwa Bank, Commercial Bank of Qatar, Doha Bank, Dubai Islamic Bank, First Gulf Bank and Qatar Islamic.

Seeking approval for Sukuk

SAUDI ARABIA: Local food refiner The Savola Group announced on the 22nd October 2012 that it will seek shareholder approval to issue securities including Sukuk.

DEAL TRACKER Full Deal Tracker on page 32

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
MNRB Holding	RM	49.17 million	5th October 2012
Banque Saudi Fransi	SAR	666.6 million	4th October 2012
Edaran SWM	RM	327.8 million	4th October 2012
International Islamic Liquidity Management Corporation	US$	200 to 500 million	4th October 2012
Turkish Airlines	TBA	TBA	4th October 2012

Hong Kong's Noble Group completes maiden Sukuk sale

GLOBAL: Hong Kong-headquartered Noble Group, a supply chain manager of natural resources, completed the issuance of its inaugural Sukuk on the 16th October 2012, marking a rare move by a Chinese firm to tap the Islamic finance market.

The company, which is also listed in Singapore, issued RM300 million (US$98.66 million)-worth of Shariah compliant notes under the first series of a 20-year Islamic securities program of up to RM3 billion (US$986.64 million) or its equivalent in foreign currency.

Its debut Sukuk, structured as a Murabahah, has a three-year tenor and will pay a profit rate of 4.5%.

AmInvestment Bank and Standard Chartered Saadiq were the joint lead arrangers and joint principal advisors of the Malaysia-issued notes, while Bank of America Merrill Lynch acted as the international financial advisor to Noble.

While Chinese firms' involvement in Islamic finance is uncommon, this is not Noble's first foray into the Islamic finance space, nor is it the company's first exposure to the Malaysian market. In 2008, it secured a US$80 million syndicated revolving commodity Murabahah facility from five banks including Kuwait Finance House Malaysia.

The company set up its Sukuk program in March this year. RAM has assigned a final long-term rating of 'AA2' to the program, supported by Noble's position as a leading global bulk commodity supply-chain provider. "The rating also reflects Noble's solid liquidity position and substantial financial flexibility," said RAM, adding that the company's strong commitment to risk management has enabled it to remain profitable amid the economic downturn.

AFRICA

GFH modifies project

MOROCCO: Gulf Finance House (GFH) has announced the restructuring of a financing facility from BMCE Bank used for the construction of its Royal Ranches Marrakech property project in Morocco.

GFH also said that in response to changing market conditions, it will build small and medium-sized apartments instead of luxury villas at the development.

ASIA

Early redemption

MALAYSIA: LBS Bina Group has partially redeemed the first tranche of a RM15 million (US$4.91 million) Sukuk program and the third tranche of a RM20 million (US$6.54 million) Sukuk program ahead of maturity, contributing to cost savings of around RM1.7 million (US$556,053).

Record Sukuk sales

MALAYSIA: Sukuk issuances in the country reached RM219.4 billion (US$72.16 billion) at the end of August this year, against RM120.7 billion (US$39.7 billion) a year earlier, according to Zainal Izlan Zainal Abidin, the executive director of Islamic capital markets at Securities Commission Malaysia.

Malaysian Sukuk sales accounted for 74% of the total US$93 billion-worth of global Sukuk issued in the eight month period.

Expanding Islamic business

MALAYSIA: OSK Investment Bank is increasingly looking at Islamic capital market activities as part of plans to expand its Shariah compliant business, according to Yazit Yusuff, its head of Islamic banking.

The bank is considering new Shariah compliant banking products and services including an Islamic stockbroking window, Shariah compliant equity derivatives and setting up a fully-fledged Islamic fund management subsidiary.

Yazit also said that the bank aspires to offer its Islamic funds in Hong Kong and Singapore.

New offering from CIMB Bank Singapore

SINGAPORE: CIMB Bank Singapore has launched two new Shariah compliant deposit accounts as it expands its Islamic consumer banking business in the country.

New Shariah standards

MALAYSIA: The central bank has issued Shariah standards for products and services based on the Mudarabah structure, aimed at standardizing contracts used in Islamic finance transactions.

The standards, which are to be used as a guide by Islamic financial institutions for developing Mudarabah products, details mandatory and optional features applicable to Mudarabah contracts.

EUROPE

Turkey seeks Islamic finance education

TURKEY: The government is looking to collaborate with INCEIF to develop Islamic finance education in the country, according to Daud Vicary Abdullah, the president and CEO of INCEIF.

GLOBAL

Hotbed for growth

GLOBAL: The Islamic banking industry is expected to grow 20% annually due

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Pos Malaysia to deliver Islamic finance services abroad?

MALAYSIA: National postal service Pos Malaysia, which has increased its exposure to Islamic finance via partnerships with financial institutions, expects to finalize the acquisition of a courier company in the Middle East by the end of this year, leaving room for the Malaysian company to expand its Shariah compliant services in a rich Muslim market.

The company, which shares the same owner as Bank Muamalat Malaysia, tied up with the Islamic bank earlier this year to offer the bank's Ar-Rahnu pawn broking services at selected Pos Malaysia outlets. Additionally, from an initial rollout of 50 Ar-Rahnu branches in 2012-2013, the company is targeting the establishment of a further 50 branches for the service in 2013-14, as it seeks for the service to become a core business.

The postal company is also an agent for Etiqa Takaful and Syarikat Takaful Malaysia, with its partnerships with the Takaful operators, along with eight other insurers, bringing in more than RM125 million (US$40.92 million)-worth of premiums in the first half of its 2013 financial year.

Analysts have been positive on the postal carrier's tie-ups with financial institutions, noting that it will boost Pos Malaysia's fees from over-the-counter transactions; while observers have also opined that the company's nationwide network of post offices makes it well-placed to tap into the consumer banking segment.

With its partnerships with financial institutions, including Islamic banks and Takaful operators, boosting revenues for the postal service, its potential expansion into the Middle East, with its large Muslim population, could allow Pos Malaysia to deliver Islamic financial services outside its local market.

continued...

to ample liquidity in the Islamic and emerging markets, according to Baljeet Kaur Grewal, the managing director and vice-chairman of KFH Research.

The industry is also projected to grow at a faster rate in emerging markets which have been resilient amid the global economic crisis.

IBB still up for sale

GLOBAL: A proposal by Qatar International Islamic Bank (QIIB) to take over Islamic Bank of Britain (IBB), in which it already owns 88.4%, was rejected at a meeting of IBB's shareholders on the 12th October.

QIIB announced its offer to acquire IBB on the 6th September, in a deal valuing the UK bank at GBP35.5 million (US$57.3 million).

Meanwhile, Masraf Al Rayan, which has also expressed interest in acquiring IBB under a 70:30 partnership with the Qatari government, still has until the 12th November 2012 to submit a formal offer for the transaction.

Barclays' Islamic business gathers momentum

GLOBAL: A year since Barclays Bank received approval from the Dubai Financial Services Authority to operate its global Islamic products business via a window in the Dubai International Financial Center, the UK banking group has announced plans to expand its Shariah compliant business, and appears to be targeting the African market.

Most recently, Barclays Bank of Kenya announced that it will offer Islamic asset financing for its corporate clients; and has allocated US$30 million for the venture.

The announcement follows reports that Barclays Bank Egypt is considering the possibility of commencing Islamic banking services in Egypt, as it seeks to mirror the success of its Islamic business in South Africa, offered through Absa Islamic Banking.

Barclays' renewed push for Islamic banking comes after a period of relative quiet, possibly as the banking group contended with the financial crisis in Europe and the aftermath of its involvement in the Libor-rigging scandal.

Its Islamic business itself saw a setback last year on the departure of Harris Irfan, who headed the operations via Barclays Capital and Barclays Wealth in Dubai. His exit created a period of uncertainty for the group, with the market speculating that Barclays could have decided to retreat from the Islamic business.

However, the business subsequently saw the appointment of Dr Dominic Selwood as the director in charge of its Islamic products and services at Barclays Capital.

With its core business mired in scandal and the global financial crisis threatening the profitability of Europe's banks, Barclays' move to strengthen its Islamic business could prove to be a tonic for the banking group amid the ailing environment.

Shariah compliant football

GLOBAL: GFH Capital has reportedly disclosed that Leeds United Football Club (LUFC), which it is planning to acquire, receives less than 5% of its total

continued...

RATINGS

Strongly rated

QATAR: Fitch has assigned a final rating of 'A-' to Qatar International Islamic Bank's US$700 million Sukuk.

Ratings reaffirmed

MALAYSIA: RAM has reaffirmed its rating on Sarawak Power Generation's RM215 million (US$70.32 million) Sukuk program at 'AA2(s)', with a stable outlook.

Stable support

THAILAND: Fitch has rated Islamic Bank of Thailand's long-term issuer default rating at 'BBB-', with a stable outlook.

Solid support

MALAYSIA: Fitch has affirmed MNRB Retakaful's insurer financial strength rating at 'BBB+' with a stable outlook.

Stable ratings

MALAYSIA: MARC has affirmed its ratings on Alloy Properties' RM240 million (US$78.6 million) medium-term Sukuk at 'AAIS'; with a stable outlook.

continued...

revenue from non-Shariah compliant sources.

The revenue is below the compliance threshold set by Shariah scholars and the firm has also implemented a plan to ensure the club's adherence to Islamic law going forward, it said.

LUFC's stadium however houses outlets which sell pork and alcohol, in addition to windows for betting.

This may delay approval for the deal from Shariah scholars, Sheikh Bilal Khan, a scholar at law firm Linklaters is quoted as saying. The assets may also need to be injected into a separate entity.

MIDDLE EAST

Strong prospects

OMAN: Domestic Islamic banking assets are projected to overtake those of the conventional sector by 2020, driven by strong consumer demand, according to Khalid Yousaf, a director of Islamic finance advisory services at KPMG Oman.

ADIB reports profit

UAE: Abu Dhabi Islamic Bank (ADIB) reported a profit of AED328.5 million (US$89.41 million) for the third quarter ended the 30th September 2012, in comparison to a profit of AED319.1 million (US$86.86 million) recorded in the same period a year earlier.

Revenue rose 12.1% year-on-year to AED924.1 million (US$251.53 million), while total credit provisions and impairments increased to AED958.5 million (US$260.9 million) from AED938.9 million (US$255.63 million).

Higher profit at JIB

JORDAN: Jordan Islamic Bank (JIB) has announced a year-on-year increase of 35% to US$39.92 million in its net profit for the third quarter ended the 30th September 2012.

Profits at Islamic Holding Group

QATAR: Local brokerage Islamic Holding Group reported a net profit of QAR5.61 million (US$1.54 million) for the quarter ended the 30th September 2012, against a profit of QAR3.74 million (US$1.03 million) a year earlier.

QIB reports results

QATAR: Qatar Islamic Bank (QIB) reported a 2% year-on-year growth in net profit to QAR1.13 billion (US$310.15 million) for the nine months ended the 30th September 2012, with total assets rising 26.7% to QAR66.8 billion (US$18.33 billion).

Data protection deal

UAE: Sharjah Islamic Bank has entered into an agreement with information and communications technology firm Etisalat, to store data at Eitasalat's Data Center.

Tamweel profits shrink

UAE: Tamweel recorded a net profit of AED45 million (US$12.25 million) in the nine months to the 30th September 2012, against AED71 million (US$19.33 million) a year earlier due to higher provisions.

Operating income was however slightly higher at AED452 million (US$123.03 million) from AED446 million (US$121.4 million) in the previous corresponding period.

Coming up...

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IFN Correspondent Report
New economic challenges in Europe: The necessity of Islamic finance; By Kader Merbouh, co-head of the executive master of Islamic finance, Paris-Dauphine University, France.

Features
Private equity and venture capital partnerships in the US; By Arshad Ahmed, managing director of Elixir Capital, US.

Islamic finance wealth management financial planning; By Ali M Shervani, country head at Fin8, India.

Islamic finance — growth strategy model; By Umer Majid, head of Islamic finance at Halal Investments, UK.

MOVES

Citigroup

GLOBAL: **Vikram Pandit** has resigned from his position as CEO of Citigroup and will be replaced by **Michael Corbat**, previously CEO of Citi Holdings.

John Havens, the president and chief operating officer of Citigroup, has also resigned.

International Islamic Liquidity Management Corporation

GLOBAL: International Islamic Liquidity Management Corporation has appointed **Dr Rifaat Ahmed Abdel Karim** as its CEO, replacing Mahmoud AbuShamma.

Dr Rifaat, who was the first secretary general of the IFSB, is also an adjunct research professor at INCEIF.

Standard Chartered Bank Qatar

QATAR: Standard Chartered Bank has named **Motasem Duweik** as its head of origination and client coverage and co-head of wholesale banking in Qatar.

Crunch time in the Middle East?

The Middle East is still reeling from the effect of the global financial crisis several years ago. According to M.R Raghu, the head of research at Kuwait Financial Center (Markaz), stock market investing and real estate were two essential pillars that provided occupational engagement to many GCC nationals and the collapse of both of these asset classes meant significant contraction in many respects.

In his recently published report titled: 'GCC Liquidity: The Main Casualty of the Global Financial Crisis', he stated that stock market liquidity peaked at over US$ 1.6 trillion in 2006 before experiencing annual declines of about 40% in 2007, 2009 and 2010 when it reached a low of US$296 billion.

> ***"Investors are fickle, often positioning one firm's ideas against another, to their detriment"***

This he said caused many brokerage houses to shut down their operations. The GCC stock markets have since recovered to US$354 billion last year and in the first half of 2012, the value traded stood at US$371 billion — assuring in his observation.

However, such arid conditions do not correlate to the investors' wealth in the region. According the Boston Consulting Group's annual report on private wealth, the Arab Spring has minimal effect on the private wealth in the Middle East and Africa region as it grew 4.7% to US$4.5 trillion last year, driven by high savings rates and double digit growth in oil-rich countries such as Kuwait and Saudi Arabia.

The report further stated that compound annual growth rate of private wealth in the region is projected at 6.6% in 2016.

Grumbles of the 'decline' in the Middle East have even transcended conventional finance into the Islamic space as well.

The last three years have seen numerous Sukuk defaults and the restructuring, merger and closure of troubled Islamic banks as well as asset management and investment firms.

Even conventional market players which once regarded the Middle East as a hotspot for investment and opportunities in the Islamic space are slowly scaling down or shifting their operations back to their home countries or other regions.

Asked why investors in the region are no longer buying the types of investments that most of the regional investment firms are producing, Douglas Clark Johnson, CEO and chief investment officer at Codexa Capital, explained that the fragmented nature of financial advisory services in the Middle East often translates into tactical relationships in which firms are less-focused on portfolio design and more-focused on product sales.

"As a result, many firms relegate themselves to a me-too status in product development, wanting to emulate others' successes. The product-launch process, which may take six-to-nine months, if not longer, means that major firms seldom find themselves on the cutting edge." In addition to that investors are fickle, Johnson adds, often positioning one firm's ideas against another, to their detriment.

Private equity, once the darling of Islamic investors in the region several years ago, is now but a memory, according to one market player. According to KFH Research, the total size of the Islamic private equity fund industry was estimated at US$8.9 billion — compared to an estimated US$500 billion in the conventional space. This is partly attributed to finding viable investments in the region where the majority of family-owned companies are reluctant to sell off stakes to private equity firms.

Johnson stood firm with the view that 2011 was one of the worst years on record for the raising capital in the private-equity industry. Citing risk-aversion and diminished portfolio liquidity as the reasons, he expects investors to grow more comfortable with the asset class as the global economy improves, supporting the outlook for successful exit strategies.

He was optimistic that the best private equity opportunities globally are in the economies seeing widespread transformation which included the Middle East as well.

So to sum it up, is the Middle East an attractive as an investment region? According to Johnson, there is an emphasis of home-market bias in his investment firm's allocation work making the Middle East still an attractive region to burgeoning local pools of institutional and individual capital.

"It's perfectly natural for investors to want to benefit from at-hand opportunities. But the opposite also holds for distant investors, who in general have constrained allocations to emerging- and frontier-markets. We expect that to change as the US rally tires, the outlook for Europe remains muddled, and Japan falters in meeting growing expectations. We're beginning to see heightened interest among US managers for non-traditional opportunities."

He believes the Arab Spring has had limited interest in the region to "all-but-specialist investors". He is of the view that many of the objections to Middle East investment were wholly artificial, but nonetheless the perception was very powerful as the Middle East was not been at the top of the list for many global names, largely because of volatile newsflow.

More importantly, Johnson feels that the Middle East capital markets are in competition with opportunities worldwide. He says success in attracting capital depends on structural issues like depth of disclosure standards, but it also depends on confidence in economic policy as well as global risk tolerance.

"The Middle East does not have a monopoly on Shariah compliance. To the extent that Gulf institutions can develop appropriate Islamic product from a portfolio allocation perspective, they will be successful in attracting a greater degree of Shariah-sensitive capital to local opportunities. A more constructive global backdrop will certainly pave the way." – *RW*

Striving for uniformity in Qatar's Islamic finance sector

In February 2011, the Qatar Central Bank (QCB) prohibited conventional banks from operating Islamic windows. Over a year later, the Qatar Financial Center Authority (QFCA) released a consultation paper proposing to carry out the same measure in the QFC, in a move that is seen to avoid regulatory arbitrage and hoped to increase investor interest to the financial center.

"The news that QFCA-licensed banks will now be subject to a similar ruling is seen as a positive development by many. It shows that the QCB's policy of separating conventional and Islamic banking businesses has been successful and has led to greater stability and balance in the banking market," said Amjad Hussain, a partner at K&L Gates (Qatar), in response to Islamic Finance *news*.

He added that QFCA's move to follow the QCB's lead is a good development, showing that the regulators are working well together and looking after the wider interests of the Qatari economy.

An important point is that the QFCA's proposal will nip opportunities for regulatory arbitrage in the bud, while leading to standardized rules throughout Qatar, promoting regulatory certainty and investor confidence. Jeremy Ingham, a partner at Trowers & Hamlins (Bahrain), noted that: "The existence of the QFC and Islamic windows ensures that Qatar does not lag behind its rivals in securing the largest global financial institutions to its shores.

"However such economic freedom is to be finely balanced against the protection of Qatar's traditional Islamic finance industry and uniformity of its regulation."

He added that from the QCB's ban on Islamic windows of conventional banks, it appears that the central bank saw an asymmetry in Qatar's financial regulatory landscape. "Such asymmetry produces a regulatory arbitrage that allows companies to pick and choose different regulatory practices and profit from the choice.

"Whereas this regulatory arbitrage offers an attractive forum for foreign banks to invest in Qatar, this must not be at the expense of the regulatory system. The QFCA, by extending the ban on Islamic windows has therefore sought to promote the QFC by securing its regulatory integrity rather than allowing attractive loopholes for investors," said Ingham.

He added however that the amount of money flowing through Islamic windows in the QFC is believed to be relatively small, thus a closure of the windows would create a negligible impact.

"The effect would therefore be negligible. Of course investors that would previously be attracted to the QFC for this specific regulatory arbitrage would presumably look elsewhere. It is suggested however that this is a limited demographic of companies.

"Instead it is hoped that the uniformity in regulatory regime will be its own attraction as investors can rely on a consistent approach to providing financial services whether these be conventional or Islamic," said Ingham.

He also noted that the ban on Islamic windows will likely boost the growth of fully-fledged Islamic banks. "It was estimated at the time of the [QCB's] original decision that commercial banks possessed around 20% of the Islamic finance activity in Qatar. If such institutions are forced to sell these assets then this will be for the benefit of the wholly Islamic institutions.

"With this commercial strength and a consistent regulatory approach it may well be that the decision to ban Islamic windows across the whole of Qatar allows it to thrive as a center of Islamic finance," he said. – *LR*

Gulf's troubled Islamic banks in merger deals

The shareholders of Bahrain's Ithmaar Bank have approved a plan for it to merge with its associate First Leasing Bank, a year since Islamic Finance *news* first reported the deal.

The shareholders of both banks have now agreed on the deal, which remains subject to final regulatory and legal approvals. The US$60 million merger will see a four-for-one share swap, increasing Ithmaar's paid-up capital to US$758 million from US$701 million, according to Khalid Abdulla-Janahi, the chairman of Ithmaar, among banks once plagued by the 2008 financial crisis.

The transaction is among the few mergers of Islamic banks that have emerged in recent years and follows the near-completion of the UAE's Emirates Islamic Bank (EIB) and Dubai Bank merger which has been in motion since last year.

In an announcement on the 23rd October 2012, Emirates NBD (ENBD), which owns the UAE Islamic banks after taking over the ailing Dubai Bank a year ago, announced that the embattled bank will be rebranded as EIB, in an exercise that will be completed by the end of November this year. The remaining integration of EIB and Dubai Bank's core banking systems will be finalized by the end of the year.

The EIB-Dubai Bank deal is one that Ithmaar and First Leasing may want to take a page from, with the banks adopting a measured and transparent approach to avoid prickly issues which can arise from management changes.

As noted by ENBD: "Following the takeover of Dubai Bank on the 11th October 2011, an integration committee was established to oversee the assimilation of Dubai Bank into the Group."

EIB-Dubai Bank's integration involved the appointment of Jamal Ghalaita, formerly CEO of EIB, as CEO of Dubai Bank. ENBD also hired a unified executive committee to manage the two Islamic banks, comprising senior management from both.

With two mergers this year shifting the landscape of some of the Gulf's most troubled Islamic banks, only time will tell whether the change will add value to the entities or only hinder their further growth. – *EB*

An alternative mechanism to the sale of debt

KUWAIT

By Alex Saleh, IFN Correspondent

The sale of debt (Bay' al Dayn) consists of the sale of a payable right or outstanding receivable debt arising from either a transaction or services to either the debtor, himself or to a third party. Accordingly, in consideration for the sale of the debt, the purchaser would pay immediately in cash at par value or on a discount basis or on a deferred payment basis.

In the context of Shariah compliance, there is no clear statement on the prohibition on the sale of debt in the Holy Quran. Accordingly, there have been many divergent opinions and rulings among leading Islamic finance scholars on the permissibility of the sale of debt, particularly when the sale is to a third party non-debtor. On one hand, some Islamic jurists view the sale of debt to a third party as forbidden due to the seller's inability to cause delivery of the debt to the purchaser (third party); on the other hand, there are some Islamic jurists of the view that these debts amount to assets based on the principle that the obligation to pay the debt forms a tradable asset.

The sale of debt in the aforementioned scenarios involved a direct transaction between the possessor of the debt and the purchasing third party. In Kuwait we have implemented an alternative mechanism for the sale of debt (in this case installment obligations related to financed consumer products) which may be constituted through a series of transactions involving a commodity Murabahah agreement and a subsequent assignment and transfer of debt.

Under a standard commodity Murabahah agreement, the purpose is to facilitate the transfer of cash from the seller to the borrower utilizing the purchase and sale of commodities. Specifically, the seller will purchase a set of commodities at a discounted rate and sell the same to the borrower in consideration for deferred payments of an agreed upon price. The borrower, in turn, will resell the commodities on a cash basis, thus achieving liquidity.

In terms of Shariah compliance, there are also divergent views on the permissibility of this transaction.

In the context of the sale of rights to the proceeds from the installment obligations (rights to receivables), the possessor of the rights to receivables (the borrower) would enter into a commodities Murabahah transaction with the purchaser of the rights to receivables (seller), whereby the latter would purchase commodities at a discounted rate and sell the same to the borrower in consideration for an undertaking to make payments on an installment basis.

Accordingly, the borrower is now in possession of the liquid value of the commodities in consideration for a financial obligation to the seller. The borrower, however, as possessor of the rights to receivables will in a separate and unrelated transaction offer to the seller an assignment and transfer of the same to the seller in consideration for a cancellation of the installment obligations relating to the commodities Murabahah transaction. Correspondingly, the seller is now the respective possessor of the rights to the receivables which represents the value of the installment obligations, thus making the two separate transactions commercially feasible.

This alternative mechanism has been implemented and approved in Kuwait and we foresee more related structuring in the future within Kuwait and throughout the GCC as it relates to securitizing consumer financing.

Notwithstanding the above, given the divergent Islamic perspectives on the permissibility of the sale of debt, the proposed structuring may result in a dichotomy of opinions.

Nevertheless, the takeaway from this article is to highlight that the underlying structure of the sale of debt, in whatever fashion or mechanism, shall be construed with caution and catered in accordance with the respective viewpoints of relevant jurists.

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Capital markets developments in Saudi Arabia

SAUDI ARABIA

By Nabil Issa, IFN Correspondent

In January 2012, the Saudi Arabian Capital Markets Authority (CMA) published revised listing rules. The revised listing rules follow the public consultation launched by the CMA in May 2011 and contain a number of changes that will operate to create a more international-standard regime within the kingdom and open up the market for a wider range of securities. The listing of convertible debt instruments, contractually-based securities and warrants is now permissible.

It is now mandatory for issuers to appoint independent financial and legal advisors, each of whom must satisfy a new independence test set out in the listing rules. Further, offers of securities must be fully underwritten and underwriters must comply with the CMA's prudential rules. The disclosure obligations of issuers have also been broadened. All disclosures made to the market and to the CMA must be clear, fair and not misleading. The listing rules now provide investors with a withdrawal right or a right to amend their subscription application where they have subscribed for securities prior to the publication of a supplementary prospectus related to the offering.

The listing rules now permit cross-listings of a foreign issuer's securities on the Saudi Stock Exchange. However, this is at the CMA's discretion and provided that the listing rules applicable in the foreign issuer's jurisdiction of primary listing are at least equivalent to the listing rules. The listing rules do not provide any guidance as to which jurisdictions the CMA considers to be equivalent for this purpose. It is also not clear which provisions of the listing rules foreign issuers seeking cross listing on the Saudi Stock Exchange will be required to comply with.

There are now specific conditions that must be met by issuers seeking to increase their capital through a rights issue, capitalization issue or capital increase to acquire a company or an asset. On rights issues, the prospectus must contain a detailed breakdown of the use of proceeds. It should be noted that the listing rules now provide that no more than 25% of the total proceeds of a rights issue can be used for general investment purposes.

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QIIB leverages domestic strength for international expansion

Qatar International Islamic Bank (QIIB), which just completed its inaugural Sukuk issuance on the 18th October 2012, outlined a comprehensive expansion strategy in its Sukuk prospectus listed on the Irish Stock Exchange, disclosing plans to seek strategic partnerships in regional and international markets which could involve acquisitions.

The bank, which highlighted promising prospects in its Qatari home market, also noted its particular interest in the Southeast Asian market, while keeping an eye out for opportunities in the MENA region. "QIIB plans to establish and develop its presence in regional and international markets by seeking strategic alliances and/or partnerships within targeted markets (either directly or through equity investments)," it said.

In addition, the bank outlined strategies for its organic expansion, following a reorganization of its divisions in 2011 which segmented its business lines into four operational divisions.

Asian ambition

In its most telling disclosure of its plans abroad, QIIB told investors that it is evaluating Indonesia, Singapore and Malaysia for the establishment of a regional presence in Southeast Asia.

"QIIB believes that the Southeast Asian region is fast establishing itself as an Islamic financial center with its natural Islamic population bases and therefore presents opportunities for Islamic banks.

"Initially, QIIB plans to establish a representative office in a Southeast Asian country. This representative office will support the development of the bank's trade finance services. Depending on suitable business opportunities arising, QIIB then intends to establish a permanent unit such as an offshore branch in order to create a permanent present in Southeast Asia," it said. It added that it has held early talks with the Moroccan government to explore the possibility of supporting the establishment of Islamic banks and Takaful firms in the country.

QIIB's current investments in entities outside Qatar include in Syria International Islamic Bank (SIIB), International Bank of Britain and the Pak-Qatar Family Takaful as well as Pak-Qatar General Takaful companies in Pakistan. The bank also noted US sanctions imposed on SIIB; stating that it continues to hold a 20% stake in the bank but is not "currently actively involved in, or capable of influencing, the management and operations of SIIB."

The bank said that it would continue to develop its existing investments in Pakistan and in Syria, where it also owns 20% of Syria Islamic Insurance Company. Its further investment in Syria is however subject to developments in relation to sanctions.

> *"QIIB plans to establish and develop its presence in regional and international markets"*

Regional opportunities

Amid plans to expand its presence further afield, QIIB also expressed interest in strengthening its franchise closer to home, taking measures to establish itself regionally through strategic acquisitions, either directly or in partnership with other Islamic businesses.

"Social and economic developments within the [MENA] region provide opportunities for QIIB to leverage off the growth expected in the Qatari market in order to establish its presence in selected markets across the wider MENA region," it said.

In particular, QIIB highlighted countries such as Egypt and Tunisia, which have undergone significant change in tandem with political developments in the MENA region. "With predominantly Muslim populations in both countries, the situation presents opportunities for Islamic banks such as QIIB to enter these markets," it said.

Meanwhile, back home, the bank has identified opportunities tied to Qatar's 'National Vision 2030', which focuses on areas including economic development that, in turn, support the need for financial products and services. Additionally, the bank highlighted infrastructure and sporting facility development opportunities that will arise from Qatar's preparations for hosting the 2022 FIFA World Cup.

Its other plans for growing in its home base include tapping into the wealth expected to be generated from Qatar's economic growth by expanding the bank's corporate financing division, developing an affluent banking business line within its retail financing division and moving away from its real estate-focused financing portfolio.

The bank also noted that the closure of conventional banks' Islamic windows in Qatar has opened a door for the bank to acquire a bigger market share domestically by acquiring customers from its peers' defunct operations.

Organic growth targets

The bank's expansion strategy comes on the back of a reorganization of its operating units in 2011, which segmented its businesses into four main areas of focus, namely: retail financing, commercial (small and medium-sized enterprise [SME]) financing, corporate financing and investment and treasury.

Efforts planned under this approach include targeting to grow its commercial (SME) financing assets and liabilities by at least 20% over five years from 2011-16. It has also further segmented its corporate financing assets into separate portfolios for government and government-related entities and private corporate entities. "QIIB will place a particular emphasis on projects in oil and gas, utilities and telecom, aviation, health, education and rail sectors and continue to move away from pure real estate financing," it noted.

Meanwhile, its regional and international expansion plans also play a part in strategies under its investment and treasury business line, where the bank aims to leverage opportunities in alternative international and "cornerstone" investments to help cement its position abroad. Additionally, QIIB plans to develop products such as investment funds and explore the potential of direct investments in equities and sector or investment-strategy specific funds. — *EB*

Qatar International Islamic Bank's US$700 million Sukuk

Qatar International Islamic Bank (QIIB) completed its first international debt capital market offering on the 18th October 2012, issuing a US$700 million Sukuk.

The sale represented a significant milestone for the bank, with Abdulbasit Ahmed Al Shaibei, its CEO, noting that the issuance has allowed QIIB to establish its credit story in the international markets.

> *It was important for us to establish our credit in the international markets*

Orderbook and pricing

After pricing on the 11th October, the five-year notes were issued at a profit rate of 2.69%. Early price guidance for the issuance was set at 190-195 basis points over midswaps.

The issuance attracted more than US$5 billion-worth of subscriptions from investors. Sheikh Dr Khalid Thani bin Abdulla Al-Thani, the managing director and chairman of QIIB, noted that the successful issuance reflected the bank's strong financial position as well as its high ratings from agencies. Moody's and Fitch have rated the bank at 'A3' and 'A-', respectively.

Pricing on the notes is also comparable to a US$750 million Sukuk issuance by QIIB's counterpart, Qatar Islamic Bank, which was completed a week earlier offering a profit rate of 2.5%.

Investors

The issuance saw the participation of a diverse base of investors, with Middle East investors allocated 50% of the notes, followed by Asian investors (30%) and UK/Europe/US offshore accounts (20%).

"In terms of investor type, the transaction was distributed amongst a wide range of high quality accounts," said QIIB in a statement.

Abdulbasit commented that: "QIIB is very pleased with the success of the transaction, which highlights the confidence placed by investors in the bank's credit story and its strategy. Given the inaugural nature of the transaction, it was important for us to effectively establish our credit in the international markets; we believe that we have achieved this objective."

Building capacity

Sheikh Dr Khalid also noted that the fundraising is in line with the bank's strategy to actively participate in financing large projects, especially in infrastructure, in view of the rapid development taking place in Qatar. In the Sukuk's prospectus, QIIB also noted expected opportunities to finance the development of infrastructure and sporting facilities in preparation for the 2022 FIFA World Cup in Qatar.

The bank also plans to establish and develop its presence in regional and international markets by seeking strategic alliances and/or partnerships within targeted markets, either directly or through equity investments. Markets under evaluation for its expansion include Indonesia, Singapore, Malaysia and Morocco. — *EB*

Qatar International Islamic Bank
US$700 million Sukuk

US$700 million

INTERNATIONAL ISLAMIC الدولي الإسلامي

18th October 2012

Issuer	QIIB Sukuk Funding
Obligor	Qatar International Islamic Bank
Issuance amount	US$700 million
Tenor	Five years
Coupon rate / return	2.69%
Payment	Semi-annual
Currency	US dollars
Maturity date	18th October 2017
Joint lead managers and joint bookrunners	HSBC Bank, QNB Capital, Standard Chartered Bank
Co-lead managers	CIMB Bank (Labuan), Qatar Islamic Bank
Legal advisors	Walkers (Dubai) [for the issuer], SNR Denton UK and SNR Denton & Co (for QIIB), Allen & Overy (for joint lead managers)
Governing law	Cayman Islands, Qatar and UK
Shariah advisor	Shariah committees of QIIB, HSBC Amanah and Standard Chartered
Trustee	QIIB Sukuk Funding
Rating	'A-' by Fitch
Listing	Irish Stock Exchange

New Saudi Arabian mortgage laws: Opening the gates to real estate financing in the kingdom

The new Saudi Arabian mortgage laws introduce procedural clarity on the perfection and enforcement of mortgages and to some extent help to overcome the Shariah compliance obstacle posed by Saudi notaries public. AHMED BUTT examines.

The long awaited Saudi Arabian mortgage laws were finally approved on the 2nd July 2012. The new laws are set to open the gates for both domestic and international banks to offer an increased level of real estate financing, or general financing secured by real estate mortgages in the kingdom.

As expected, the suite of five laws consists of a) the control of finance companies law; b) the real estate finance law; c) the finance leasing law; d) the mortgage registration law; and e) the enforcement law. The laws are expected to be followed by implementing regulations shortly which will shed further light on how the laws are to be applied.

Previously, the protections afforded to international banks engaging in cross-border real estate financing in Saudi Arabia had been considered ambiguous and this was perceived to be a factor in limiting such financing activity. Banks will be encouraged by the blueprint set by the new laws in that a new mortgage registration regime and enforcement procedures have been introduced. However, this is countered by an increased level of governance, licensing and regulation of banks and other financing companies in their provision of real estate financing pursuant to the Control of Finance Companies Law.

Shariah conundrum resolved?

As previously reported, in the absence of a formal mortgage law, the prevalent practice amongst Saudi public notaries has been to refuse the notarisation of real estate mortgages in favor of banks due to a blanket assumption that any financing by banks must inherently involve an element of Riba payments in violation of Shariah principles.

However, one of the requirements of the new laws is that the financing must be carried out in a Shariah compliant manner and, in particular, the finance leasing law refers to Ijarah leasing. Additionally, the laws provide for the formation of a central body to register title deeds of the mortgaged real estate.

These developments would appear to resolve the obstacles posed by the notaries public in refusing to record the bank's interest on title deeds. Further, it appears that banks will no longer need to form alternative structures such as special purpose subsidiaries for the sole purpose of holding the real estate until the debt has been repaid. This, in turn, should help to increase appetite amongst corporate finance seekers who had previously found the alternative structures to be commercially unfeasible.

> *"One of the most pertinent restrictive factors which has limited real estate financing in Saudi Arabia is the uncertainty surrounding enforcement of security"*

Mortgage registry limitations

Although the Mortgage Registration Law aims to introduce an effective land registry system, it appears to be limited in scope. Registration will only be possible for mortgages over properties which meet certain building standards. Mortgages over properties which fall short of the building standards will have to be registered at a court or notary public. Accordingly, notaries will still have a role to play in the mortgage perfection process of certain properties and it remains to be seen whether the Shariah compliance conundrum posed by the notaries will survive the new laws.

Enforcement

One of the most pertinent restrictive factors which has limited real estate financing in Saudi Arabia is the uncertainty surrounding enforcement of security. The new enforcement law, in theory, delivers the much-needed clarity and protection that banks have been missing.

Enforcement will be facilitated by the new ability for banks to conclusively register an interest in the title documents through a central body. In addition, since the new laws envisage real estate financing based on the Ijarah model, the title to the real estate will remain with the bank during the lease period, thereby facilitating enforcement upon a default by the debtor.

Essentially, the enforcement law provides that in the event of a default, a bank has the right to foreclose on the properties, with the added ability to report defaulting debtors to a specialized central authority. An enforcement judge at the specialized central authority would then appoint enforcement officers to seize the relevant property and appoint an agent to sell the property to pay off the debts owed to the bank. Significantly, the new laws provide that in the event of bankruptcy or insolvency of the debtor a real estate mortgage would rank senior to all other securities, therefore giving the bank a preferred creditor status.

Significantly for international banks the new laws provide that, under certain circumstances, foreign judgements, judicial orders and awards of arbitrators may be enforced in respect of the secured real estate.

Additionally, the new laws envisage that a relevant body will be set up to prepare a database of debtors' assets which includes all types of assets including

continued...

Continued

real property, financial, commercial, intellectual and any other type of assets. The information on the database can be exchanged with foreign courts on judicial order. Ultimately, the assets are to be used to pay off the debts owed to the bank.

The enforcement law is also very practical and facilitates enforcement by the banks in urgent situations. For example, in the event that a bank fears that there is a risk of the secured assets being concealed or disposed, the law gives the bank the right to seek an order for provisional attachments of assets for the sake of expediency and urgency, even where an enforceable judgement order has not yet been issued.

Market impact

The new laws introduce procedural clarity on the perfection and enforcement of mortgages and, to some extent, help to overcome the Shariah compliance obstacle posed by Saudi notaries public.

Given that only Ijarah-based financing is referred to in the laws, banks which have been providing finance using other Shariah compliant structures (for example murabaha) may need to familiarize themselves with Ijarah structures as their preferred mode of financing. Whilst Murabahah financing is currently by far the most popular mode of financing in Saudi Arabia, if the availability of real estate security is limited to Ijarah-based financing, the new laws may be a precursor to a shift in market trend.

The implementing regulations relating to the new laws are now eagerly awaited to fully assess the impact on real estate financing in Saudi Arabia. Ultimately, the effectiveness of the new laws remains to be tested in the Saudi courts.

Note: This article is a follow-up to the author's article 'Proposed Saudi Arabian mortgage laws: Unlocking the Shariah conundrum' which first appeared in Islamic Finance news Vol 9 Issue 7 on the 22nd February 2012.

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De-mystifying the role of structured finance

Structured Islamic finance is a broad sector within the capital markets industry that generally focuses on structuring investments in specified cash generating assets. JAMAL HIJRES discusses.

Key elements of structured finance

Sometimes it is difficult to define structured finance because it differs depending on the bank or the institution, and so we can't apply a standard one-size-fits-all definition. Essentially there are three products that fall under structured finance: mortgage-backed securities (MBS), asset-backed securities (ABS) and collateralized debt obligations (CDO). MBS are backed by mortgages; ABS are backed by assets such as credit card loans, auto loans and student loans; while CDO are backed by investment grade loans, high-yield loans and other structured finance products.

An asset-backed security is just a security whose value and payments are derived from and backed by a pool of underlying assets. 'Structured' means that these securities are secured — backed by collateral — and so they're different from unsecured bonds, or in other words, high-yield debt. Structured finance enables companies to raise capital by creating these types of securities and then selling them to potential investors.

This key attribute of structured finance to reconfigure risks and to create reliable and secure assets from otherwise risky collateral led to a dramatic expansion in the issuance of structured securities worldwide. The majority of these securities were perceived by investors to be virtually risk-free and were also certified by rating agencies of global repute. But it was later understood that at the center of the recent financial crisis was the finding that these securities were actually far riskier than they were initially marketed.

For a business that is looking to expand its client base, and needs a quick liquidity injection to do it, structured finance may epitomize the most cost-efficient way to manage the fundraising. Along with the low amount of red tape involved with structured finance, this option moves swiftly, often much faster than obtaining a regular business loan.

A company acquiring another entity, which then unfortunately turns out to be a bad business decision, spends a lot of energy to correct this situation. Structured finance is an excellent way for a company that is emerging from such a rough patch to get the operating capital it needs to get back on its feet and begin to grow once again. If the company is healthy with a good past history, then it can capitalize on structured finance to eliminate the higher interest liabilities, effectively exchanging them for lower interest and more manageable repayments. The traditional finance sector may be reluctant to loan funds to small entities in such situations. On the other hand a structured finance scheme would evaluate the health of the company and consider the corporation a good risk that it is willing to undertake. However, the structured finance sector has undergone a complete makeover in the last few years.

> ***"The mortgage market used structured finance extensively and it was traditionally meant to provide liquidity to lenders and funding to borrowers"***

The challenges

The mortgage market used structured finance extensively and it was traditionally meant to provide liquidity to lenders and funding to borrowers. The 2008 housing bubble led to controversial views that structured finance had played a major role. It was accused of being too complex and not transparent enough in management or regulation.

What happened in each of the three categories of structured finance - MBS, ABS and CDO?

As per the Economic Trends report of the Cleveland Federal Reserve, US - the first category, namely the mortgage market, saw the total value of mortgage originations drop off around 2003 in the US.

The second broad category of securitized finance is ABS. The biggest categories here were securities backed by auto loans and by credit card loans, with securities backed by student loans as another large category. Issuance of ABS dropped off by about half after 2006. In addition, the share of total auto-loan debt fell from above 40% to 30%, while the share of credit card debt repackaged as ABS fell from more than 30% to around 15%.

The third category of structured finance, CDO, was the key culprit that actually triggered the housing price bubble. Issuance of these securities rose from less than US$100 billion in 2003 to about US$500 billion in both 2006 and 2007, at the peak of the housing bubble, and since has fallen to near-zero.

In addition, these CDO at their peak were largely based on mortgages, especially subprime mortgages. These were the financial instruments that started off with subprime mortgages, and then were divided into tranches. The junior tranches agreed to take the first of any losses that arose. Thus, the senior tranches—seemingly protected by the junior tranches — managed to get 'AAA' credit ratings, and thus regulators let banks hold these "safe assets".

When the housing bubble burst, and many of these subprime mortgages went sour, the popping of the housing market bubble leaked into the banking system. Today, CDO aren't based on housing. Instead, what remains of the market mainly involves securitizing investment-grade bonds and high-yield loans.

Structured Islamic finance

The Islamic finance industry is growing and is now spreading in other financial sectors like structured finance, insurance, project finance, mutual funds, syndicated

continued...

Continued

finance and investment banking, among other fields. On the geographical level too, Islamic banking has grown from the Middle East to Europe and now is well positioned in the South Asian and other global markets as well.

Today Islamic banks work with organizations and investors to create customized investment products offering various maturity, risk and return mechanisms depending on investors' risk appetite and investors' expectations.

Structured Islamic finance is a broad sector within the capital markets industry that generally focuses on structuring investments in specified cash generating assets. Due to the current market conditions and particularly the long-standing closure of the international securitization market, some Islamic banks have reorganized their structured finance business.

However, the Islamic finance industry has to weave in the key elements of Islamic structured finance that is Shariah compliant and, at the same time, make it an inviting and profitable proposition. A higher level of awareness needs to be generated to gain momentum in the Islamic structured finance space. The Islamic structured finance framework needs to be further developed, strengthened and consolidated. This can then be rolled out across the industry.

The use of Islamic finance structures has gradually grown over the past few years but a lot needs to be done to propel the growth. Investment in the funds market in the Middle East has grown annually, while the markets in the past five years have welcomed groundbreaking Shariah compliant securitizations and witnessed increased issuance in large-scale, internationally placed Sukuk.

Today banks offer structured and standardized Islamic finance, including Murabahah and Sukuk issuances to its clients. However, the sudden and prolonged liquidity freeze caused by the recession in both the local and international markets has triggered a greater need for alternative sources of funding in our region.

The disruption caused by the closure of the securitization markets in the west has also created a vacuum and a significant liquidity gap for asset owners. Banks can now also develop structured solutions to create alternative funding from Islamic investors in the Middle Eastern marketplace to invest in potential and largely undervalued assets in other international markets. Shariah compliant banks today normally consider investments in physical assets and generally focus on the real estate and other secure sectors.

> ***"Due to the current market conditions and particularly the long-standing closure of the international securitization market, some Islamic banks have reorganized their structured finance business"***

The way forward

Irrespective of whether you are an investment bank, insurance company looking to hedge your existing liabilities or seeking a competitive advantage in security selection, the margin for error in structured finance is finer than it has ever been. The industry can be stable or volatile, and the risk of default could also be higher. In order to address these challenges proactively it is therefore important to analyze and understand the underlying loans in structured products and thereby evaluate the market conditions on a real-time basis, so that the history doesn't repeat itself.

Jamal Hijres is CEO of Capinnova Investment Bank. He can be contacted at cc@capinnovabank.com.

Islamic law of wills: An overview

HAMID HARASANI takes us through the Islamic inheritance laws and explains how they are applied in practice.

Although the provisions of testate succession in Islamic law are relatively straightforward, the provisions of Islamic intestate successions are detailed and can be complicated. Unlike other laws, which may allow a testator to opt out, Islamic intestacy laws will always take effect, regardless of there being a will or not. This is because Islamic law restricts a testator in both the amount of his or her estate that can be distributed, and the nature of beneficiaries that he or she can transfer wealth to by virtue of a will.

Although there are a number of different schools of Islamic thought, for simplicity this guide will only deal with the prevalent opinions of Sunni Islamic law.

1. Testate succession

Testate succession is the distribution of the estate of a deceased in accordance with his or her will. The right of a Muslim testator to make a will is upheld in Islam and is known as Wasiyah. Islamic law actively requires a Muslim to make a will.

Form of a will

There is no prescribed form for an Islamic will. Though the above Sunnah states that a will should be written, Islamic jurists have affirmed that it could also be made orally. A written and witnessed will is preferred for evidential certainty. The will must be witnessed by two persons with mental capacity. Islamic jurists have differed over whether a female could be a witness in a will. It is safer to have two adult male witnesses. As long as the testator is alive, a will made by him or her is always revocable and will only be final after his death. A will may also lapse if the beneficiary predeceases the testator. In such a case, and if no alternate intention is apparent from the testator, the disposition towards the deceased beneficiary will result back to the testator's estate.

1.1 The testator

For a will to be valid, Islamic law requires a testator to:

1. Make a valid declaration, preferably in writing.
2. Be sane, having command of his mind.
3. Have legal capacity (which is the ability to make obligations to bind oneself and others).
4. Not to make a will in favor of something prohibited under Islamic law (e.g. a will for a brewery). Such a disposition would be void under Islamic law and would result back to the testator's estate.

1.2 The Beneficiary

A will can be made to any person or body capable of holding property as long as the person or body are actually or constructively in existence. By constructively this covers scenarios where – for example – a will is made to a child in a mother's womb. In such a case, if the child is born alive then he or she will be entitled to their share; if not, however, that particular share would result back to the testator's estate.
A non-Muslim can be the beneficiary of a Muslim's will but a will for a non-Muslim purpose will be void as discussed above with regards to making a will in favor of something prohibited under Islamic law.

A charity can be a beneficiary as long as it is a legal body. A testator can also make a purpose based will which states that an X amount will be given for a particular purpose (e.g. to build mosques or schools). If the amount designated to a particular purpose is a specific amount, then that amount should just be given outright to the purpose. In some cases, testators prefer to make a will in a way that would continue their legacy. So instead of donating a specific amount, they would donate the profit from a particular asset (e.g. the rent of my London property will be paid to maintain the mosque I have built). This is a perpetual desire by the testator and should be treated as such. In this case, a constructive Waqf (Islamic charitable trust) may arise providing the property subject to the will does not exceed a third of the testator's estate. This can also be said for a will that designates a class of beneficiaries (e.g. for the benefits of X's kindred and lineage). This will potentially create a constructive Islamic Waqf Ahli (Islamic family endowment). Some Islamic jurists have barred a person who kills a testator from being allocated a share of his will and have rendered such a disposition void by virtue of the killing. This is under the doctrine that it is inequitable to allow a person to benefit from his criminal act.

1.3 Subject-matter of a will

The subject matter must be in existence at the time of the testator's death (not necessarily at the time of making the will). If the asset is a live investment still generating income then the beneficiaries will be entitled to the income in accordance to their designated shares. The value of the investment at the time of the testator's death will form part of the estate and not its future income.

If the testator is in debt, then repaying the debt will take priority over satisfying any of the terms of his or her will. If the debt is larger than or equivalent to the whole of the testator's estate then the will will not be given effect. Covering the deceased's funeral expenses also takes priority over the will. However, a will does take precedent over intestate shares. This simply means that a will must be paid out first before satisfying the intestate shares. In other words, an intestate share will be measured in relation to the residue of the estate after debts and valid testatory dispositions are calculated, not before.

For example, Islamic intestate law allocates one quarter of a deceased's estate to his wife if he has no issue (i.e. children). If a testator dies and leaves GBP100,000 (US$160,950) with a debt of GBP10,000 (US$ 16,091) and a will of a third of his estate to his local mosque, the debt will be repaid first. Then we would be left with GBP90,000 (US$144,824), the testator is entitled to make a testatory disposition of up to a third of the £90,000 (which he has, so GBP30,000 (US$48,274) will go to the local mosque). His wife would then be entitled to one quarter of the remaining GBP60,000 (US$96,549), and the other intestate beneficiaries will share the residue.

If the subject of a testatory disposition is a non-replaceable asset (e.g. a specific car) and it dissipates or ceases to exist after the testator's death, then the testate beneficiary's testatory interest will also cease.

continued...

Continued

1.4 Acceptance of a will
Unless the will is for a purpose, a beneficiary under a will is free to decline his entitlement, in which case the entitlement will be distributed to apportioned heirs under the Islamic intestacy laws.

1.5 Types of will
(a) *General and specific will*
A will can be a general one, where the disposed property is generally designated as a general share in the testator's estate and is not specified (for example, if the testator disposes of 1/3 of his estate to Charity A). If such a disposition is made, the beneficiary will be entitled to the stated share of the whole estate, as it exists at the time of the testator's death after debts and expenses. This is problematic as the beneficiary's beneficial interest will attach to all pecuniary, replaceable and non-replaceable property owned by the testator (including land). This means that it would be very difficult to speedily satisfy the beneficiary's interest, as it would be interlocked with the intestate beneficiaries' interest as well. While such a disposition is permissible under Islamic law, it should be discouraged from a legal standpoint as it can lead to administrable difficulties.

The second and more favored form of will is a specific will, one in which the disposition is specifically designated and separable from the rest of the estate (e.g. a disposition of a specific pecuniary amount or a specific land). This disposition is favored because it is more certain, administrable and less likely to raise disputes. Its finality is also an advantage as the disposition is separable from the rest of the estate from the outset and will therefore enable the testate beneficial interest to be severed from the rest of the estate immediately and finally.

(b) *Conditional and contingent wills*
A will can also contain a disposition that will take effect if the beneficiaries meet specific conditions (e.g. If A graduates from school, then he shall be entitled to an X amount), or it can be contingent on a specified-event taking place. This has the potential to raise difficulties. For instance, what if – instead of the amount being specified – the testator says: "Money shall be provided to fund A's college education." The problem here is that the wording is not certain as to the subject matter of the will; how much funding would A be entitled to? This is particularly a problem because uncertainty does not render an Islamic will void. Islamic jurists have devised various methods by which they attempt to discern uncertain subject matter in wills. For instance, one jurist holds that if an allocation under a will is uncertain it should be interpreted to be equivalent to the lowest fractional entitlement of an intestate legal heir.

To avoid problems of uncertainty, clients should be encouraged to specify dispositions in cash amounts or in particular assets. This will make the disposition simple to discern and the allotment easy to satisfy.

> ***"If the intestate beneficiaries do not approve the ultra vires excess, the testate beneficiaries will have to take their allotments pro rata"***

1.6 Limitations on Islamic wills
There are two main limitations to a testator's right to make a will. The first relates to the amount of his estate that he can bequeath in a will; he may only bequeath one third of his estate in his will to those persons who would not otherwise be entitled to inherit under Islamic law. The second limitation relates to the nature of the beneficiaries that are allowed to benefit from a will, namely anyone who is not an heir under Islamic intestacy laws.

1.7 Ultra vires wills
A will that exceeds a third of the estate or designates an intestate heir as a beneficiary will be an ultra vires will but not a void one. The amount within the one-third limit and the beneficiaries outside intestate heirs will still receive their shares. However, the excess over the one-third or the amount given to an intestate heir will be voidable. It will be voidable in the sense that all or some of the intestate heirs can ratify it. If the intestate heirs approve the ultra vires excess unanimously then the testate beneficiaries will receive their allocations in full.

If, however, the ultra vires excess is approved in part then the doctrine of partial ratification will be applied. This means that the heirs that refuse to ratify the ultra vires excess will get their intestate beneficial interest in full while those who ratify the excess will have to make up for it from their own intestate beneficial interest. Unanimous or partial approval by the intestate beneficiaries will only be allowed if it is done after the testator's death; any approval prior to the testator's death has no effect whatsoever under Islamic law.

If the intestate beneficiaries do not approve the ultra vires excess, the testate beneficiaries will have to take their allotments pro rata. For example, if a testator makes a one quarter disposition to charity A and another one quarter disposition to charity B the total testatory disposition will be one half. This is an ultra vires will in relation to its amount. The first step that should be taken is to gather the intestate beneficiaries and ask them whether they would unanimously approve this ultra vires disposition. This request should be made with absolutely no pressure on the intestate beneficiaries to approve the will. It should be made clear to them that they are completely within their rights to reject the ultra vires excess and that Islamic law upholds their right to do so. If they then unanimously uphold the ultra vires excess, it should be given effect. However, if they reject the excess or if one intestate beneficiary rejects the excess the will should be given effect pro rata (i.e. Charity A and Charity B would each be given half of one third of the testator's estate).

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Islamic Investor

Vol 9 Issue 42

Better days forecast for Down Under

Cover Story

October has proven to be a milestone for Australia's Islamic funds industry with Crescent Wealth partnering with UK-based Bank of London and the Middle East (BLME) in a venture that will allow Australian retail investors access to the Islamic bonds.

The yet–to-be-named fund will be managed by BLME, one of Europe's largest and most successful Islamic banks. Talal Yassine, the managing director at Crescent Wealth, reportedly said the partnership was an important step for Australia as it moves towards recognition as a viable growth market for the Islamic funds industry. The new fixed income fund will add to Crescent Wealth's other existing Shariah compliant products in Australia which include global equities and real estate as well as a cash offering.

2012 has been a significant year for Crescent Wealth, which was only launched in 2010. In February, it launched the first research-based Islamic index for the Australian market, providing a benchmark for investors who are keen to build a Shariah compliant Australian equity portfolio.

Around the same time it also entered into an agreement with Malaysian asset manager Saturna to act as the portfolio manager to its Crescent International Equity Fund. Crescent Wealth cited Saturna's strong fund performance in US as the reason for its selection; hoping that the partnership could achieve similar results in the Australian market.

According to a source, all of Crescent Wealth's efforts are leading up to tapping Australia's pension scheme, which has been success story since the government introduced its 'superannuation guarantee' in 1992. According to the Association of Superannuation Funds of Australia, total superannuation assets stood at AU$1.3 trillion (US$1.35 trillion) as at September last year.

> *"Australia's role in Islamic finance looks promising, particularly in the asset management sector"*

With the newly approved legislation in place compelling the increase of employees' superannuation contributions to 12% from the current 9%, the figure is expected to surge. The birth of an Islamic 'super', which is slated for this year, has yet to surface; but is expected to provide Islamic and conventional investors in Australia with a Shariah compliant alternative investment vehicle. Conventional investors — both retail and institutional — are slowly but surely being educated on the benefits of investing in a Shariah compliant portfolio which provides a more stable proposition, according to a fund manager.

Islamic finance is a relatively new phenomenon in Australia, which grew to prominence in 2009 following the landmark Johnson report, with the country's government voicing keen interest in Islamic finance to attract petrodollars from the Middle East. The report included a review of taxation issues for Shariah compliant financial products and removal of regulatory hurdles for Islamic finance. Muslims in Australia make up a minority at only 1.7% of the 22 million citizens.

There have already been a few Shariah compliant funds launched in Australia. One of them, according to data from Eurekahedge, is Intrinsic Crescent Ethical MDA, which was launched in 2005. The data provider states that its total assets under management (AUM) stood at a mere US$11 million as at the 31st January 2012.

The other significant domestic market player is the Muslim Community Co-operative [Australia] (MCCA), known as the MCCA Islamic Finance & Investments group. It launched its MCCA Income Fund in 2009 and the fund has since generated alpha, providing a 5.21% yield-to-date return as at the 30th June 2012 as well as a 5.31% last year. It current AUM is A$18.16 million (US$18.75 million).

Though still in its early days, Australia's role in Islamic finance looks promising, particularly in the asset management sector, as concerted efforts are being made by the government and market players to attract not only investors from abroad but also those on the domestic front. — *RW*

In this issue...

BLME High Yield Fund

Objective: The fund only invests in Shariah compliant instruments and targets a net return of US$3 month LIBOR +5%

What led to this fund being launched?
The fund was launched to build on the success of the other fixed income fund BLME offers. The High Yield was structured to offer a higher return to clients with a different risk appetite to the investors in the Income Fund.

Why has this particular region / asset class been chosen?
The demand for Sukuk is increasing with many recent US dollar issuances being many times oversubscribed. This fund gives investors the opportunities to access the Sukuk market.

What are the key factors that drive the fund's performance?
The fund has benefited from the buoyant Sukuk market. However a key factor in the success of the fund is due to the fact that it is actively managed meaning that the investment selections are carefully analyzed and the fund manager is in a position to quickly take advantage of changes in the market.

Who are your investors (profile)?
We have seen an increase in investor interest in the fund now it is over one year old. Our target investor base is predominantly institutional such as pension funds, Takaful providers and fund of funds.

Where are they from (geographically)?
Global investors looking to access not only the Sukuk market but the GCC which is becoming increasingly viewed as a safe haven.

What specific risks does the fund take into consideration? And why?
The Sukuk market is still in its infancy when compared to the conventional bond market. The largest potential risk is the lack of new issuances coming to market. However as the market grows and diversifies away from Asia and the GCC this risk will decrease.

What are the sectors you are heavily invested in and why?
The majority of exposures are government, quasi-government entities and financial institutions as these are the main issuers of Sukuk. We expect to see corporate issuance increase over the coming years.

What is the rate of return of this fund?
The fund has returned 10.16% over the last 12 months.

What is the market outlook for this fund?
The outlook is positive and we hope to build on the performance to date. Sukuk currently have better returns than similar conventional bonds so we expect to see more conventional bond funds holding Sukuk. This will increase liquidity and lead to an increase in understanding and acceptance from the conventional investment market.

Why should investors chose this fund over others?
The fund offers attractive returns and according to Zawya is the top-performing Sukuk fund this year. Despite some challenges in the number of Sukuk available the fund is diversified over a number of holdings and geographies. The returns are excellent particularly when taking into consideration that a large proportion of the fund is invested in government / quasi-government entities.

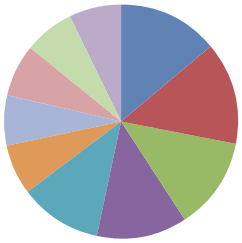
Fact sheet

Fund Manager	Jason Kabel
Trustee/ Custodian	Banque et Caisse d'Épargne de l'État
Shariah Advisor	Dr Abdulaziz Al-Qassar Dr Esam Al-Enazi
Benchmark (Index)	US$3 month LIBOR
Domicile	Luxembourg
Inception Date	3rd May 2011
Fund Characteristics *(*As at 30th September 2012)*	**Fund Type** Open **Fund Size** US$11.1 million **NAV per share** US$1,106.30 **Minimum Investment** US$125,000 **Management Fee** Share class A – 1% Dividend policy **Industry Allocation** Sukuk – 95%

***Annualized return since inception**

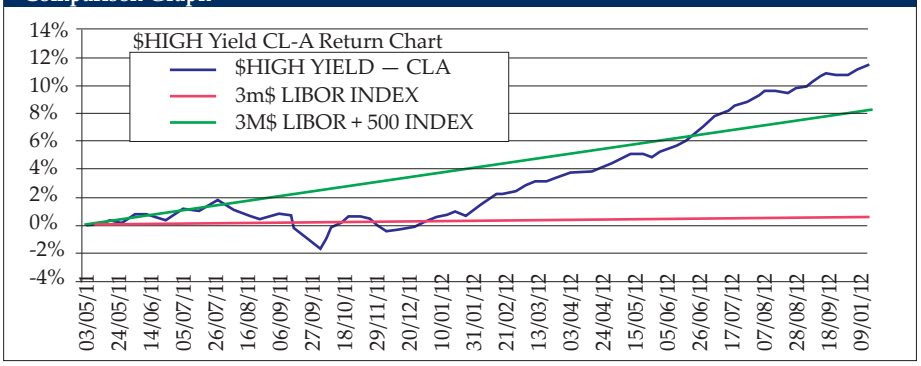
	1 month	12 months	Since Launch (Annualised)
Fund	0.78%	10.16%	7.39%
Benchmark	0.03%	0.48%	0.42%
Relative to Benchmark	0.75%	9.68%	6.97%

***Asset allocation**

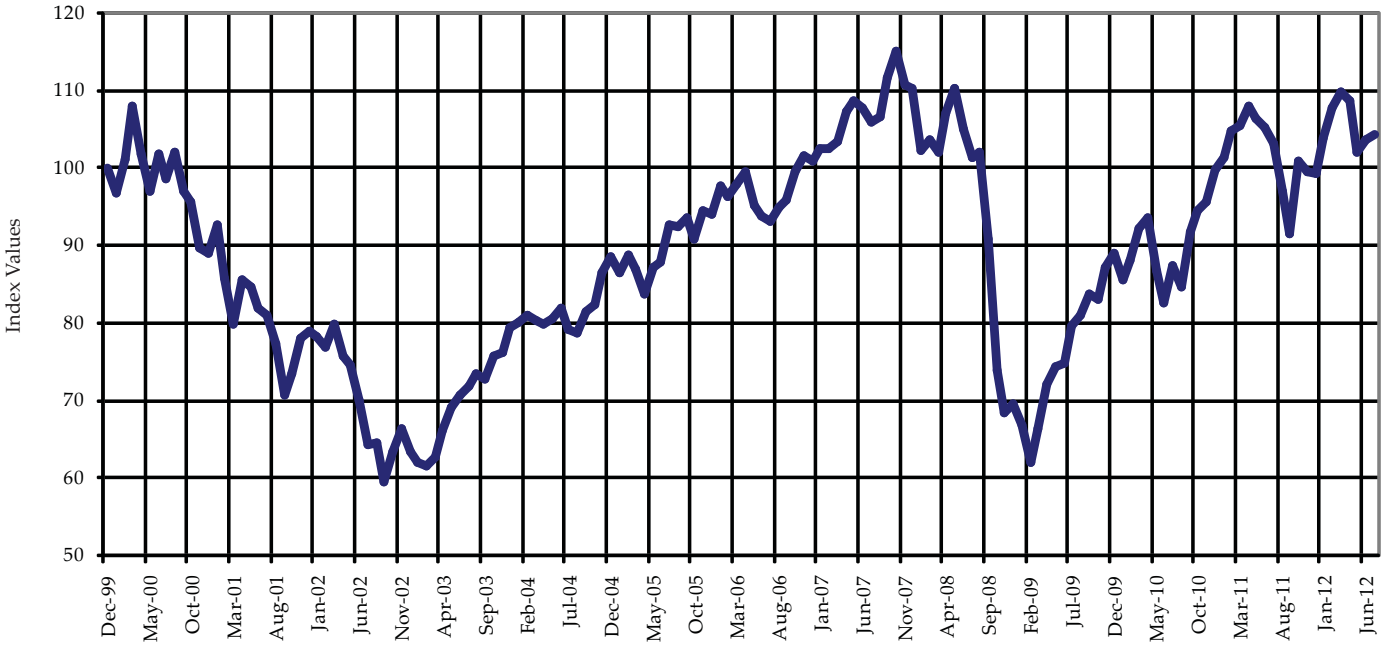


JAFZ Sukuk	10%
Perushaan Penerbitan SBSN II	10%
Dar Al-Arkan International Sukuk	9%
DP World Sukuk	9%
RAK Capital Sukuk	8%
Cash at Bank - Custodian BCEE	5%
Emaar Sukuk	5%
Dubai DOF Sukuk	5%
Saudi Electric Global	5%
KT Avrlik A.S	5%

***Comparison Graph**



Eurekahedge North America Islamic Fund Index



Top 10 Monthly Return for ALL Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	15.91	Ireland
2	ETFS Physical Silver	ETFS Metal Securities	13.48	Jersey
3	Al-Beit Al-Mali	Qatar National Bank	11.79	Qatar
4	ETFS Physical Platinum	ETFS Metal Securities	9.91	Jersey
5	ETFS Physical PM Basket	ETFS Metal Securities	9.13	Jersey
6	Aman Fund - CIB & Faisal Islamic Bank Mutual	Commercial International Asset Management	8.33	Egypt
7	Amanah Growth Portfolio	SABB	8.25	Saudi Arabia
8	AmPrecious Metals	AmInvestment Management	8.19	Malaysia
9	ETFS Physical Gold	ETFS Metal Securities	7.71	Jersey
10	Al Baraka	Hermes Fund Management	7.05	Egypt
	Eurekahedge Islamic Fund Index		**0.95**	

Based on 71.92% of funds which have reported September 2012 returns as at 23rd October 2012

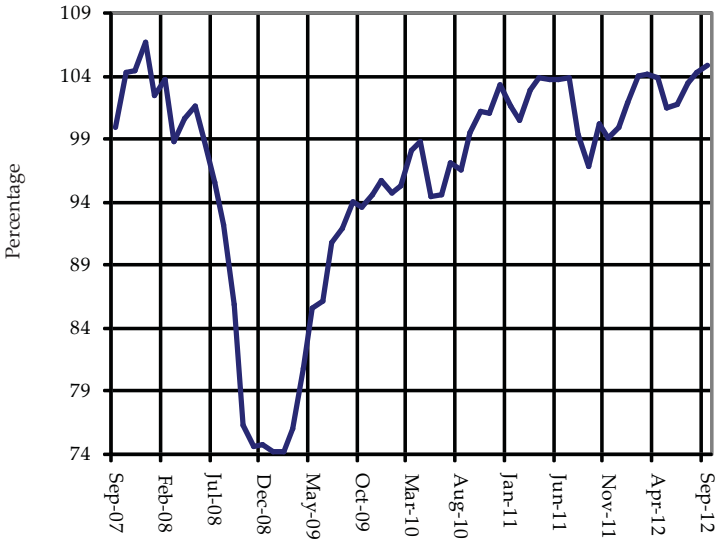
Top 3 Real Estate Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al-'Aqar KPJ REIT	AmMerchant Bank	5.83	Malaysia
2	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	4.85	Saudi Arabia
3	Al Dar Real Estate	ADAM	0.16	Kuwait
	Eurekahedge Islamic Real Estate Fund Index		**3.62**	

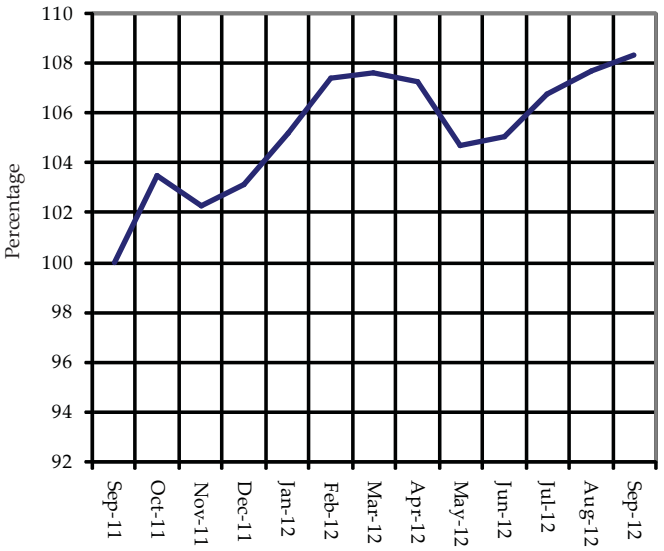
Based on 50.00% of funds which have reported September 2012 returns as at 23rd October 2012

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.

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Monthly Returns for Global Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	15.91	Ireland
2	ETFS Physical Silver	ETFS Metal Securities	13.48	Jersey
3	ETFS Physical Platinum	ETFS Metal Securities	9.91	Jersey
4	ETFS Physical PM Basket	ETFS Metal Securities	9.13	Jersey
5	AmPrecious Metals	AmInvestment Management	8.19	Malaysia
6	ETFS Physical Gold	ETFS Metal Securities	7.71	Jersey
7	AlAhli Small Cap Trading Equity	The National Commercial Bank	3.75	Saudi Arabia
8	AlAhli Global Real Estate	The National Commercial Bank	3.73	Saudi Arabia
9	CIMB Islamic Greater China Equity	CIMB-Principal Asset Management	3.51	Malaysia
10	AlAhli Healthcare Trading Equity	The National Commercial Bank	3.25	Saudi Arabia
	Eurekahedge Global Islamic Fund Index		**2.39**	

Based on 86.21% of funds which have reported September 2012 returns as at 23rd October 2012

Top 5 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Rajhi Multi Asset Growth	Al Rajhi Bank	6.35	Saudi Arabia
2	AlManarah High Growth Portfolio	The National Commercial Bank	4.52	Saudi Arabia
3	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	4.44	Saudi Arabia
4	Al-Mubarak Balanced	Arab National Bank	2.97	Saudi Arabia
5	AlManarah Medium Growth Portfolio	The National Commercial Bank	2.84	Saudi Arabia
	Eurekahedge Islamic Fund Index		**2.68**	

Based on 100% of funds which have reported September 2012 returns as at 23rd 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

Takaful news

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24th October 2012

Tackling funds

Cover story

A recent report by Standard & Poor's (S&P) has revealed that the Malaysian Takaful market is poised for a healthy run and is more sustainable compared to the GCC due to its strong regulatory fundamentals. S&P said: "Malaysia is supported by more sophisticated regulatory oversight, and the stronger investment profile of the industry."

Although the GCC market has been touted as the next frontier in the growth phase of the global Takaful industry, the ratings agency remains doubtful on the market's ability to sustain itself; primarily due to a lack of regulatory enforcement and differing standards on accounting and Shariah compliance in the region.

> *"There is an enormous potential for the industry to grow given the increasing wealth, population size and awareness of Malaysians of the need to protect their assets as well as securing good education for their children"*

And although the ratings agency expects a boost in growth contributions, translating to higher premium income and a greater use of Islamic insurance in "Islamic states", it remains concerned by a "widespread use of high-risk investment strategies by Takaful providers".

Malaysia, which is said to be the largest Takaful market in Southeast Asia, has flourished on the retail side, particularly due to its large and proactive Muslim population; constituting a high percentage of the middle-class segment looking for Shariah compliant options. The country's Takaful operators have also been relatively successful in leveraging distribution models such as BancaTakaful and Wakalah, compared to other countries in the region.

Just this week one of Malaysia's largest Takaful operators, Prudential BSN Takaful, reported a growth of 23% in terms of new business sales, growing to RM129 million (US$42.46 million) in the first half of the year, from RM105 million (US$34.4 million) last year.

CEO Azim Mithani said: "Our record annual contribution equivalent of RM129 million (US$42.46 million) in H1 has given us a greater market share of 28%, up from 27% in 2011."

The company's assets under management also grew 29% to RM774 million (US$253.6 million) in the first half of 2012 from RM601 million (US$196.92 million) a year ago. This growth was attributed to the strong and consistent performance across its multi-distribution channel platforms.

In terms of strategy, the company plans to maintain its focus on "professionalism, customer service and Shariah compliant product innovation" to serve its 300,000 strong customer base. It is also planning to seek alternative distribution channels, including technology and integrated advertising and brand promotion campaigns.

Azim added: "It will take time for the local Takaful industry to grow its market penetration, but as people become more aware of Takaful, the demand for its products, as we see it, will increase. As it is, there is an enormous potential for the industry to grow given the increasing wealth, population size and awareness of Malaysians of the need to protect their assets as well as securing good education for their children."

Etiqa Takaful, another major player in the Malaysian Takaful scene, also recently revealed that it sees immense opportunities in growing its customer base, as only 47% of Malaysians are currently protected; whilst only 11% of the Malay-Muslim market are insured at present. — *NH*

In this issue...

AMMB to re-take ownership

MALAYSIA: AMMB Holdings has received approval from the central bank, Bank Negara Malaysia, to begin discussions with Friends Life to buy back the UK-based financial services provider's 30% stake in AMMB's units AmFamily Takaful and AmLife Insurance.

Friends Life will however continue to provide technical support to the subsidiaries over an agreed period.

Push for training

BAHRAIN: The Takaful industry must offer long-term incentives and training programs in order to increase retention of human resources, said Abdul Rahman M Al-Baker, the executive director of financial institutions supervision at the Central Bank of Bahrain.

Abdul Rahman stressed that a lack of talent in the Takaful industry remains a key concern impacting the long-term sustainability of the industry, creating a need to focus on educating and training fresh talent.

Strong results from PruBSN

MALAYSIA: Prudential BSN Takaful (PruBSN) reported new business sales of RM129 million (US$41.9 million) for the first half of 2012, from RM105 million (US$34.1 million) a year earlier.

It also announced a 29% growth in assets under management to RM774.4 million (US$25.53 million).

Etiqa staying optimistic

MALAYSIA: Etiqa Takaful, which recently launched non-motor products Takaful Flexi PA and Takaful Driver and Passenger PA in collaboration with national postal service Pos Malaysia, is optimistic about the future growth of its businesses given the low insurance penetration rate in the country, said Shahril Azuar Jimin, its chief commercial officer.

Taking the lead

GLOBAL: The Takaful industry is in need of a regulatory authority which can enforce rules and lead consolidation, said Ashar Nazim, the head of the Global Islamic Banking Excellence Center at Ernst & Young.

He also noted that the industry requires consolidation in order to achieve further development.

Weqaya in the black

SAUDI ARABIA: Weqaya Takaful Insurance and Reinsurance Company posted a net profit before Zakat of SAR2.8 million (US$746,540) for the third quarter ended the 30th September 2012, compared to a loss of SAR6.36 million (US$1.7 million) a year earlier.

The company's gross written premiums rose to SAR88.45 million (US$23.58 million) from SAR46.72 million (US$12.46 million) last year.

Takaful: An ethical dimension of risk management

DR SYAHIDA ABDULLAH identifies various types of risks involved in Takaful business that affect operational and investment functions of Takaful operators.

Risk management is an approach used to handle risk, and there are a number of methods used to manage risk: including avoidance, loss control, retention, non-insurance transfers and Takaful.

Takaful as a subset of risk management is a primary tool used in the Islamic finance industry to safeguard the life, family and wealth of the people as well as provide savings opportunities and education. Many Islamic financial institutions are increasing their focus on risk management to sustain competitiveness and to participate more globally.

Risk management in Takaful

Takaful is a method used in risk management to reduce individual losses by spreading risks amongst a wider community. In Takaful, risk has to be managed in underwriting, operation, liquidity, credit, market processes and Shariah non-compliance to identify potential hazards, losses, developing control mechanism and to select the most suitable techniques for treating any shortcomings.

Underwriting risk in Takaful generally refers to an adverse claims development that may affect the financial stability, specifically the profit of the Takaful operator (TO) and solvency of the Takaful risk fund. Operational risk is more complex as it encompasses a larger area of risk that includes transaction processing, record keeping, standard rules and regulations, human resources, IT systems and fraud. In Malaysia, the TOs are required to adhere to principles listed in the Takaful Operational Framework (TOF) when conducting Takaful operations, which include uniformity with Shariah principles and consistency with the essential features of Takaful; prudent management of Takaful funds; fairness and transparency; appropriate fees and charges; good governance and risk management practices. Liquidity risk is basically to ensure sufficient liquidity is available to run the operation; credit risk to ensure the credit risks exposures are reduced or surmounted; and market risk management is to lessen the risk of volatility of commodity prices and equity.

The risk management method that Takaful subsumes is liable to the goals and principles of Shariah. Generally noting, from a Maqasid of Shariah perspective, risk management in Takaful is meant for the protection, preservation and safeguarding of the fundamental needs of human beings that includes protection of religion, protection of life, intellect, wealth and lineage. These are the five universals of Maqasid Shariah that are regarded significant for the well-being of human beings. None of these essential needs can be ignored, for this will create socio-economic injustice and disorder.

Conclusion

The concept and objectives set out in Takaful are formed by the objectives of Islamic law that concerns the socioeconomic well-being of the people. The main objectives of Takaful is that risk should be shared among participants, and losses borne by not an individual but shared accordingly with all participants. This is the beauty of Takaful that fixes it well within the framework of Maqasid of Shariah. The risk sharing concept in Takaful is significant and has to be managed effectively according to Shariah principles.

> ***"The risk management method that Takaful subsumes is liable to the goals and principles of Shariah"***

The function of risk management in Takaful therefore should be implemented strictly without compromising Shariah guidelines. Indeed, the key area of risk management in Takaful is Shariah compliance, and the central bank of Malaysia, Bank Negara Malaysia (BNM), has laid down rules and guidelines for Takaful operators to manage risks according to the BNM framework.

Dr Syahida Abdullah is a researcher at International Shari'ah Research Academy for Islamic Finance (ISRA). She can be contacted at syahida@isra.my.

Q "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?"

A There is much global economic uncertainty, with the IMF downgrading its growth forecasts because of stagnation in the Eurozone, weak recovery in the US and slowing growth in the BRIC countries. Although the performance of financial markets is often poorly correlated with economic growth, Islamic wealth managers face challenging conditions.

Most high net-worth investors would be well advised to adopt a defensive strategy, a sensible aim being to preserve wealth rather than increase it for the next two years. Equity should remain the most significant portfolio segment, but investors should focus on income yielding stock rather than capital gains. Most of these stocks, including utilities, are Shariah compliant. The record Sukuk issuance is also helpful for Islamic investors as such investments are subject to default rather than market risk and defaults are rare.

In summary, high net worth investors need to be patient in the short to medium-term. It is more important to maintain wealth than grow it so that the investors still have funds to invest when conditions eventually improve.

RODNEY WILSON
Emeritus Professor, Durham University UK

A The current trend among private investors is to move away from the more speculative ventures to investments with a steady return. As a result of the global financial crisis, there is a renewed focus on sustainability and the more ethical parts of investing. This presents Islamic wealth managers with the opportunity to consider investments closer to home which is not necessarily global in reach. The advantage of this is that it serves the local community and can be monitored closer. The challenge, however, lies in finding investments of sufficient size. The ethical principles underpinning Islamic finance are likely to become a more important factor in the investor's decision making process.

DR NATALIE SCHOON
Principal consultant, Formabb

A Having spent most of 2012 with investors in Saudi Arabia and the Gulf, it is clear that they are no longer buying the types of investments that most of the regional investment firms are producing. Private equity is essentially dead, with the exception of occasional 'club deals' that get circulated among major merchant families. The types of deals packaged and sold with gigantic up-front commissions, like those made famous (or infamous) by firms like Gulf Finance House and Arcapita, are a thing of the distant past. And of course, real estate is dead outside of Saudi Arabia.

The oversupply of residential and office properties in places like Bahrain and Dubai is so massive it could take a decade before those markets convincingly turn. Clearly liquid investments are desired. Illiquid investments seem to have had their day in the sun and are now shunned. Saudi Arabia has a vibrant real estate private placement sector, but even here there is evidence that there are too many deals in the market and prices are approaching nosebleed levels. Of the more than 150 investments houses created in Saudi Arabia and the Gulf from 1999 through the height of the bubble, probably 20 or less will survive. It's painful to watch them today. None seems to have changed their business model to deal with these new realities.

The only sector that seems viable is managing liquid securities, but few or none of the firms have announced plans to professionally gear up to deliver these services. What makes this unusual is the very high degree of wealth and wealth generation in the market today. Simply put, investment company supply is not meeting investor demand. This will continue until either investment companies retarget their business models or investors desire illiquid investments. The latter does not seem likely for a long time.

JOHN A SANDWICK
Manager, Safa Investment Services, Islamic Wealth & Asset Management

> ***"It is more important to maintain wealth than grow it so that the investors still have funds to invest when conditions eventually improve"***

A High net worth investors are facing a major problem as some central banks globally are recklessly printing money. It is not only just in the US but 'out of control' money printing has also been occurring in the UK, the EU, Japan, China and India over the past decade. There are times when one particular global currency will fall faster than the others, but the reality is that they are all being rapidly devalued.

Most investors see these issues in the global financial markets. Investors are racing to get out of paper and to

continued...

Continued

venture into hard assets like gold, silver, agricultural commodities and equity investments in successful companies. Investors cannot just keep cash on the side since paper money is no longer considered to be safe. Money printing that has been going on is a major sign for investors to be more alarmed. Investors must focus their efforts on investing and finding investments to putt their wealth into hard assets that are real and tangible in an effort to preserve their wealth.

Islamic wealth managers invest in investments that much pass the Shariah compliant screening and are in a much better position than conventional investors. Applying Shariah compliant screening to any investment does pay out to reduce the risk and ensure that Islamic wealth are really after equity in successful business, asset-backed investments and hard assets which are typically acceptable and pass the Shariah compliant rules.

MOHAMED DONIA
CEO, IdealRatings

A Whether in good times or bad, volatile times or stable, the goal of wealth managers should always be to protect wealth in the long-term. The best way to achieve this is by outperforming when markets are negative and keeping up with markets when they are positive. Look for managers with a long-term stable track record rather than those managers that are 'hot' this year.

MONEM SALAM
Director of Islamic Investing/deputy portfolio manager, Saturna Capital

A Volatility and razor thin returns on fixed income instruments have forced high net worth investors to focus more on higher risk instruments and markets, like equities and emerging / frontier markets. Hence we have observed that such markets and asset classes have received substantial inflows from high net-worth individuals in the recent past. Islamic wealth managers should encourage such flows but should make adequate and full disclosures of the inherent risks of such an investment strategy.

> ***"Lack of clarity and constant change are the new normal, and unpredictability and constant change are here to stay. Doing nothing is actually a decision, with real and potentially damaging long-term consequences"***

MOHAMMAD SHOAIB
CEO, Al Meezan Investment Management

A In today's challenging environment investors are often paralyzed — afraid to do the wrong thing and instead they do nothing at all. It may seem sensible to wait for clarity or to hold off until things return to normal. But lack of clarity and constant change are the new normal, and unpredictability and constant change are here to stay. Doing nothing is actually a decision, with real and potentially damaging long-term consequences.

Private investors need to make their investment and planning decisions in the context of a regulatory and tax environment that is bound to change. Changes in tax policies impact economic growth and market behaviour, including within asset classes and sectors, but it also impact strategies for wealth transfer and planning.

Investors and wealth managers need to be vigilant about the potential for future inflation. Certain investments can play a role in protecting your portfolio from the damaging effect of inflation. But it's also important to consider how inflation could impact your income-type producing instruments. For example, you may hold a low-yield Sukuk until maturity to protect your principal. But after inflation, you'd be buying less with those dollars when the Sukuk matures, resulting in a loss of purchasing power. Investors need to give this future risk sufficient consideration.

Seek for the bright spots, even when things are looking dark. Although market and asset class correlations have been abnormally high, growth is not the same worldwide. Even when global markets all seem to be behaving the same, the key is to look deeply, by country and sector to find the true bright spots regardless of short-term noise. Bright spots could be certain companies in Europe or select emerging markets with higher growth potential. We also see opportunities emerging on the US front, such as those presented by larger companies with multinational reach and emerging market exposure.

DOUGLAS SCHAENEN
Managing director, region head for EMEA International Wealth Management, BNY Mellon

Next Forum Question:

Sukuk are evolving from asset-backed to asset-based structures. How will this impact the way defaults are managed?

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 2nd November 2012.

Mohamed Donia, CEO, IdealRatings

Mohamed Donia has many years of experience delivering solutions in the financial services marketplace. Previously Mohamed was the vice-president of TenFold Corporation in San Francisco, where he was responsible for defining and delivering solutions for Fortune 500 customers. He started his career at Proctor & Gamble.

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

After many years of working in the Silicon Valley and co founding start-up companies, I had the opportunity to serve the financial services industry in the US and witnessed how technology helped grow the sector. In 2006 while I was engaged in a hedge fund service start-up that grew to serve some of the world most successful hedge funds, I became aware of Islamic finance with an interest in understanding how to make my personal investments Shariah compliant.

> *"After only six years, the company services are now used by some of the largest banks and institutions in the industry"*

While investigating how to manage my portfolio and make it Shariah compliant, I faced many problems and realized there were no services out there in the market to help investors to solve such complex problems. Since some people may call me a serial entrepreneur, I thought I should focus my efforts to solve a complex problem in the industry to

easily indentify if a company is suitable for investment for Shariah compliant investors at little or no cost.

At that point IdealRatings was born and after only six years, the company services are now used by some of the largest banks and institutions in the industry and have a customer base in around 15 countries globally.

What does your role involve?

The most important three things I always focus on are: a) Customer satisfaction: I spend a lot of time with my customers to understand what they need and how can I develop or enhance my products to help them; b) Innovation: A good product does not need a sales force or marketing. I always focus on innovations and every year, together with my team we draw roadmaps of shifts in the industry and analyze how we can add more value to our customers through innovation; 3) Talent acquisitions and keeping close to my team. I try my best to hire the best and also to understand the career inspiration of every employee in the company and think of plans for how to develop them to help them succeed.

What is your greatest achievement to date?

My team and I are proud to have set a standard in the industry for Shariah compliant fund management and have helped investors' worldwide to count on us to provide such critical information.

Which of your products/ services deliver the best results?

Our equities product and soon our Sukuk product are delivering fantastic results. We enjoy serving a significant customer base.

What are the strengths of your business?

We serve a large, completely underserved market, so our growth has been tremendous year-on-year.

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

Mainly a highly capable team, innovative products and raising the bar internally to always focus on having happy customers.

What are the obstacles faced in running your business today?

It is important for us to keep focusing on our company culture and values. As we grow we hire a lot of people and it is very important for us to invest in boot camp training to ensure all our employees are aware of our mission, values and have the expertise to work in the industry.

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

I believe the industry will significantly change in the next five years and will merge with other significant development like socially responsible investments (SRI), green investments, ESG, Christian values-based investments, etc.

All of the above will be combined under one title: 'do good on earth'. This will become valuable for people from different religions because following such guidelines in investments is likely to provide the best risk-return result.

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

I would like to see the industry focusing more on developing innovative compliant structures instead of 'mimicking' conventional products.

ISSUER	SIZE	DATE ANNOUNCED
MNRB Holding	RM150 million	16th October 2012
Banque Saudi Fransi	SAR2.5 billion	15th October 2012
Edaran SWM	RM1 billion	5th October 2012
International Islamic Liquidity Management Corporation	US$200 to 500 million	4th October 2012
Turkish Airlines	TBA	4th October 2012
Danainfra Nasional	RM1.5 billion	4th October 2012
Weststar Capital	RM900 million	4th October 2012
Dubai Electricity and Water Authority	AED4.5 billion	3rd October 2012
Tunisia sovereign	TBA	30th September 2012
Bank Asya	TRY150 million	25th September 2012
Qatar Islamic Bank	US$1.5 billion	16th September 2012
TH Plantation	RM1.5 billion	14th September 2012
Bolton	RM380 million	6th September 2012
HSBC Amanah	RM3 billion	4th September 2012
Sime Darby	US$1.5 billion	3rd September 2012
Malakoff Corporation	RM1.8 billion	17th August 2012
Putrajaya Holdings	RM3 billion	13th August 2012
Indonesia sovereign	US$1 billion	10th August 2012
Indonesia sovereign	US$750 million	10th August 2012
Tanjung Bin Power	RM4.5 billion	7th August 2012
Kuala Lumpur Kepong	RM1 billion	1st August 2012
Kimanis Power	RM1.16 billion	16th July 2012
Syarikat Prasarana Negara	RM4 billion	12th July 2012
Türkiye Finans Katilim Bankasi	US$300 million	9th July 2012
Sudan sovereign	US$758 million	5th July 2012
South Africa sovereign	TBA	4th July 2012
Indonesia sovereign	IDR500 billion	3rd July 2012
National Treasury South Africa	US$500 - 700 million	3rd July 2012
Qatar sovereign	US$4 billion	2nd July 2012
Indosat	IDR300 billion	20th June 2012
Sadara	SAR1.4 billion	13th June 2012
UEM Group	RM2.2 billion	13th June 2012
General Authority of Civil Aviation	TBA	24th May 2012
Morocco sovereign	TBA	23rd May 2012
Amer Group Holding	EGP2.7 billion	14th May 2012
Emirates NBD	US$500 million	7th May 2012
Epmex	RM1.35 billion	25th April 2012
Noor Islamic Bank	US$1 billion	19th April 2012
Encorp	RM1.58 billion	18th April 2012
Johor Corp Group	RM3 billion	13th April 2012
Citra Marga	IDR1.2 trillion	12th April 2012
Nakheel	AED240 million	11th April 2012
Development Bank of Kazakhstan	US$500 million	30th March 2012
Ethical Asset Management	TBA	30th March 2012
National Australia Bank	US$500 million	29th March 2012
Jebel Ali Free Zone	AED2.4 billion	21st March 2012
Yemen sovereign	US$232 million	20th March 2012
Saudi Electricity Company	TBA	19th March 2012

IFN Correspondents

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

AUSTRALIA: Gerhard Bakker
director, Madina Village

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

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BERMUDA: Belaid A Jheengoor
director of asset management, PwC

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

CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais

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

EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates

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

HONG KONG & CHINA: Anthony Chan
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INDIA: Keyur Shah
partner, KPMG

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

IRAN: Majid Pireh
Islamic finance expert, SEO

IRAQ: Khaled Saqqaf
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IRELAND: Ken Owens
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JAPAN: Serdar A. Basara
president, Japan Islamic Finance

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partner, Lee & Ko

KUWAIT: Alex Saleh
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LUXEMBOURG: Marc Theisen
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MALAYSIA: Nik Norishky Thani
head special projects (Islamic), PNB

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

MALTA: Reuben Buttigieg
president, Malta Institute of Management

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

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

NIGERIA: Hajara Adeola
managing director, Lotus Capital Limited

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

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

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

QATAR: Amjad Hussain
partner, K&L Gates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

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

SOUTH AFRICA: Amman Muhammad
managing director, Absa Islamic Bank

SINGAPORE: Yeo Wico,
partner, Allen & Gledhill

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

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

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

TURKEY: Ali Ceylan
partner, Baspinar & Partners

UAE: Moinuddin Malim
CEO, Mashreq Al Islami

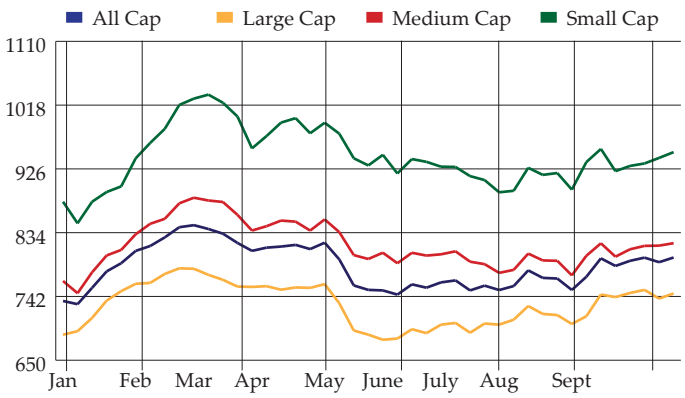
UK: Siraj Ibrahim
associate, Credit Agricole CIB

US: Saeid Hamedanchi
CEO, ShariahShares

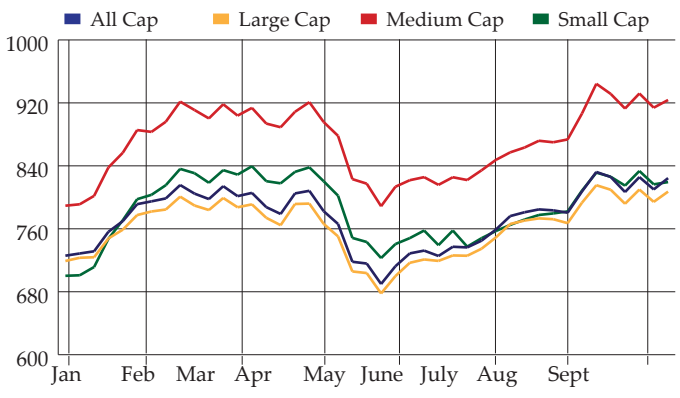
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

IFN Correspondents are experts in their respective fields and are selected by Islamic Finance news to contribute designated short country reports. For more information about becoming an IFN Correspondent please contact sasikala@redmoneygroup.com

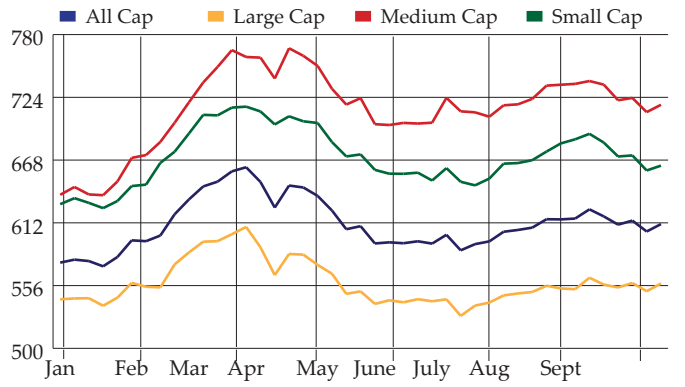
REDmoney Asia ex. Japan *6 Months*



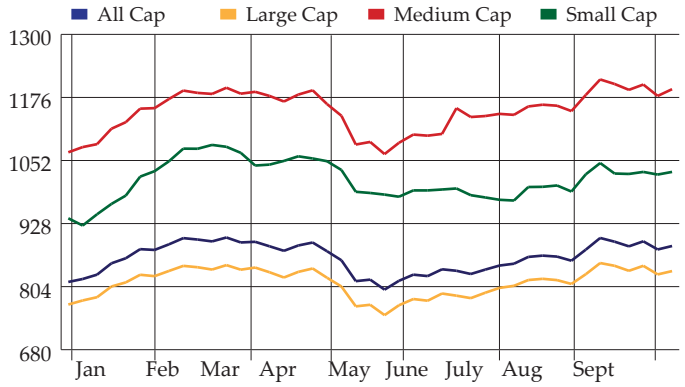
REDmoney Europe *6 Months*



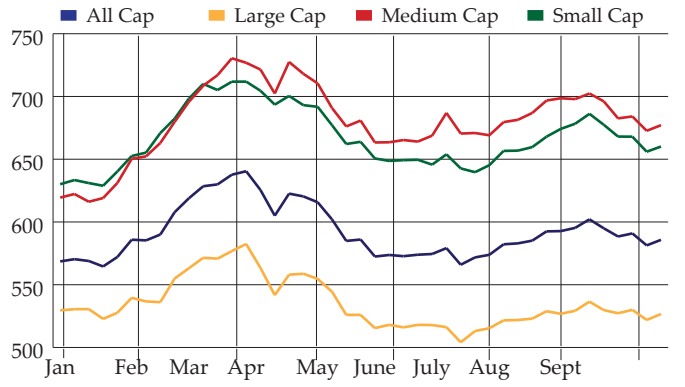
REDmoney GCC *6 Months*



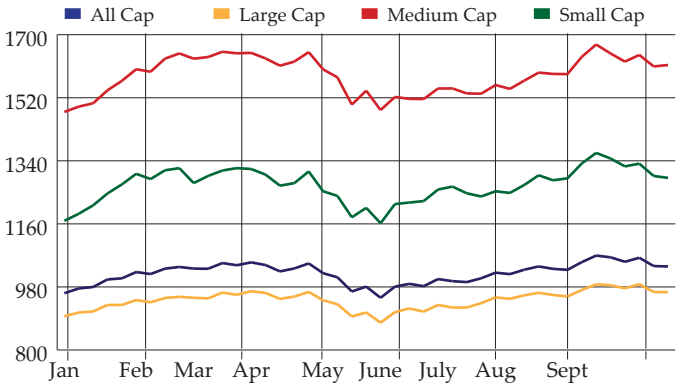
REDmoney Global *6 Months*



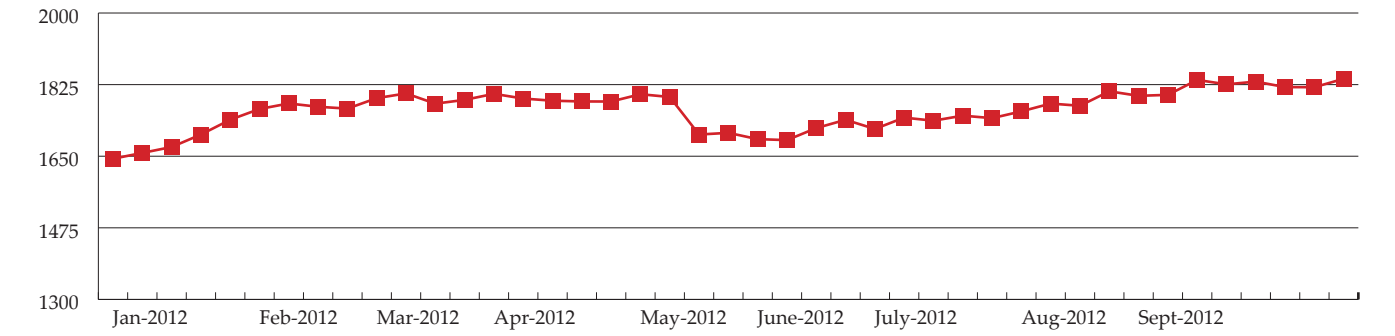
REDmoney MENA *6 Months*



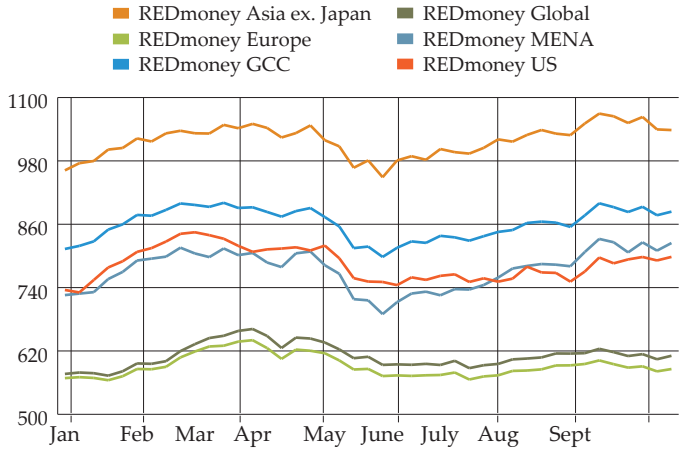
REDmoney US *6 Months*



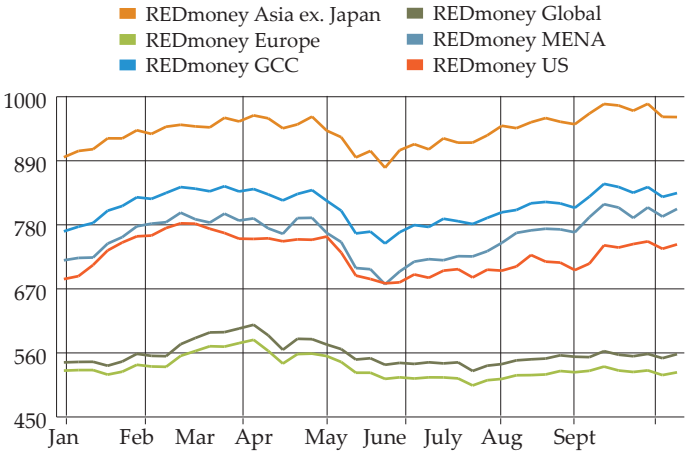
SAMI Halal Food Participation (All Cap) *6 months*



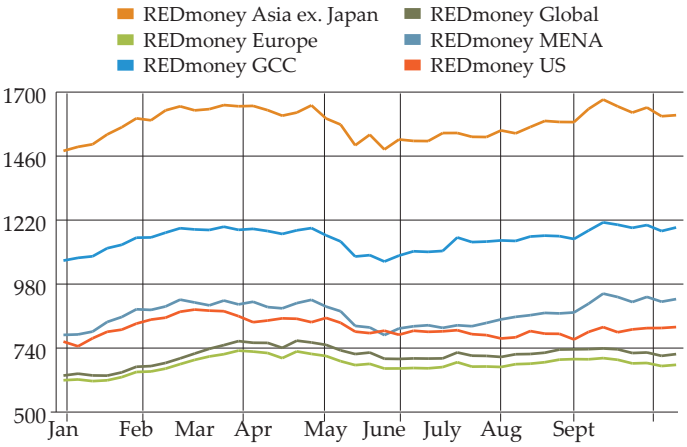
REDmoney Global Shariah Index Series (All Cap) *6 Months*



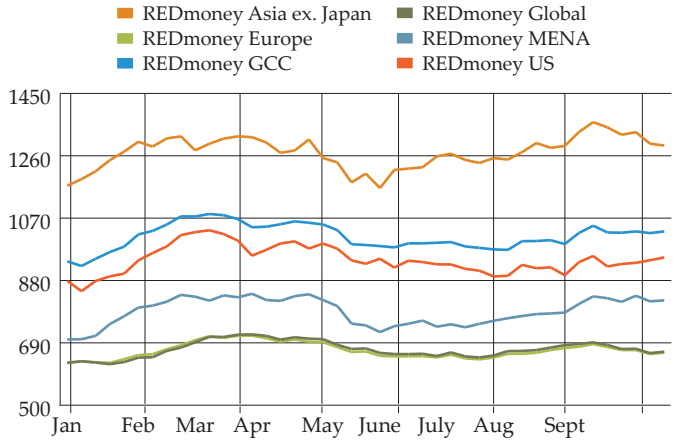
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



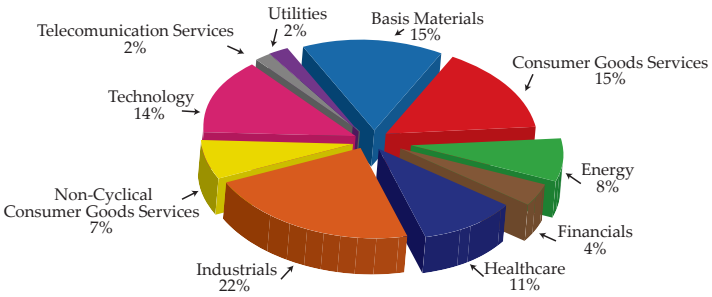
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

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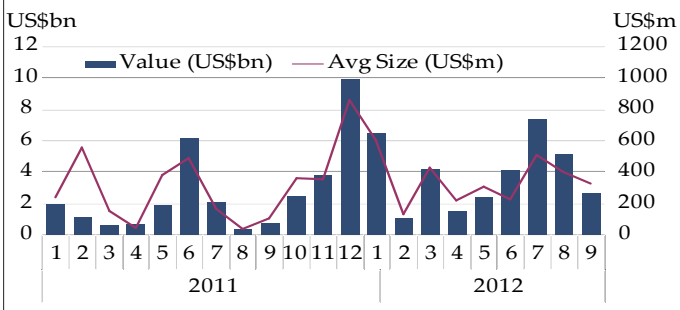
Tel +603 2162 7800

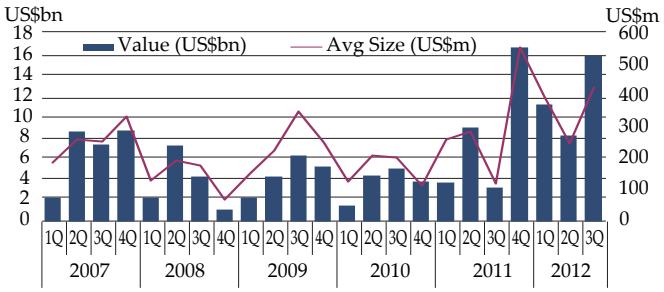
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
22nd Oct 2012	Putrajaya Holdings	Malaysia	Sukuk	Domestic market private placement	242	AmInvestment Bank
11th Oct 2012	Qatar International Islamic Bank	Qatar	Sukuk	Euro market public issue	700	Standard Chartered Bank, HSBC, Qatar National Bank
4th Oct 2012	Edaran SWM	Malaysia	Sukuk	Domestic market public issue	245	Hong Leong Bank, CIMB Group
3rd Oct 2012	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest
1st Oct 2012	Khazanah Nasional	Malaysia	Sukuk	Domestic market private placement	651	CIMB Group, AmInvestment Bank
20th Sep 2012	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,500	HSBC, Kuwait Finance House, Citigroup
20th Sep 2012	MISC	Malaysia	Sukuk	Domestic market public issue	163	HSBC, CIMB Group, AmInvestment Bank
20th Sep 2012	HSBC Amanah Malaysia	United Kingdom	Sukuk	Domestic market public issue	163	HSBC, AmInvestment Bank, Hong Leong Islamic Bank, Maybank Investment Bank
18th Sep 2012	Malaysian Airline System	Malaysia	Sukuk	Domestic market private placement	165	Maybank Investment Bank
7th Sep 2012	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	321	CIMB Group, Maybank Investment Bank
3rd Sep 2012	Cagamas	Malaysia	Sukuk	Domestic market public issue	160	RHB Capital
29th Aug 2012	Malakoff Corporation	Malaysia	Sukuk	Domestic market private placement	577	Maybank Investment Bank
28th Aug 2012	Syarikat Prasarana Negara	Malaysia	Sukuk	Domestic market public issue	644	RHB Capital, Kenanga Investment Bank, CIMB Group
15th Aug 2012	Tanjung Bin Power	Malaysia	Sukuk	Domestic market private placement	1,346	CIMB Group, Maybank Investment Bank
14th Aug 2012	Celcom Transmission (M)	Malaysia	Sukuk Murabahah	Domestic market public issue	1,605	HSBC, CIMB Group, Maybank Investment Bank
10th Aug 2012	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	806	Kenanga Investment Bank, DRB-HICOM, CIMB Group, AmInvestment Bank
9th Aug 2012	Kuala Lumpur Kepong	Malaysia	Sukuk Ijarah	Domestic market public issue	322	CIMB Group, Maybank Investment Bank
1st Aug 2012	SME Bank	Malaysia	Sukuk	Domestic market public issue	159	Kuwait Finance House, AmInvestment Bank, Maybank Investment Bank
19th Jul 2012	Kimanis Power	Malaysia	Sukuk	Domestic market public issue	272	HSBC, CIMB Group
17th Jul 2012	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	260	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Projek Lebuhraya Usahasama	Malaysia	Sukuk	Domestic market private placement	9,610	17.8	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
2	State of Qatar	Qatar	Sukuk	Euro market public issue	4,000	7.4	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest, Barwa Bank
3	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market private placement	4,000	7.4	HSBC
4	Saudi Electricity Company	Saudi Arabia	Sukuk	Euro market public issue	1,750	3.2	Deutsche Bank, HSBC
5	Celcom Transmission (M)	Malaysia	Sukuk Murabahah	Domestic market public issue	1,590	2.9	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	Perusahaan Penerbit SBSN Indonesia II	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	1.9	Standard Chartered Bank, HSBC, Citigroup
12	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
14	Johor Corporation	Malaysia	Sukuk	Domestic market public issue	939	1.7	CIMB Group, Affin Investment Bank, AmInvestment Bank, Maybank Investment Bank
15	Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	817	1.5	Maybank Investment Bank
16	Maxis	Malaysia	Sukuk Musharakah	Domestic market public issue	805	1.5	CIMB Group, Maybank Investment Bank
17	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
18	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	796	1.5	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
19	ANIH	Malaysia	Sukuk	Domestic market private placement	786	1.5	CIMB Group, Maybank Investment Bank
20	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	752	1.4	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
21	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	1.4	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest
21	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	750	1.4	Standard Chartered Bank, BNP Paribas, Citigroup
21	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1.4	Deutsche Bank, Citigroup, Credit Agricole
24	Qatar International Islamic Bank	Qatar	Sukuk	Euro market public issue	700	1.3	Standard Chartered Bank, HSBC, Qatar National Bank
25	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	700	1.3	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
26	Khazanah Nasional	Malaysia	Sukuk	Domestic market private placement	652	1.2	Kenanga Investment Bank, DRB-HICOM, CIMB Group, AmInvestment Bank
27	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
28	Syarikat Prasarana Negara	Malaysia	Sukuk Murabahah	Domestic market public issue	644	1.2	RHB Capital, Kenanga Investment Bank, CIMB Group
29	Malakoff Corporation	Malaysia	Sukuk	Domestic market private placement	577	1.1	Maybank Investment Bank
30	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	561	1.0	Maybank Investment Bank
	Total				**54,134**	**100**	

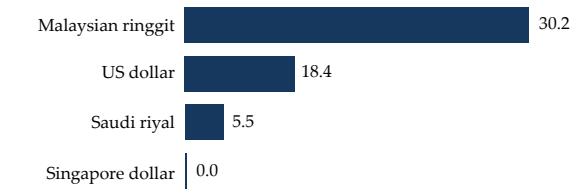
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	10,296	28	19.0
2	CIMB Group	9,036	37	16.7
3	Maybank Investment Bank	8,968	40	16.6
4	AmInvestment Bank	4,694	25	8.7
5	RHB Capital	3,152	31	5.8
6	Standard Chartered Bank	3,047	19	5.6
7	Deutsche Bank	2,213	5	4.1
8	Citigroup	2,130	10	3.9
9	Lembaga Tabung Haji	1,063	4	2.0
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	Kenanga Investment Bank	666	4	1.2
15	Kuwait Finance House	608	4	1.1
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	Hong Leong Bank	374	3	0.7
21	DRB-HICOM	355	9	0.7
22	Credit Agricole	350	2	0.7
23	Abu Dhabi Islamic Bank	339	4	0.6
24	Qatar National Bank	233	1	0.4
25	OCBC	219	4	0.4
26	Abu Dhabi Commercial Bank	218	2	0.4
27	Saudi National Commercial Bank	160	1	0.3
28	Riyad Bank	153	2	0.3
29	Bank of America Merrill Lynch	125	1	0.2
30	RBS	99	2	0.2
	Total	**54,134**	**131**	**100.0**

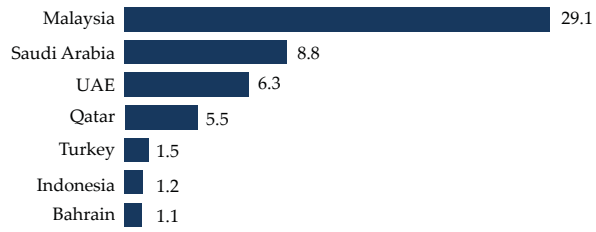
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	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	1,007	4	5.2
5	Saudi National Commercial Bank	991	5	5.1
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	3.3

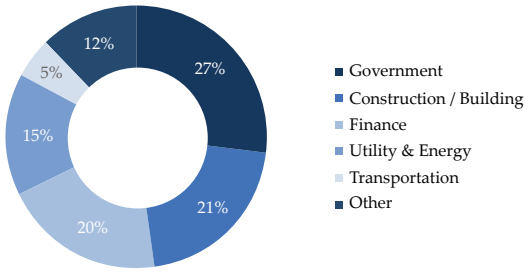
Sukuk Volume by Currency US$ (billion) *12 Months*



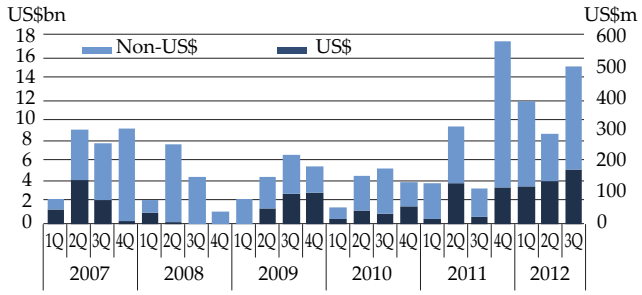
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



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

	Legal Advisor	US$ (million)	No	%
1	Shook Lin & Bok	308	2	4.1
2	Norton Rose	100	1	1.3
3	SNR Denton	75	1	1.0
4	Hadiputranto Hadinoto & Partners	30	1	0.4
4	Baker & McKenzie	30	1	0.4
6	Ljaz Ahmed & Associates	20	1	0.3
7	Mohsin Tayebaly & Co	4	1	0.1

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	1,007	4	5.2
5	Saudi National Commercial Bank	991	5	5.1
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	3.3
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	2.8
15	Riyad Bank	538	2	2.8
17	Abu Dhabi Islamic Bank	495	8	2.5
18	Dubai Islamic Bank	487	3	2.5
19	Citigroup	460	5	2.4
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 KSC	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	1.2
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

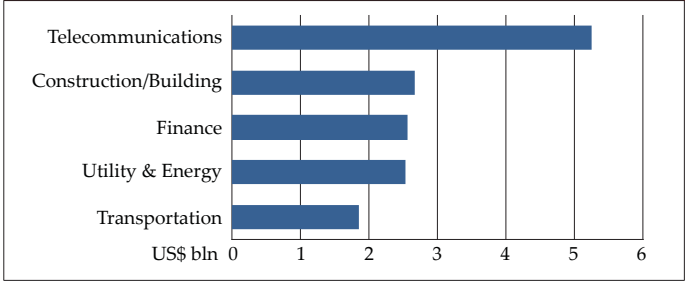
Top Islamic Finance Related Loans Deal List *12 Months*

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

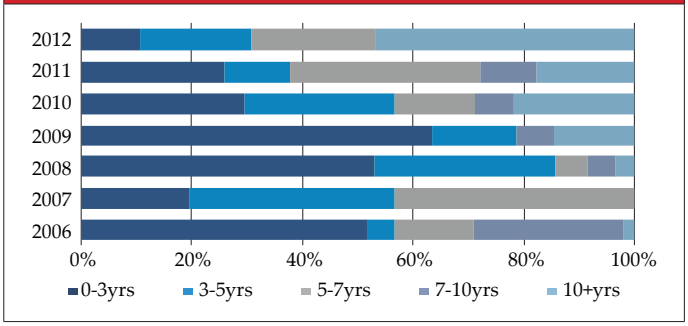
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	9,291	7	47.6
2	UAE	3,461	8	17.8
3	Malaysia	3,035	5	15.6
4	Qatar	1,317	2	6.8
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

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Mandy Leung (Media Relations)
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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*)

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

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