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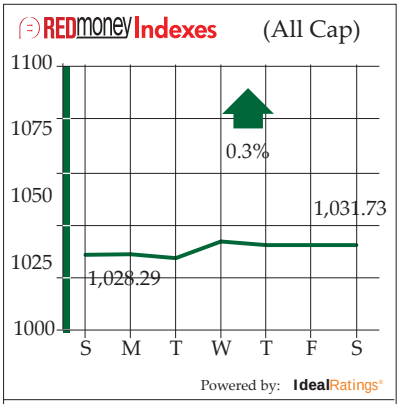

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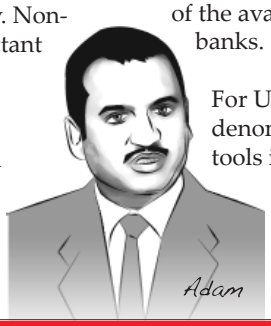
Sovereign Sukuk: Small size, big ambitions

Four major developed economies are all racing to issue debut sovereign Sukuk this year – and although it is easy to assume that whichever non-Muslim nation issues first the global impact will be very similar, this is in fact far from the case. This week, we evaluate the specific goals, independent attributes, and unique characteristics that distinguish the upcoming Sukuk from the UK, Luxembourg, Hong Kong and South Africa: and explore the impact that we can really expect from such small issuances – that have such big ambitions.

The importance of issuance

Issuing a sovereign Sukuk is the first step towards developing a fully functional Islamic capital market incorporating both the public and private sectors. "By establishing a benchmark yield, the government will enable state-owned entities and larger corporates to take advantage of this additional source of capital," explained Adam Ebrahim, CEO of South Africa-based Oasis Group Holdings, to Islamic Finance *news*.

It also signals a dedication and commitment to the sector that is vital for non-Muslim nations keen to attract Islamic investment. "What the government has to do is give a signal to the Islamic world that it intends to be part of Islamic finance, to be really on the map," explains Marc Theisen of Luxembourg-based Theisen Law. Non-Muslim nation issuance is important not only for the issuing country but for the wider Islamic finance community as well, assisting in the vital deepening of the capital markets and providing much-needed top-grade instruments which banks urgently need to manage their funds.



A question of rating

Davide Barzilai, a partner with Norton Rose Fulbright in Hong Kong, agrees that: "It is significant for an 'AAA'-rated country to issue Sukuk, regardless of the Muslim population in that country." An issuance from a highly rated country helps support Shariah compliant financial institutions wherever they are located, since global issuances in currencies such as US dollars are attractive to all types of institutions across the world.

Currently, high-rated Islamic investment instruments are extremely limited, which has represented a serious challenge for Shariah compliant banks seeking to comply with regulations including the Basel III requirements. The only top-grade available instruments at the moment are the IDB and IILM Sukuk programs, which while expanding in size are still nowhere near enough to match demand. The 'AAA'-rated IDB recently increased its London-listed program from US$6.5 billion to US$10 billion as well as announcing a new US$10 billion program for Dubai, alongside its RM1 billion (US$306 million) program on Bursa Malaysia. The IILM also this year expanded its 'A-1' rated issuance program to US$1.35 billion. However, there is little secondary trading in these papers with most banks holding them to maturity, and apart from the US$4 billion issuance in 2012 from the 'AA'-rated Qatar, this is the extent of the available instruments for Islamic banks.

For UK banks in particular, the denomination and term of these tools is also a problem. Currently, IDB Sukuk are the only assets approved by the FSA as

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DEALS

Project-based Sukuk raises US$40.5 million for Indonesia

Bumi Armada to issue Sukuk worth up to US$454.72 million upon receiving regulatory approval

Payment due for **KESAS**' Islamic debt securities on the 11th April 2014

Saudi Electricity Company Sukuk showing positive returns for investors

Maybank Islamic proposes US$3.03 billion Sukuk Murabahah program

K-Electric Sukuk raises US$61 million within 12 hours of listing

Damac completes investor meetings this week for potential Sukuk sale ahead of predicted 40% surge in property prices this year

NEWS

Noor Bank releases results of a record year

Bank of Ghana to incorporate Islamic banking framework into Banking Act 2004 as part of review in a bid to push Shariah compliant banking

Oil refiner receives US$240 million Murabahah financing from **IDB**

Faisal Islamic Bank confirms participation in **Central Bank of Egypt**'s mortgage finance scheme

Faysal Bank announces plans to become a fully Shariah compliant bank

Islamic deposit reclassification as required by IFSA 2013 will push the development for new products, says **AIBIM** CEO

Tax incentives for agricultural firms issuing Sukuk in Malaysia will prompt more palm oil companies to tap the domestic Islamic debt market, projects **Moody's**

Ratings on **Naim Holdings**' Islamic debt programs to be withdrawn upon full redemption

Islamic finance finds a niche in funding educational projects

Following stress test **Moody's** outlook for Malaysian banks is stable

State Bank of Pakistan issues stricter rules on Islamic banking windows requesting banks to obtain written approval and submit detailed plans on operation

ICD extends US$6 million line financing facility to **Orienbank** in support of Tajikistan's SME sector

Hong Kong passes Sukuk law and is en route to its US$500 million Sukuk issuance

INCEIF and the **Malaysian Takaful Association** sign MoU for greater industry participation in training of **INCEIF** students

Al Baraka Bank Pakistan and **Zaver Petroleum Corporation** sign accord for US$30.41 million Musharakah financing deal

Bank of England looking at ways to diversify and broaden Shariah compliant liquidity tools in line with Basel III

IDB board approves US$515.6 million in project funding to countries across Africa and South Asia

QInvest and **Next Wave Partners** introduce world's first Islamic unitranche financing

Waqf and Zakat are tools that should be more effectively used to combat poverty according to study

Baroness Warsi meets with representatives from Qatari Islamic banks to discuss Islamic finance

Gulf Marine Services concludes IPO offering on the **London Stock Exchange**

ASSET MANAGEMENT

Malaysian states consider venturing into cash Waqf as traditional real estate endowments are not performing up to par

Pelaburan Mara embarks joint venture with **IDB** to inject fresh capital into newly-acquired **KFH Ijarah House**

United Arab Bank partners with UK's **Just Wills** to offer Shariah compliant will-writing and registration service

TAKAFUL

Weqaya Takaful Insurance and Reinsurance Company to increase capital through a rights issue

Meethaq to offer customers Takaful products via partnership with **Al Madina Takaful**

Cobalt Underwriting receives capacity boost for its Shariah compliant insurance platform from **QBE**

Malaysian Takaful Association chairman assures that claim processes for MH370 victims will be expedited and facilitated fully by member companies

Takaful Insurance of Africa makes first compensation payment to pastoralists under pilot livestock Takaful cover program

Takaful market in Indonesia predicted to grow at a rate of 29.05% according to report

RATINGS

S&P assigns 'B+' rating to Sukuk issued by **Dar Al Arkan** with positive outlook

Capital Standards Rating upgrades **First Takaful Insurance Company** rating to 'BB'

Antara Steel Mills' plant shutdown will not negatively impact the 'AAAIS(fg)' rating of its Sukuk Mudarabah program, confirms **MARC**

Takaful International Company receives ratings affirmation from **AM Best** with stable outlook

Fitch assigns 'A+' rating to **Ooredoo**'s Sukuk program

Fitch affirms ratings of nine UAE banks as part of peer review

MOVES

New chairman appointed for **Kuwait Finance House** Fatwa and Shariah Supervisory Board

Emirates NBD Egypt names **Giel-Jan Van Der Tol** as managing director

Norton Rose Fulbright appoints **Gregory Man** as debt capital markets partner for the Middle East and Asia

HSBC appoints **Khalid Elgibaly** as head of MENA retail and wealth management

Chairman and vice-chairman re-elected by **Islamic Banks Consultative Forum**

Al Madina Takaful names **Usama Issa Al Barwani** as deputy CEO

Danajamin Nasional names **Mohamed Nazri Omar** as new CEO and managing director

Ooi Sang Kuang succeeds **Nasruddin Bahari** as chairman of **OCBC Bank** Malaysia and **OCBC Al-Amin**

Sovereign Sukuk: Small size, big ambitions

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meeting liquidity requirements – a necessary exception due to the dearth of other instruments. However, as they are in dollars and the UK banks are sterling-based, and because they are longer-term and so have greater volatility, these are not in fact ideal for liquidity management. "Over the last two years, the issue has been uncertainty about the instruments available to meet liquidity guidelines," explained Richard Thomas, the chief representative for Malaysia and senior advisor to the board of Gatehouse Bank, to Islamic Finance *news*. "So the new issue from the UK government would remove that uncertainty of continuing regulatory exceptions, as it would be an approved product and in the right currency, so it would meet the requirements."

> ***"Being the first non-Muslim sovereign Sukuk issuer could generate significant goodwill amongst traditional Sukuk investors, potentially creating more favorable terms for the issuer"***

However, despite the currency issue, Sukuk from any of these countries have the potential to offer banks greater flexibility in terms of liquidity management (apart from South Africa, which has a lower sovereign rating). The Bank of England also recently proposed an expansion of permissible Islamic assets, in line with Basel III regulations, which would allow Sukuk issued by any high-rated sovereign to be included in Islamic banks' liquidity buffers without a haircut, as well as approving other Sukuk from sovereigns and non-financial issuers with lower credit ratings (such as South Africa) subject to haircuts and caps.

Demand-driven

At least initially therefore, it is likely to be primarily Islamic banks who will take up the new issuances. Yet while in the UK the issue is likely to be taken up almost exclusively by UK Islamic banks; in countries like Luxembourg and Hong Kong, which have limited domestic Islamic banking sectors (Luxembourg has no local Islamic banks) the issuance will be primarily to attract international investors and prove commitment to the market. "It will have to be banks buying for their investors," believes Theisen. "The Sukuk cannot go to the domestic market and the first Sukuk has to be a success, it has to be oversubscribed. Therefore it is likely to be offered to Islamic banks from the Gulf or Malaysia who will buy the certificates – or possibly local banks who then distribute them to investors."

"Hong Kong is a global market and attracts funds from all over the world," confirms Barzilai. "As such I would expect Sukuk investors to come from Shariah compliant institutions or windows from the GCC, Asia and Europe as well as interest from conventional investors who are interested in 'AAA' rated issuances."

Ebrahim agrees that South Africa too, is likely to seek investors from overseas. "As highlighted by the supply/demand mismatch in global Sukuk markets earlier, there is a large pool of savings in the Middle East and Asia that is actively seeking Shariah compliant investment opportunities. Tapping this market will allow the South African government to diversify its foreign sources of funding, potentially introducing greater stability in capital flows."

The opportunity for Shariah compliant investors to diversify portfolios away from the Middle and Far East is also likely to drive demand. "There is so little geographic and currency diversification in the Sukuk market that these issuances will have a natural place in any portfolio purely because of those features," explains Thomas. "Issuers such as Hong Kong and Luxembourg will offer a diversification which should broaden the interests of private clients in those instruments." This will be a positive step for the industry because it will start to make it look like less of a niche and more of a portfolio basis for asset managers.


Barzilai

Competitive spirit

Most agree however, that it is not particularly significant who issues first. "I think there are different impacts to be achieved with the different non-Muslim country Sukuk issuances," muses Thomas. "No doubt the impact and latent opportunity of a UK issue will be greater than that of the others. However each of Luxembourg, Hong Kong, South Africa and the UK has its unique perspective and will have a greater impact within its local sphere of influence."

Ebrahim does suggest that: "Being the first non-Muslim sovereign Sukuk issuer could generate significant goodwill amongst traditional Sukuk investors in the Middle East and Asia, increasing investor appetite and potentially creating more favorable terms for the government as an issuer."

Pricing potential

However, demand is likely to be the same no matter who comes first, as the timing is unlikely to have an impact on pricing, and whichever country leads the way these issuances will act primarily to give confidence to the market rather than to provide any significant funding opportunities. "These countries will have to issue at or close to their benchmark pricing in any market, and if there is any pricing eccentricity then it will be driven out by the buyers," explains Thomas. "If they issue an instrument with a higher return then it will just be beaten down by the market because the conventional players will just come in and buy it as an alternative. So I don't see there being any pricing arbitrage on this at all."

Some countries do have unique characteristics that may impact pricing, however. For example, Hong Kong issues very little sovereign debt therefore it is hard for the market to anticipate how it might price a Sukuk based on such limited precedent. Ebrahim also suggests that: "Being an emerging market, the South African Sukuk is likely to provide

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Table 1: Selected Sukuk characteristics

	Size	Structure (expected)	Assets	Expected	Sovereign rating (S&P)	Advisors
UK	GBP200 million (US$332 million)	tbc	tbc	FY 2014-15	'AAA'	Linklaters, HSBC
Luxembourg	EUR200 million (US$275 million)	Ijarah	Government-owned real estate	August 2014	'AAA'	tbc
Hong Kong	US$500 million	Ijarah/ Wakalah	tbc	End-2014	'AAA'	tbc
South Africa	US$500 million	Ijarah	tbc	Q2 2014	'BBB'	Standard Bank Group, BNP Paribas, Albaraka Banking Group, Nova Capital Partners, Liquidity Management House, Regiments Capital

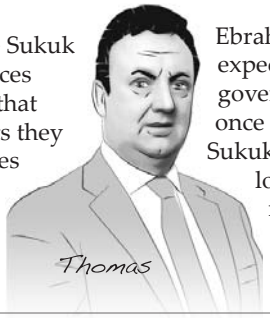
investors with substantial yield uplift relative to the other major issuers."

However in general, the Sukuk issues are likely to price closely to the conventional bond market, and investors can thus look to the governments' existing dollar-denominated bonds for an accurate idea of the expected yield. The large supply/demand mismatch in the global Sukuk markets (with 2014 demand anticipated to be around US$360 billion compared to supply of around US$130 billion), could however theoretically lead to lower yields than in the non-Islamic debt markets. And although global yields have stabilized in recent months following the initial spike in June last year, over the medium-term they are widely expected to rise, meaning that many sovereign and corporate Sukuk issuers will be hoping to come to the market before the next spike in benchmark yields.

What comes next?

But the primary impact from these Sukuk is in fact not likely to be the issuances themselves, but the consequences that they inspire and the chain of events they set in motion. The original issuances are all such small amounts that demand is almost certainly likely to exceed supply – and the real question will be what happens then? Will these governments increase issuance, will they issue on a regular basis, will they inspire other governments to issue?

> ***"The primary impact from these Sukuk is in fact not likely to be the issuances themselves, but the consequences that they inspire"***



Ebrahim confirms that: "We expect that other non-Muslim governments will follow suit once the appetite for these Sukuk is revealed. Over the long-term therefore, these issues will pave the way for significantly greater liquidity and development within the global Sukuk markets."

But realistically, we can't know the answer to that until the first issuances have been launched. "A government Sukuk is not the point," agrees Thomas. "The really interesting events are what will follow." Will it be quasi-government sovereign Sukuk-related, like housing associations or local authority bonds? Will it be infrastructure related? Once the first government issue is done then hopefully others will realize that it is legitimate, it can be done, it won't cost a lot more money, and it will finally solve the perennial concern about value for money. This will drive more interesting issuances from corporate and government-related entities.

This is where the real advantage of these issuances will lie – in broadening and deepening the Islamic capital market, rather than the specific transactions themselves. "It is not the *actual* size, pricing or structure that matters," explains Thomas, "but the demonstration effect that it will have – to prove that despite the lingering "value for money" argument it *can* be priced, structured, issued and traded".

For now, all we can do is wait and see.
— *LM*

The Big Four: A sovereign summary

UK

The UK Sukuk has garnered the most attention, and was the first to be announced at the World Islamic Economic Forum in October 2013. The country first planned a Sukuk six years ago but the issuance was shelved when the UK Debt Management Office decided the structure was too expensive. Since then however, the country has ensured that its regulatory and tax environment is welcoming for Islamic structures, and the GBP200 million (US$332.9 million) issuance is expected to be launched this year. "Without a shadow of a doubt, the UK issuance will have the largest impact," said Arsalaan Ahmed, the head of capital financing at Barwa Bank, in a recent interview.

However, recently some doubts have arisen as to the timing of the Sukuk. Although it was initially earmarked for early 2014, a treasury spokesman recently confirmed that it would be issued in the next financial year – so any time between April 2014 and March 2015. Sajid Javid, the financial secretary to the Treasury, claimed that: "It is very important that when the UK issues it has looked at everything in fine detail. It would be in no one's interests if it was rushed unnecessarily and there's a problem that could have been avoided."

The UK government has also strongly intimated that this issuance will be a single benchmark move rather than a continuous program. "We have said this is a one-off issuance, not a long-term program, and its main purpose is not financing for the government," he said. "It is more to develop the UK as a financial center," confirmed Sajid.

Luxembourg

The Grand Duchy of Luxembourg presented a draft bill to parliament in January this year to pave the way for a debut Sukuk issuance, which is proposed to be a EUR200 million (US$275 million) Ijarah structure. The Luxembourg government has also already identified three real estate assets to back the transaction. However, this month it was announced that the issuance would be delayed while the legal advisors to the government, the Conseils D'Etat, reviewed the details of the transaction. The bill could take around two months to pass, although the upcoming budget may delay it by up to five months.

The Luxembourg Stock Exchange was the first in Europe to list a Sukuk issuance in 2002, and has since listed 16. However, with no domestic Islamic institutions the issuance will remain small and is primarily about marketing the stock exchange and the country as a listing venue and a fund domicile, and underlining its commitment to Islamic finance.

Hong Kong

Following the bill passed in July 2013 to facilitate Sukuk issuance by clarifying tax status, Hong Kong regulators last week passed a bill that will allow the government to raise around US$500 million via Islamic structures. The issuance will be handled by the Hong Kong Monetary Authority under the Government Bond Program, which has a borrowing ceiling of HK$200 billion (US$25.8 billion). As of February, the program had 14 listed bonds currently outstanding worth a combined HK$94 billion (US$12.11 billion), with tenors of up to 10 years.

There is no information currently available as to which structure will be used and on what assets they will be based. According to Davide Barzilai, a partner with Norton Rose Fulbright in Hong Kong, the Treasury Bureau could choose real assets such as real estate in Hong Kong or it could go for the more structured Wakalah-based Sukuk. "There is sufficient flexibility within the legislation to enable a choice of structures for any issuer."

The proposed issuance has also been described as "inaugural" which suggests it would be part of an ongoing program: although there is as yet no confirmation of when we can expect the first tranche to be launched.

South Africa

According to the National Treasury, South Africa plans to sell its debut international Sukuk this year and introduce two long-term domestic bonds in order to diversify its debt portfolio and reduce refinancing risks. South Africa has to refinance ZAR154.9 billion (US$14 billion) of debt over the next three years at a time when bond yields are climbing as the Federal Reserve tapers monetary stimulus and emerging-market central banks boost interest rates to protect their currencies and combat inflation. "Our first Sukuk (Islamic) bond will be launched this year," confirmed finance minister Pravin Gordhan at the unveiling of the annual budget in February. "Options for introducing a Sukuk retail savings bond are also being explored."

South Africa has been considering a Sukuk issuance since 2011, when it appointed Standard Bank Group, BNP Paribas and Albaraka Banking Group to advise on the transaction. Nova Capital Partners, Liquidity Management House for Investment and Regiments Capital were also appointed. Previously, South Africa's income tax legislation gave preferential tax treatment to non-permissible income, which proved disadvantageous to holders of Shariah compliant income instruments. Over the last few years however, the legal framework has been changed sufficiently so that both conventional and Shariah compliant income instruments are given equal tax treatment.

The South African government has budgeted around ZAR847 billion (US$80 billion) towards its infrastructure program over the next three years; and the quality of the assets within these programs (such as power stations, ports, etc) are likely to be well suited for Sukuk structures , suggesting that the government may continue to issue on a regular basis.

DEALS

Indonesian Sukuk sale fails to meet target

INDONESIA: The finance ministry of Indonesia sold IDR461 billion (US$40.5 million) in Sukuk at an auction on the 25th March; lower than the intended target of IDR1.5 trillion (US$132.75 million). The ministry was unable to sell six-month Sukuk T-bills and project-based Sukuk with a six-year tenor.

Bumi Armada issue in the horizon

MALAYSIA: Oil field services firm Bumi Armada is looking to issue Sukuk up to RM1.5 billion (US$454.72 million), subject to regulatory approval from Securities Commission Malaysia. Issued via the firm's wholly-owned unit Bumi Armada Capital, proceeds raised from the sale will go towards funding start-up and investment costs for projects, restructuring existing debt and general corporate purposes.

Maybank Investment Bank is the adviser to the program including the first Sukuk tranche to be issued under the program, which will not be rated.

KESAS Payment due

MALAYSIA: Payment for the secondary RM800 million (US$242.17 million) Al-Bai' Bithaman Ajil Islamic Debt Securities (Stock Code: DP020902) issued by highway concessionaire KESAS is due on the 11th April 2014.

Best returning Sukuk for the year so far

SAUDI ARABIA: The SAR4.5 billion (US$1.19 billion) Sukuk issued by Saudi Electricity Company in January is the best returning corporate Sukuk, according to data from Bloomberg, providing investors with a return of 4.9% compared with an average of 2.1% for all corporate Sukuk from the region. Non-dollar denominated Sukuk have had a successful start to the year in the GCC, with approximately US$6 billion-worth of local currency sales, according to data compiled by Bloomberg, compared to US$1 billion in the first quarter of 2013.

Maybank plans Sukuk

MALAYSIA: Maybank Islamic has proposed for a RM10 billion (US$3.03 billion) subordinated Sukuk Murabahah. The program has been affirmed at 'AA1' by RAM, with a stable outlook. The bank has also been assigned financial institution ratings of 'AAA/Stable/P1'.

Listing of Pakistan's first retail Sukuk

PAKISTAN: K-Electric Sukuk 'AZM', the first retail Sukuk in Pakistan, began trading on stock markets on the 26th March and raised PKR6 billion (US$61 million) in 12 business hours.

The Sukuk are listed on the Karachi, Lahore and Islamabad stock exchanges with an investor base ranging from financial institutions to corporations and trusts. Habib Bank acted as the sole underwriter and financial advisor for the transaction.

Damac plans Sukuk

UAE: Property developer Damac will complete its meetings with interested investors in Singapore, the UAE and London for a potential benchmark-sized Sukuk issue. The proposed facility is rated 'BB' by S&P. Damac is looking to develop a string of luxury developments ahead of positive real estate sentiments in the emirate, with the Land Department predicting property prices to surge as much as 40% this year.

DEAL TRACKER Full Deal Tracker on page 38

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Damac Real Estate	US$	500 million	28th March 2014
Maybank Islamic	RM	3.03 billion	27th March 2014
Bumi Armada Capital	RM	454.72 million	27th March 2014
Saudi Investment Bank	TBA	TBA	21st March 2014
Gulf Finance House	US$	500 million	20th March 2014

Noor Bank releases results of a record year

UAE: Shariah compliant Noor Bank announced 2013 net profits of AED255 million (US$69.4 million), more than triple the AED76 million (US$20.7 million) in total profit reported for the previous year. The Dubai-based bank also reported strong total asset growth rising 29% to AED23.2 billion (US$6.32 billion) and a capital adequacy ratio of 17.6%, with a coverage ratio of almost 100%.

The results for 2013 mark three years of consecutive growth for the bank, which was established in 2008 and rebranded at the start of this year to Noor Bank from Noor Islamic Bank to mark its sixth anniversary. Noor Bank is owned in the majority by the Noor Investment Group, with a 5% stake held by Emirates Investment Authority and 0.1% by individuals and corporations in the UAE.

Last year saw a 24% increase in the bank's customer base, fulfilling aims voiced by the bank's CEO, Hussain Al Qemzi, at the launch of Noor's rebrand regarding the bank's drive to grow both at home and internationally: with plans to focus on growth in the GCC countries, Turkey and Southeast Asia.

Hussain however, has said that the bank aims to differentiate itself by focusing less on the increase of its branch network and more on online banking: "Recently we've been thinking of expanding our horizons to the digital field, apps. In the product and customer that we are targeting we've noticed today that the branch network is not very instrumental. Unlike before, people are looking for alternatives of reaching you through the internet."

Last year the bank launched its trade and SME operation, Noor Trade, and reported an increase of more than double in trade financing to SMEs. The bank's parent company, Noor Investment Group, announced last month that it had been selected by the Dubai Department of Economic Development as an advisor for the emirate's proposed EXIM bank, which when approved is expected to be the world's first fully Shariah compliant bank of this type. According to local reports Noor Bank aims to utilize Dubai's competitive standing as a massive import and export hub to boost its corporate trade finance business.

AFRICA

Ghana reviews banking act

GHANA: Bank of Ghana, the central bank, is currently reviewing Ghana's Banking Act 2004 to include a framework for consolidated supervision of banks, including the yet-to-be-approved Islamic banks, as a measure to pave the way for the establishment of Shariah compliant financial institutions in the republic.

According to the head of banking supervision at the central bank, the review would re-classify non-banking institutions and finance houses as 'special deposit-taking institutions' equipped with a comprehensive regulatory provision. The central bank has thus far received applications from two interested parties keen on establishing Islamic banks.

Samir receives Murabahah facility from IDB

MOROCCO: Oil refiner Samir has received a US$240 million Murabahah syndicated financing from the IDB as part of a package of loans from the bank, according to a report by Reuters, with the first tranche of the US$720 million program issued in 2012.

The two-year financing granted by IDB's financing arm International Islamic Trade Finance Corporation will be used to finance crude oil imports, as Samir anticipates refining margins to reach between US$4.5 and US$5 in 2014.

Faisal Islamic supports real estate development

EGYPT: Faisal Islamic Bank will take part in the Central Bank of Egypt's mortgage finance program aimed at boosting the construction and real estate sectors of the kingdom, confirmed the bank's chairman Mohammed Faisal Abdulaziz Al Saud during a meeting with interim prime minister Ibrahim Mehleb.

The central bank has allocated EGP10 billion (US$1.43 billion) to finance low-income housing projects to be distributed to banks in the form of deposits over a period of 20 years at low interest rates.

The possibility of Faisal Islamic Bank participating in industrial, urban and economic development projects was also discussed during the meeting.

ASIA

Pakistani bank to convert

PAKISTAN: Karachi-based Faysal Bank has announced that it will convert its business to fully-fledged Islamic banking as the bank's majority shareholder, Shariah compliant Ithmaar Bank, embarks on a consolidation of business lines, according to a report from Reuters. Bahrain-based Ithmaar Bank holds a 67% stake in the Pakistani bank which as of December 2013, held 53 standalone Islamic branches, run through its Islamic banking window. The conversion of Faysal Bank's business is expected to take two to three years and the bank is in talks with the State Bank of Pakistan.

IFSA pushes product diversification

MALAYSIA: In a bid to comply with the Islamic Financial Services Act 2013, which requires Islamic financial institutions to reclassify Islamic deposits into savings or investment accounts, the president of Association of Islamic Banking Institutions Malaysia (AIBIM), Mohd Redza Shah Abdul Wahid, expects new products under the investment account banner to come to market by the end of this year or early 2015.

More Sukuk from palm oil firms

MALAYSIA: Based on a trend observed among ASEAN agricultural companies, Moody's has projected that more palm oil firms will issue Sukuk in Malaysia to access its deep and liquid Islamic debt market. The anticipated increase is also attributed to incentives provided by the Malaysian government for palm oil producers to issue Sukuk — a three-year double tax deduction announced last September. Over the last two years, agricultural companies, especially firms from Indonesia, have been tapping the Malaysian Sukuk market offering cross-border debt.

Naim mid of redemption

MALAYSIA: Investment holding company Naim Holdings has confirmed it is in the process of redeeming its Islamic debt facilities. The firm received in-principal approval from Sukukholders of its RM500 million (US$151.57 million) Islamic medium-term notes program (2010/2025) and RM100 million (US$30.31

continued

Islamic finance finds niche in funding educational projects

GLOBAL: Education is an area of social development that the IDB has targeted with particular focus, with over US$30 million in funding approved and allocated for educational projects since December.

The Hyderabad Institute of Excellence, an Indian school recently established with aid from the IDB, is an example of the education funding of the bank in practice, as government and commercial interest in the use of Islamic finance for education projects grows.

Since December, the IDB has approved over US$1.5 billion in new financing. Of this, US$32.3 million has been earmarked for use in educational development in countries such as Bosnia Herzegovina, Guyana, Thailand and the US.

Of the US$4.7 million allocated by the IDB as aid for Syrian refugees, US$700,000 was flagged as funding for education. In February this year, US$9 million was approved for projects in Cameroon and this month, the bank announced the allocation of US$17.8 million for a projects in Burkina Faso and Suriname.

In the commercial space, two high profile instances saw the use of Sukuk to fund the building of schools in 2013: the US$200 million GEMS Education Sukuk issued in November and, in October, the first Nigerian Sukuk Ijarah from Osun State for NGN10 billion (US$59.88 million).

Given the importance of education, especially in emerging economies, it is a positive sign that Islamic financing of educational projects continues to grow. Kunrat Wirasubrata, the head of the IDB regional office in Kuala Lumpur, outlined to Islamic Finance *news* the bank's commitment to continue in its support: "The appetite to use Islamic financial products is increasing, so it's a matter for the IDB and others who are active in Islamic finance, to capture the opportunity and work out how to formulate a suitable product to provide financing to the growing educational sector. We are committed to continue financing and we are interested to work with partners."

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million) Islamic commercial papers program (2010/2017) on the 17th March. The group has RM150 million (US$45.47 million) outstanding from both the programs rated 'AA3/Negative/P1' by RAM Ratings. Upon confirmation of redemption, RAM will withdraw the ratings.

Malaysia's banks fair well under stress test

MALAYSIA: The results of stress tests carried out by Bank Negara Malaysia (BNM) show that Malaysia's banks are well capitalized and resilient to severe credit and market losses according to Moody's. According to BNM's adverse stress test, the aggregate total capital ratio of Malaysia's banks would be 10% under the central bank's adverse stress scenario, while their common equity Tier 1 (CET1) ratio would be 7%. Malaysia's Basel III minimum requirement for 2014 is of 4%.

SBP tightens rules

PAKISTAN: The State Bank of Pakistan (SBP) has introduced new rules for the conduct of Islamic banking windows, requiring banks to obtain written approval from the central bank in addition to submitting additional details on staffing, training and marketing strategies.

ICD supporting SMEs

TAJIKISTAN: The Islamic Corporation for the Development of the Private Sector (ICD) will extend a line of financing worth US$6 million to Orienbank which will be channeled to the SME sector to support development in the industrial, communication, technology, health, construction and agricultural areas.

HK Sukuk law passed

HONG KONG: Hong Kong's government has successfully passed its Sukuk bill. With an aim to raise approximately US$500 million, the issuance will be made by the Hong Kong Monetary Authority under the territory's Government Bond Program, which has a borrowing ceiling of HKD200 billion (US$25.77 billion).

MoU to provide better internship experience

MALAYSIA: INCEIF has signed an MoU with the Malaysian Takaful Association (MTA). The aim of the MoU is to establish a collaborative framework leading to greater and more effective industry participation in the training offered to INCEIF students, particularly for internship placements at any of the 15 MTA member organizations.

First Islamic transaction for Zaver

PAKISTAN: Zaver Petroleum Corporation has signed for a PKR3 billion (US$30.41 million) Musharakah financing facility, arranged by Al Baraka Bank Pakistan. The bank is also the lead advisor to the deal. Other banks involved in the transaction include: Burj Bank, Dubai Islamic Bank, Askari Bank, Bank of Punjab and United Bank.

EUROPE

BoE studying Islamic liquidity tools

UK: As a means of lowering concentration risk in the Islamic financial sector, the Bank of England (BoE) is analyzing ways to boost the number of Shariah compliant assets which can be used by Islamic financial institutions as liquidity buffers. This move comes in line with preparation for Basel III regulation which will permit Sukuk offered by sovereigns of high rating to be included in liquid assets buffer without a haircut. Presently, the only Islamic assets meeting BoE's requirement for used in liquidity buffers are Sukuk issued by IDB.

GLOBAL

Energy projects benefit from IDB funding

GLOBAL: The IDB board of executive directors has approved US$515.6 million in support of socio-economic development projects, mainly in the energy sector, for Muslim communities in member and non-member countries. The disbursements included US$490 million allocated to energy projects in countries including Pakistan, Morocco, Senegal, Mauritania and Cameroon.

The education sector received US$17.8 million covering projects in Burkina Faso and Suriname and a US$6 million technical assistance financing to the republic of Niger was approved in the

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QInvest and Next Wave Partners introduce world's first Islamic unitranche financing

GLOBAL: Qatar-based QInvest and the UK's Next Wave Partners have entered into a new strategic partnership and completed a US$45 million Shariah compliant unitranche refinancing exercise for Petainer Group.

In an emailed statement to Islamic Finance *news*, QInvest elucidates that the refinancing is among the world's first Shariah compliant unitranche financing structures. It will provide capital for the development of new facilities for Petainer Group as the business continues to grow in new and existing markets.

The unitranche is of a hybrid financing structure that combines senior and subordinated debt into one instrument, in which the borrower pays one single combined profit rate to one lender, and the blended rate falls between the rate for senior and subordinated notes.

The unitranche instrument was created to simplify structures and accelerate the execution process. This type of financing is mostly aimed at middle market companies and used by private equity in leveraged buyouts.

Petainer Group is a world leader in the manufacture of large containers and refillable polyethylene terephthalate (PET) packaging and is also a leading player in the Scandinavian PET bottle market. It is recognized by its customers as being a leading, innovative protagonist in the development of sustainable packaging.

Commenting on the transaction, Alex Armstrong, the head of financial institutions and structured finance at QInvest, said: "We are delighted to be backing Petainer as it embarks on an exciting phase of growth in both developed and developing markets and particularly excited given the innovative nature of the transaction. QInvest looks forward to working further with Next Wave Partners and building a long-term partnership."

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transport sector, for preparation of the development of the regional railway loop connecting four IDB member countries namely: Niger, Cote d'Ivoire, Benin and Burkina Faso.

A fortune in under-utilized assets

GLOBAL: Islamic charitable organizations are suffering from lack of professional management and poor book-keeping resulting in billions of dollars worth of assets, such as real estate, remaining idle, according to a study released by the Islamic Research and Training Institute and Thomson Reuters. Sustainability in the supply of funds and the training of professionals in Shariah compliance as well as modern financial management techniques for charity-based and not-for-profit institutions are some of the issues to be tackled, as well as globally accepted definitions of which assets are eligible for Zakat and how to estimate Zakat donations.

The study estimates that Muslim communities in India and Singapore, for instance, could collect Zakat in the range of about 0.26% to 0.65% of their gross domestic product.

Closer ties between the UK and Qatar banks

GLOBAL: Baroness Warsi, the minister for faith and communities in the House of Lords and senior minister of state at the Foreign & Commonwealth Office; Sheikh Dr Khalid Thani Al Thani, the chairman of the board of directors of Ezdan Holding Group; Abdulbasit Ahmed A Al Shaibei, CEO of Qatar International Islamic Bank; and an accompanying delegation have held a meeting to discuss developments and changes that will affect the Islamic finance industry and economy.

The meeting confirmed the UK's interest in working with Qatari Islamic banks in developing Islamic finance on an international level and building relationships between the finance and businesses communities in the UK and Qatar.

Gulf Capital completes IPO

GLOBAL: Gulf Capital's Gulf Marine Services, the winner of IFN Syndicated Islamic Finance Deal of the Year for 2013, has concluded its IPO on the London Stock Exchange, which raised a total of GBP179 million (US$295.44 million) after exercise of the over-allotment option. At an offer price of 135 pence (222 US cents), the offering valued the equity of the company at GBP472 million (US$779.04 million).

Treedom offers Islamic agreements

GLOBAL: Aromatic oil manufacturer Treedom Group, has introduced a Shariah compliant Forward Purchase Agreement known as the 'Oud Asset Agreement' (OAA), in collaboration with Bahrain's Shariyah Review Bureau (SRB).

The OAA, certified by SRB, is a high-yield Shariah compliant impact savings plan along with the FPA, allowing clients to purchase parcels of feedstock which will deliver portfolio construction of agar wood distillation.

Anticipation of US tapering affects emerging markets

GLOBAL: Potential vulnerabilities of emerging market sovereigns, including Malaysia, Russia and Turkey, have been highlighted by recent financial market volatility and increased pressure on emerging market currencies.

These can be attributed in part to the anticipation of the tapering of the US Federal Reserve quantitative easing policy, according to a new report from Moody's. The report covers Europe, the Middle East and Africa as well as the Americas and Asia Pacific.

Cross-selling and creativity key to growth

GLOBAL: Creating new products and appealing to a wider audience is vital for the continued development of the Islamic finance industry, according to Yaser Abushaban, the head of asset management at Emirates Investment Bank. Speaking to Islamic Finance *news*, Yaser highlighted that: "There needs to be more creativity. Instead of taking a conventional product and re-engineering it to be Shariah compliant, we must step outside the box and focus on the criteria that make an opportunity Shariah compliant from the get-go."

One of the ways this could be achieved is by developing products that appeal

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QIB in discussions to acquire stake in Bank Asya

GLOBAL: In an emailed statement to Islamic Finance *news*, Qatar Islamic Bank (QIB) confirmed that it has entered into exclusive discussions to acquire a strategic stake in Turkish participation bank, Bank Asya. QIB has indentified Turkey as a target market for its international expansion plans.

Subject to the required regulatory approvals, QIB has appointed QInvest as its financial advisor and looks to finalize the transaction within the next few months. The Qatari bank seeks to assist Bank Asya to realize its medium to long-term growth targets and strengthen its position as the leading Islamic bank in Turkey. Established in 1996, Bank Asya recorded a net profit of TRY181 million (US$81.08 million) for the year 2013. It is curently the largest participation bank and the 13th-largest overall bank ranked by assets in the Turkish banking sector.

Bank Asya is listed on the Istanbul Stock Exchange and appears to be majority-owned by Turkish investors. According to its corporate information, the bank's shareholding structure are as follows: publicly listed (53.47%), undisclosed investors (29.4%), BJ Tekstil (2.26%), Sürat Basım Yayın Reklamcılık ve Eğitim Araçları (2.7%), Osman Can Pehlivan (3.33%), Forum İnşaat Dekorasyon Turizm (3.85%), Ortadoğu Tekstil (4.89%).

Including Bank Asya, the country presently has four participation banks: Kuveyt Turk, which is 62.24% owned by Kuwait Finance House; Albaraka Turk, which is 66.1% owned by its foreign partners, founded by Bahrain's Albaraka Banking Group and the IDB; and Turkiye Finans which is 60% owned by Saudi Arabia's National Commercial Bank. QIB's stake acquisition will represent Qatar in the list of countries that is tapping into Turkey's Islamic finance market.

QIB has a 35% market share of Qatar's Islamic banking assets and a 9% market share of the country's total banking assets. The bank announced a net profit of QAR1.34 billion (US$367.7 million) for 2013, with QAR77.3 billion (US$21.21 billion) in assets. In the same year, Fitch Ratings affirmed QIB's long-term issuer default rating at 'A', with a stable outlook. QIB's counterparty credit rating was maintained at 'A-', with a stable outlook by S&P.

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to a wider market, such as cross-selling between Islamic and ethical investors. "The themes of Shariah compliant and ethical investment have a great deal of overlap. Why reproduce the work twice when you can combine them to create one product which you can sell into a wider market?" This could also assist in bringing Islamic investing to a wider global audience by appealing to the growing demand in Europe for ethical investment.

New Islamic finance group to meet this week

GLOBAL: Cayman Islands premier Alden McLaughlin travelled to London last week to attend a meeting of the Global Islamic Finance and Investment Group to be held at Lancaster House. The premier has been appointed by the Foreign and Commonwealth Office to the newly established Global Islamic Finance and Investment alongside Bermuda premier Craig Cannonier. According to UK senior minister of state Baroness Warsi, the group is expected to provide recommendations to governments, regulators and the industry to help secure Islamic finance's place within global cross-border finance.

ISFIN choses Icelandic partner

GLOBAL: Global Islamic finance legal network ISFIN has chosen Nordik Legal as its exclusive representative in Iceland.

Islamic banks sign MoU

GLOBAL: Kuwait Finance House Bahrain (KFH-Bahrain) and Meethaq Islamic Banking Group have signed an MoU to support joint business opportunities in Oman's Islamic banking sector, in the areas of treasury transactions and trade and capital markets. The MoU also specifically mentions 'WASI', an overnight liquidity management product launched by KFH-Bahrain in regard to the interbank relationship between the two institutions.

RM20 million Sukuk pipeline for CIMB

GLOBAL: CIMB Group Holdings is at the top of the global Sukuk rankings for 2014 so far, after closing US$2.5 billion in deals including the RM3.7 billion (US$1.12 billion) issue from Malaysian national energy provider Tenaga Nasional. Badlisyah Abdul Ghani, CEO of CIMB Islamic Bank in Malaysia, has said that the bank has a pipeline of deals worth approximately RM20 million (US$6.05 million). HSBC Holdings, which has led the rankings for the last two years, is currently in second place.

Equity investments in Middle East expected to grow

GLOBAL: Middle East fund managers believe that corporate earnings and balance sheets will improve this year, and are willing to buy Middle East equities in the dip following the panic selling in March given the geopolitical uncertainty over Ukraine and the diplomatic dispute in the Middle East, according to Reuters. Akber Khan, the director of asset management at Qatar's Al Rayan Investment, has said that it has offered attractive entry points for a number of companies with strong market positions.

A survey of 15 leading investment managers, conducted over the past 10 days by Reuters, found that 47% expect to raise their equity allocations to the Middle East over the next three months, while only 13% expect to reduce them.

Confidence growing in the London property market

GLOBAL: Middle Eastern investors accounted for 17% of total investments in the sector last year, as confidence in the London property market grows according to a recent report by property manager CBRE. Total European real estate investment by Middle Eastern investors totaled nearly EUR10 billion (US$13.7 billion)-worth of transactions in 2013.

Sidra and INOKS lead GCC investors into Africa

GLOBAL: Saudi Arabia's Sidra Capital and its Geneva-based partner INOKS Capital have completed two Shariah compliant convertible investments on behalf of a consortium of investors from the GCC. The investment transactions, in the real estate sector in Cote d'Ivoire and agricultural industry in Ghana, are in excess of SAR140 million (US$37.33 million).

The Cote d'Ivoire deal involves a regulated government-sponsored social housing scheme for the growing middle class in Abidjan while the investment in

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IFSB implements a new standard for IIFS

GLOBAL: During its 24th Meeting in Brunei on the 27th March, the Council of the Islamic Financial Services Board (IFSB) passed two resolutions: the adoption of a new standard and the admission of Bank of Korea as an associate member. The new standard, known as IFSB-16, is the Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services, which excludes Takaful institutions and Islamic collective investment schemes.

The revised standard is an updated version of an earlier standard (IFSB-5) that enumerates key elements in the supervisory review process for authorities supervising institutions offering Islamic financial services (IIFS). It takes into account the specificities of each IIFS, the lessons learned from the global financial crisis, and concurrently complements the existing international guidance on the supervisory review process issued by the Basel Committee on Banking Supervision (BCBS).

The IFSB-16 pertains to the supervisory process and how regulatory authorities should supervise various specific areas pertinent to the IIFS. It also ensures that the supervisory review process covering IIFS is consistent with those for conventional institutions and relevant to the current state of the industry, in accordance with the particularity of Shariah compliant financial transactions; and promotes the financial soundness of the IIFS.

In addition, the IFSB-16 seeks to foster convergence towards best practice among authorities supervising IIFS by establishing a minimum standard which enables relevant supervisory authorities to meet requirements when carrying out their duties. According to an emailed statement, a copy of the IFSB-16 will soon be available on the IFSB website.

Including the Bank of Korea, the IFSB has 184 members comprising of 59 supervisory and regulatory authorities from the banking, capital markets and Takaful sectors in 45 jurisdictions, as well as eight international inter-governmental organisations, and 117 market players involving financial institutions, professional firms and industry associations.

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Ghana is channeled to RMG Concept, an integrated agriculture commodity supply chain player with activities in Cote d' Ivoire, Ghana, Burkina Faso, Liberia and Mali. These investment strategies harmonize a collaborative initiative by both Sidra Capital and INOKS Capital: the Sidra Ancile Structured Trade Investment strategy which was jointly launched in 2012.

Figures on GCC issuances

GLOBAL: The GCC in 2013 registered a 14.5% increase in the aggregate primary issuance of bonds and Sukuk totaling US$97.7 billion as compared to 2012, reported Kuwait Financial Center (Markaz). A total of US$46.1 billion was raised via sovereign and corporate bond and Sukuk, up 2.3% from the total raised the previous year.

According to the report Sukuk issuances during 2013 were slightly lower as compared to conventional offerings at US$22.3 billion, with the latter raising US$23.7 billion or 51.4% of the total amount raised in the GCC bonds and Sukuk market last year.

M&A in MEA on the rise

GLOBAL: Amid declining global mergers and acquisitions activities due to shaken confidence and currency volatility, the Middle East and Africa (MEA) have however seen an increase in foreign direct investments and promising growth in M&A activity, according to a report by KPMG. M&A activity in the region has advanced 15-20% according to Vikas Papriwal, KPMG UAE's head of transactions and restructuring; while Mergermarket reports that total value of M&A in the MEA region marked a 26.9% accretion to US$64.2 billion last year.

Papriwal attributed the increase in M&A deals in the region to a young demographic, high per capita spend and burgeoning tourism industry as well as a consumption-driven economy.

Uncertainty for club as new agreement is negotiated

GLOBAL: Ken Bates, former Leeds United Football Club owner, has suggested that Shariah compliant Gulf Finance House, the current owners of the football team, do not have the funds to pay the club's wages bill, according to local reports. The intended sale of a 75% stake in the club is in limbo as proposed new owner Massimo Cellino was blocked by the Football League earlier this week following a conviction for tax evasion last week in Sardinia.

A market for Islamic securitization?

GLOBAL: Islamic finance structures could provide a fresh source of funds for companies and help revive the securitization market, says Nik Ramlah Mahmood, the deputy CEO of Malaysia's Securities Commission, according to Reuters. Due to the moratorium on speculation in Islamic finance, Mahmood believes that Islamic securitization could offer benefits without the weaknesses that lead to the global financial crisis in 2007. Legal clarity with regard to special purpose vehicles and taxation issues is something that would need to be established.

MIDDLE EAST

Ahli United Bank on the lookout for acquisitions

BAHRAIN: Ahli United Bank, which operates Al Hilal Islamic Banking, is scouting for acquisitions to expand and develop its existing banking franchise in the GCC according to local reports. The bank's chairman, Fahad Al Rajaan, has said that the bank's management is confident in its continuing good performance which will be boosted by the growth in economic activity in the region.

New offering from EI

UAE: Emirates Islamic (EI) has announced the launch of a new product, the Abu Dhabi Rewards Credit Card, which offers participation in a variety of reward and loyalty programs in Abu Dhabi-based stores.

Islamic banks arrange Ezdan deal

QATAR: Ezdan Holding Group Company has closed the first tranche of its US$500 million debut syndication, proceeds from which will be channeled to support the completion of commercial and residential real estate developments in Qatar.

Barwa Bank was the initial mandated lead arranger for the deal and along with Mashreq, acted as joint bookrunners. Mandated lead arrangers include: Ahli United Bank's Al Hilal Islamic Banking, Abu Dhabi Islamic Bank, Bank Islamic Brunei Darussalam, Mashreq Al Islamic and Union National Bank. The transaction was co-arranged by Qatar First Bank and Industrial and Commercial Bank of China Doha and Sharjah Islamic Bank were lead participants on the facility.

New level playing field for Saudi?

SAUDI ARABIA: As a number of Saudi Arabian banks are increasing their capital as much as 100%, including Riyad Bank, industry observers have noted that this new capital injection will provide banks with the capacity to increase their financing activities while keeping in compliance with credit concentration requirements as stipulated by the Banking Control Law of 1966.

Oman missing vital component

OMAN: Experts have said during a recent Islamic banking seminar held in Oman that the progress of Shariah compliant banking in the sultanate faces challenges with regards to the absence of a global Islamic capital market, in particular the lack of an Islamic interbank market and the dearth of short-term, long-term or highly tradable investment. Such issues may hamper the development of the industry despite Oman having a robust regulatory framework for Islamic finance, opined the experts.

QFB patiently waiting for regulatory approval

QATAR: Qatar First Bank (QFB)'s chairman, Abdullah Fahad Ghorab Al Marri, has expressed his dismay over the long delay by Qatar Financial Markets Authority in approving the Islamic bank's application to list on the local bourse, which was submitted in 2012. The bank, which has concluded all mandatory regulatory procedures as required for a listing, has also engaged Credit Suisse as its financial adviser.

IMF view on Bahrain's Islamic banking sector

BAHRAIN: The Bahrain banking sector is in good health, with non-performing

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financing in the Islamic retail banking segment falling to approximately 13% of gross financing, and capital buffers remaining at about 17% according to the IMF whilst on a discussion visit to Bahrain.

Rule revision for foreign banks in Kuwait

KUWAIT: The Kuwaiti government will allow foreign banks to open multiple branches in Kuwait on a case-by-case basis according to local reports, in order to promote growth. Analysts however, are doubtful that many banks will avail themselves of the opportunity unless the overall banking landscape in Kuwait changes.

Until now foreign banks in Kuwait have been restricted to one branch; according to the central bank, under the new rules, foreign banks will be allowed to open representative offices although it has not been made clear whether the restriction limiting foreign banks to investment banking only will also be lifted.

Establishment of financial stability committee

OMAN: The government and regulators of Oman have established the Supreme Committee for Financial Stability to monitor and manage risks in the banking and capital markets, according to local reports. The committee will study risks, coordinate fiscal and monetary policy and prudential supervision, as well as the actions of regulators and supervisors, according to the finance ministry.

Islamic banking in Iraq

IRAQ: Islamic banking has not yet developed fully in Iraq, said Adham Karim Darwesh, the general manager of the Erbil branch of the Central Bank of Iraq, to Zawya. The three Islamic banks in Erbil do not operate according to Shariah law and still use commercial banking standards to calculate profit and interest. Iraq has currently has nine operational Islamic banks according to the country's central bank.

KFH attends Public Authority for Minors' Affairs conference

KUWAIT: Kuwait Finance House (KFH) has been recognized for its social role by the minister of Awqaf and Islamic Affairs Nayef Al-Ajmy. The bank took part in the second conference held by the Public Authority for Minors' Affairs, as part of its social responsibility mandate.

ADIB distributes profit

UAE: Abu Dhabi Islamic Bank (ADIB) has announced a 2013 distribution of 30.66% cash dividends and 26.87% bonus shares to its shareholders registered with the Abu Dhabi Securities Markets. The cash dividends represent 50% of the bank's net profit for 2013, AED1.45 billion (US$394.68 million).

Growth estimates for 2014 lowered

SAUDI ARABIA: The long-term outlook for the banking sector in Saudi Arabia is strong, but the short-term challenges have increased according to NCB Capital analysts, caused by market pressures and restrictions on consumer financing. Analysts from NBC Capital have reduced their estimate of net loan growth by 0.9% to 10.8% year on year and the estimate for net income for 2014 has also been lowered by 2.8% to 6.8%.

ADIB continues financial education

UAE: In conjunction with its ongoing financial literacy and education program aimed at UAE youths, Abu Dhabi Islamic Bank (ADIB) has conducted a roadshow on financial responsibility at American University of Dubai and Amity University. The bank also launched 'SmartMoney', which provides tips on investment and Takaful as well as act as a guide for customers seeking financial advice.

UAE federal credit bureau ready to go

UAE: Al Etihad Credit Bureau, the UAE federal credit bureau, has announced that all operational checks and testing have been completed and the service is operationally ready to commence. The bureau has signed agreements with all UAE financial institutions for the submission of credit data and connecting all the retail banks to the credit bureau system, and the official operational launch will take place once the bureau's by-laws have been published in the Official Gazette.

The launch of the bureau will be established in four stages with a completion date of 2015.

RATINGS

Dar Al Arkan affirmed

SAUDI ARABIA: Dar Al Arkan Real Estate Development Company's long-term corporate credit ratings have been affirmed at 'B+', with a positive outlook, by S&P. Concurrently, the firm received a 'B+' senior unsecured debt rating for its Sukuk, which continues to be rated at the same level as the corporate credit rating.

Rating upgrade for FTIC

KUWAIT: The insurer's financial strength rating of First Takaful Insurance Company (FTIC) has been upgraded to 'BB' by Kuwait-based rating agency Capital Standards Rating. The national rating of FTIC has also been upgraded to 'BBBkw' with a stable outlook.

Antara Steel Sukuk unaffected

MALAYSIA: MARC has confirmed that the 'AAAIS(fg)/Stable' rating on Antara Steel Mills' Danajamin-guaranteed RM300 million (US$90.94 million) Sukuk Mudarabah program will not be affected by the two-month shutdown of the firm's Hot Briquetted Iron plant based in Labuan. The steel manufacturer's standalone credit profile however has been weakened as a result of the shutdown amid challenging conditions in the steel industry.

TIC affirmed

BAHRAIN: Takaful International Company (TIC)'s 'B++' financial strength rating and 'bbb' issuer credit rating have been affirmed by AM Best, with a stable outlook.

Ooredoo Sukuk rated

QATAR: Ooredoo's long-term foreign currency issuer default rating has been affirmed at 'A+' with a stable outlook by Fitch. The rating applies to the firm's Sukuk program.

SIB visibility rating upgraded

UAE: Fitch has upgraded the visibility rating of Sharjah Islamic Bank (SIB) to 'bb+' from 'bb' and affirmed the ratings of eight other UAE banks including National Bank of Abu Dhabi, First Gulf Bank, Abu Dhabi Commercial Bank, Union National Bank and Emirates NBD all of which offer Islamic products, as part of the rating agency's first peer review of the UAE banking sector.

Warba enhances electronic banking platform

KUWAIT: Warba Bank has introduced a Point of Sale terminal and Electronic Payment Gateway services, allowing its merchant customers with proper commercial licenses to collect payment from their clients, holding any K-Net, Visa or Master Card, in a Shariah compliant manner.

KIB upgrades banking system

KUWAIT: Kuwait International Bank has successfully integrated International Turnkey Systems' Shariah compliant ETHIX financial solution. The banking technology system has been deployed in every of the bank's 26 branches nationwide.

GFH reviews Sukuk

BAHRAIN: Islamic investment bank Gulf Finance House (GFH) held its extraordinary meeting on the 31st March to review a capital cut to US$837.9 million from US$972.28 million through decreasing stock par value from US$0.31 to US$0.27 as well as to review the issuance of a US$500 million Sukuk program.

Burgan complies with Basel III

KUWAIT: Burgan Bank, which offers the option of Islamic financial products, is discussing with the central bank to increase its capital in the second half of this year by at least 20% in order to comply with Basel III standards. Burgan Bank also confirmed that it is not considering any potential acquisitions this year.

EI unveils new scheme

UAE: Emirates Islamic (EI) has launched a new financing scheme targeted at customers who are planning to purchase completed commercial properties in Dubai, Sharjah and Ajman. The package offers financing of up to AED15 million (US$4.08 million) with a repayment period of up to 15 years. The bank is also offering customers with completed commercial properties in need of capital, a refinancing option.

Meethaq carries out CSR initiatives

OMAN: As part of its CSR initiatives, Islamic financier Meethaq hosted a financial planning workshop for staff from the Ministry of Awqaf and Religious Affairs.

RESULTS

Al Hilal Bank

UAE: Al Hilal Bank recorded a 42% year-on-year increase in net profit for 2013 to AED441.4 million (US$120.15 million), representing a growth in return on equity to 12% from 10.1% in 2012. Total assets as at the 31st December 2013 reached AED38.71 billion (US$10.54 billion), marking a 20% hike from the year before. The bank last September issued its inaugural Sukuk worth US$500 million.

EFG-Hermes

EGYPT: EFG-Hermes, which offers Islamic products, reported a net loss of EGP335 million (US$47.74 million) compared to a profit of EGP211 million (US$30.1 million) the previous year. The loss was due to one-off impairment charges totaling EGP761 million (US$108.44 million), EGP616 million (US$87.78 million) of which were incurred in the final quarter of 2013. The charges related to acquisitions made by the bank in Egypt, and in markets abroad such as Kuwait and Oman, and changes in the 'fair value' of investment property in Dubai as well as one-off operating expenses.

The bank has however, reported a net operating profit of EGP163 million (US$23.23 million) for the fourth quarter of 2013, a 302% from the previous year.

Takaful International

BAHRAIN: The board of Takaful International Company has agreed to distribute cash dividends to shareholders amounting to 5% of the paid-up capital on the back of a 12% growth in gross Takaful contributions in 2013. The board also approved to transfer BHD23,134 (US$68,589.6) to its statutory reserve and to transfer the excess of the participants

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net surplus totaling to BHD69,089 (US$181,326) to calculate the surplus in participation funds.

Shareholders are advised to pay Zakat, at a rate of 2.32 fils (5.25 US cents) per share totaling to BHD144,927 (US$380,366).

Barwa Bank

QATAR: Barwa Bank reported a 46% growth in net profit for 2013 to QAR503.9 million (US$138.28 million) against 2012. Total assets for 2013 were up 33% amounting to QAR33.6 billion (US$9.22 billion), attributed to a 26% increase in financing portfolio to QAR15.3 billion (US$4.2 billion).

Bank Nizwa

OMAN: Bank Nizwa announced that for the year ended the 31st December 2013, total assets for the Islamic bank reached OMR196 million (US$507.71 million), of which 16% was attributed to retail and consumer financing. The bank posted an operating loss for last year, however no exact figures have been released as of yet.

Methaq Takaful

UAE: Methaq Takaful recorded a profit of AED2.56 million (US$696,841) in 2013, as compared to the AED5.77 million (US$1.57 million) loss it made the year before. Total assets reached AED364.17 million (US$99.13 million) in 2013, almost double from figures in 2012 which stood at AED186.68 million (US50.82 million).

Jordan Islamic Bank

JORDAN: Jordan Islamic Bank announced a pre-tax profit of US$91.26 million for 2013, up 26.3% from the previous year. Net profit after tax reached US$63.61 million, marking a 23.8% growth from 2012 while total assets grew by 8.2% to US$4.96 billion.

Warba Bank

KUWAIT: Shariah compliant Warba Bank posted a loss of KWD3.7 million (US$13.12 million) for the financial year ended the 31st December 2013, while customer deposits increased to KWD246.86 million (US$875.05 million) from KWD78.21 million (US$277.23 million) at the end of 2012. Total assets in 2013 reached KWD405.5 million (US$1.44 billion) against KWD223 million (US$790.47 million) the previous year.

BIMB Holdings

MALAYSIA: BIMB Holdings has realized a profit of RM563.15 million (US$172.65 million) in 2013, up RM41.57 million (US$12.74 million) from the previous year. The company is recommending a final dividend of 8.5%, lower than the 14.25% dividend declared for 2012. BIMB Holdings is the sole owner of Bank Islamic Malaysia.

Global Investment House

KUWAIT: Global Investment House, which offers Islamic fund management, reported net profit of KWD1.9 million (US$6.73 million) for 2013 compared to a net loss of KWD55 million (US$ 194.95 million) reported in 2012. Total assets have been reported as KWD92 million (US$326.11 million) as at the 31st December 2013 compared to KWD497.9 million (US$1.7 billion) for the previous year.

QE-listed companies

QATAR: Following the disclosure of financial statements for the year ended the 31st December 2013 for all companies listed on the Qatar exchange (QE), aside from Vodafone, the combined net profit totalled QAR42 billion (US$11.52 billion). This is an increase of 11.11% on the previous year's total of QAR37.8 billion (US$10.37 billion).

ASSET MANAGEMENT

Moving into cash Waqf?

MALAYSIA: Several Malaysian states are exploring cash Waqf as an alternative to donated real estate as equities and bonds carry a higher potential for better returns, Radzuan Tajuddin, a senior official with the Islamic capital market department of Securities Commission Malaysia, is quoted saying to Reuters. Industry experts have called for the close cooperation between the government and private sector, fund managers in particular, to properly manage cash Waqf which involves higher risks.

PMB enters Islamic finance scene

MALAYSIA: KFH Ijarah House has been acquired by investment and asset management company Pelaburan Mara (PMB) at a slight premium of its net tangible assets at a little over RM1 million (US$302,723) on a cash-free, debt-free basis.

PMB will henceforth enter a joint venture with IDB and inject RM100 million (US$30.27 million) into the entity, which will be renamed PMB Tijari. PMB will own 80% of the company with IDB holding the remaining 20%. PMB Tijari will manage PMB's financial services activities as well as specialize in commercial leasing, Musharakah and Mudarabah services.

PMB, which currently has approximately RM700 million (US$214.61 million) worth of assets under management (AUM), will launch new funds including a corporate education fund to achieve its goal of expanding its AUM to RM1.5 billion (US$454.08 million) by the second quarter of this year, said PMB group CEO Nazim Rahman.

UAB offers will-writing service

UAE: United Arab Bank will offer a Shariah compliant will-writing and registration service under its Sadara Privileged Banking banner which is part of its retail banking unit. The new service is launched in partnership with Just Wills, a UK-headquartered company licensed by the UAE Islamic Affairs Divisions to draft wills for Muslims.

TAKAFUL

Board recommends rights issue

SAUDI ARABIA: The board of directors of the Weqaya Takaful Insurance and Reinsurance Company has announced the recommendation of an increase in the company's capital through a rights issue for a total value of SAR150 million (US$40 million), in order to improve the company's solvency. The price and the number of shares to be offered will be determined during the extraordinary general meeting to be set when regulatory approvals have been obtained.

Al Madina and Meethaq enters bancaTakaful deal

OMAN: Al Madina Takaful has entered a partnership with Meethaq which will see Islamic insurance product being offered to Meethaq customers.-

Cobalt signs agreement with QBE

UK: Business insurance specialist QBE has formalized an agreement with Cobalt Underwriting which will see it provide capacity to the latter's Takaful platform. Through the accord, Cobalt will be able to offer clients US$50 million of casualty capacity as well as increase its ability to underwrite property risks to US$425 million from US$300 million and construction risk to US$160 million from US$100 million.

MH370 claims to be expedited

MALAYSIA: Malaysian Takaful Association has assured that it will ensure the claim processes for Takaful policyholders on board Malaysian Airline flight MH370 will be expedited and followed through by its respective member companies. Flight MH370 went missing on the 8th March 2014 en route to Beijing from Kuala Lumpur. It has since been confirmed by the government of Malaysia "beyond any reasonable doubt" that the aircraft ended its journey in the Indian Ocean with no survivors.

TIA makes inaugural payment

KENYA: Takaful Insurance of Africa (TIA)'s pilot livestock insurance cover program will make its first payment to compensate pastoralists for drought-induced losses suffered in Kenya's northeastern Wajir County. The program will distribute approximately KES500,000 (US$5,679.64) to a total of 30 women and 71 men which subscribed to the program which utilizes the Shariah compliant concept of Tabarru.

Potential for Takaful in Indonesia

INDONESIA: The Takaful market will grow at a compound annual growth rate of 29.05% over the period 2013-18 according to analyst forecasts in a report by Research and Markets. One of the main factors contributing to the rate of market growth is the rapid growth in the Indonesian economy, although low awareness of how Takaful works could impede the growth of the market.

New opportunities could be discovered in Takaful operators partnering with banks for immediate distribution channels, and could also lead to opportunities for Takaful operators in development of Shariah compliant bancassurance products.

MOVES

Kuwait Finance House

KUWAIT: The Fatwa and Shariah Supervisory Board of Kuwait Finance House met on the 25th March and appointed **Dr Sayyed Mohammad Al Sayyid Abdul Razzaq Al Tabtabae**, a member of the teaching board of the Faculty of Shariah and Islamic Studies at Kuwait University and a member of Fatwa and Shariah supervisory boards of a number of companies and Islamic financial institutions, as chairman.

Dr Khaled Al Otaibi, **Dr Anwar Abdulsalam**, **Dr Isam Al Ghareeb** and **Dr Mubarak Al Harbi** had been appointed as members of the board by the general assembly held on the 23rd March.

Emirates NBD Egypt

UAE: Emirates NBD, which offers Islamic products, has announced the appointment of **Giel-Jan Van Der Tol** as managing director of Emirates NBD Egypt and a new member of the board of directors. Van Der Tol previously held the role of general manager of wholesale banking at Emirates NDB.

Norton Rose Fulbright

GLOBAL: Norton Rose Fulbright has announced the appointment of **Gregory Man** as debt capital markets partner for the Middle East and Asia. Man joins Norton Rose Fulbright from his former role as senior debt capital markets lawyer at Clifford Chance and experience include advising on Shariah compliant securitization.

HSBC

GLOBAL: **Khalid Elgibaly** has been appointed as the head of MENA retail and wealth management at HSBC. Eligbaly moves to HSBC following his appointment as chief executive of Standard Chartered Pakistan, (which offers Islamic banking via Standard Chartered Saadiq) last month, according to local reports. He was formerly the head of consumer banking for the UAE and the Middle East at Standard Chartered.

Islamic Banks Consultative Forum

BAHRAIN: The Islamic Banks Consultative Forum has re-elected chairman Professor **Abu Nasser Muhammad Abduz Zaher**, who also serves as chairman of the Islami Bank Bangladesh board of directors. Islamic Banks Consultative Forum vice-chairmen **Md Nazrul Islam Mazumder**, chairman of EXIM Bank and **Badiur Rahman**, chairman of Al-Arafah Islami Bank, were also reelected.

Al Madina Takaful

OMAN: **Usama Issa Al Barwani** has been appointed as deputy CEO of Al Madina Takaful. He was previously the firm's general manager for human resources.

Danajamin Nasional

MALAYSIA: Financial guarantee insurer Danajamin Nasional has appointed **Mohamed Nazri Omar** as its new managing director and CEO, effective the 2nd May, succeeding **Ahmad Zulqarnain Onn**. Danajamin Nasional guarantees both Sukuk and bond issues.

OCBC Al-Amin

MALAYSIA: Following the retirement of **Nasruddin Bahari**, **Ooi Sang Kuang** has been appointed as chairman of OCBC Al-Amin Bank and OCBC Bank (Malaysia). Ooi was formerly the deputy chairman of the bank's board.

SHARIAH PRONOUNCEMENT

Query:

A customer of an Islamic bank had obtained financing through a number of Murabahahs. Each Murabahah contract was executed at different time, and had its own schedule of payment which was different from the others.

With the intention of managing some liquidity problems the customer is facing at this time; it has requested the bank to approve the following arrangements:

- To combine all the different Murabahah obligations into one consolidated obligation to make one schedule of payment covering all Murabahahs;
- To provide some relaxation to the customer by increasing the overall payment term.

The customer has expressed his full consent to pay any extra amount that may be charged by the bank in order to compensate the bank for the financing loss it has to incur in case of consolidating and rescheduling the debts. Shariah guidance is sought in this regard.

Pronouncement:

The aforementioned situation comprises three issues:

1. To consolidate all debts to make one schedule of payment for all;
2. To increase the overall payment term;
3. To charge the customer an amount over and above the outstanding debt amount.

Each of these three issues should be addressed separately and independently, because it is not necessary that in all situations all of these three meet together, and there may be future situations in which only one or two of these conditions exist that require clarification.

- It is permissible in Shariah, with mutual consent of both parties (the bank and the customer) to consolidate different debt obligations to make one payment schedule.
- It is also permissible in Shariah and with mutual agreement of the both parties to increase the payment term of a single debt or consolidated debt.
- However, it is not permissible in Shariah to increase the outstanding debt amount or to charge any extra amount over the debt amount, for any reason, before the maturity date or after the maturity date.

It is important to note that consent of the debtor does not justify any increment against rescheduling or default for any other reason.

Dr Hussain Hamed Hassan
Chairman of the DIB Shariah Board,
Managing director, Dar Al Sharia Legal & Financial Consultancy, Dubai, UAE

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QIB: A closer look

In a growing niche market in which competition is heating up, a few names in the Islamic banking industry stand out — including that of Qatar Islamic Bank (QIB), which has demonstrated both organic and inorganic growth locally and internationally. Reporting a 7.6% growth in net profit to QAR1.34 billion (US$367.79 million) last year against 2012 figures and with total assets amounting to QAR77.4 billion (US$21.24 billion) as at the 31st December 2013, QIB has carved a name for itself as the largest Islamic bank in Qatar. Commanding a 35% share of the Shariah compliant banking sector and a 9% share of the overall banking market, the bank maintains its lead as one of the biggest Islamic banks in the MENA region.

International footprint

The bank has an extensive cross-border network with affiliates in the UK (QIB-UK), Arab Finance House (AFH) in Lebanon, Asian Finance Bank (AFB) in Malaysia and QIB in Sudan. However, these affiliates perhaps do not share the same limelight enjoyed by QIB's stellar performance. While there are no publically available financial records for 2013 for QIB-UK and Sudan (QIB-Sudan only launched its operations last July), data shows that Malaysia's AFB reported a total comprehensive loss of RM7.62 million (US$2.34 million) for the nine months ended the 30th September 2013, a bigger loss as compared to the corresponding period in 2012 which saw the bank registering a comprehensive loss of RM4.88 million (US$1.5 million); while total assets as at the 30th September 2013 stood at RM2.41 billion (US$738.63 million).

Latest figures for AFH were on its distribution of profits for 2012: the bank distributed an average annual rate of 3.21% and 3.79% for its six-month and one-year term deposits respectively. In comparison to its siblings, AFH is arguably the quietest in terms of media attention, which is not surprising considering that Islamic finance in Lebanon is at a standstill with a less than 1% market share of the entire banking sector.

Domestic strength

Besides its core banking operations, QIB holds stakes in several Shariah compliant financial institutions including QInvest, Al Jazeera Finance and Damaan Islamic Insurance Company (Beema).

QInvest, which streamlined its operations in October, is an active player in the Islamic investment banking landscape. Registering a 40% growth in revenues and a 30% reduction in operating cost resulting in US$60 million in net profits in 2013, the investment bank recently concluded the world's first Shariah compliant unitranche financing worth US$45 million, in a strategic partnership with UK's New Wave Partners. Last month, Michael Katounas, the head of investment banking at QInvest, told Islamic Finance *news* that: "2014 is shaping up to be a very busy year. Our financing business has 10 transactions at various stages of development and we expect to exceed last year in terms of capital deployment."

Beema, 25% owned by QIB, also marked robust financial performance which saw the first nine months of 2013 achieving a 111% growth in net profit while investment income accrued by 154%. Policyholder subscriptions for the nine-month period were up 24% to over QAR160 million (US$43.92 million) as compared to the same period in 2012. The Takaful operator also received its first-ever insurance financial strength rating from Moody's ('Baa2') last year, with a stable outlook.

Continued expansion

QIB continues to seek to buttress its position by moving into new markets including the much talked-about emerging market of Turkey. The Islamic bank recently entered into exclusive negotiations with Bank Asya to acquire a strategic stake in the Turkish participation bank. Expected to be concluded within the next few months, the financial aspects of the deal is advised by QInvest and is anticipated to cement Bank Asya's spot as the leading Shariah compliant bank in Turkey while solidifying QIB's position in the international markets.

As the world looks to emerging markets for investment - including Qatar, which has been reportedly attracting considerable foreign attention — this bodes well for the sultanate's Islamic finance industry which will see QIB standing firm as a bellwether with expanding global reach. — *VT*

Agricultural financing: The next big thing?

Shariah compliant agricultural financing (agri-financing) seems to still be in its exploratory stages. It is a natural, yet untapped market segment for both agri-producers and institutional investors. Speaking exclusively to Islamic Finance *news* Muneef Tarmoom, the managing partner at Abu Dhabi Equity Partners (a firm which recently tapped the Brazilian beef-exporting industry when it introduced the first Islamic livestock financing program in the country), expounded on the true potential of Shariah compliant agricultural financing.

"We are of the opinion that Islamic financial institutions have a historical opportunity to promote compelling Shariah compliant agri-financing as a new asset class, particularly as some global banks had to retrench due to the recent world financial crisis and Basel III requirements," said Muneef. He pointed out that the demand is relatively significant and is expected to grow, on the back of existing structural and demographic trends in Muslim-majority countries. For instance, the Middle East region (the source of over 80% of all Shariah compliant assets) currently has an agricultural goods trade deficit which has deteriorated up to 13 times in last 20 years.

Commenting on this, Muneef asserted: "At negative US$80 billion, this agricultural trade deficit is projected to increase over the next two decades with MENA population growth, increasing wealth per capita, declining water levels, further urbanization and changing diets. Therefore the need for Shariah compliant funding for such trade deficit could not be greater." He also highlighted that the features of agri-financing are consistent with Islamic principles and it is able to cater to Shariah inclined investors who demand for asset-backed 'real economy' financing opportunities to replace paper based commodity Murabahah.

According to Muneef, structures that are adaptable to agri-financing include: pre-crop Salam financing, Murabahah and/or Mudarabah-based inventory financing and Musharakah-based financing for long-term investments. These are considered as the 'purer' form of instruments as agri-financing has been available since the time of the Prophet. "The most critical issues relate to dependable title instruments, availability of investment grade off-takers, Shariah structured commodity price and insurance protection (if desired by investors), global banks providing custodian and escrow services, as well as a full understanding of legal, fiscal and Shariah issues," he continued.

The potential of Shariah compliant agri-financing is abundant. Brazil, as the world's largest supplier of Halal beef to Muslim-majority countries, can act as a platform to kick-start the market segment. Moving forward, Muneef said that it could gain traction in the BRIC markets, Muslim majority countries, Latin America, Africa, Eastern Europe and Asian countries. Subject to addressing the challenges stated above, and need to secure sufficient profit rates that cover Shariah structured finance, these countries bear promising prospects as beneficiaries of agri-financing.

Muneef opined that this prospective market segment can be driven if (1) Islamic finance institutions are able to capitalize on their asset-backed financing advantage and begin treating agri-financing as a new asset class in order to compete regionally and internationally, and (2) governments and inter-governmental bodies from Muslim-majority countries demonstrate greater efforts to upgrade and synchronize their legislation to attract Shariah compliant funding. Through a concerted initiative, agri-financing could propel the industry to greater heights. — *NA*

The Islamic banking sector in Pakistan: Opportunity or overcrowded?

Last week, Pakistan's Faysal Bank announced plans to convert its conventional banking business to a fully-fledged Islamic bank within the next two to three years due to consolidation of business lines by the bank's majority shareholder, Bahrain-based Ithmaar Bank. In February, the State Bank of Pakistan (SBP) embarked upon a campaign to grow Pakistan's Islamic banking market share from 12% to 20% — but is this most recent move one step too far towards an overcrowded Islamic market?

Earlier this month, the opening of Summit Bank's first Islamic branch followed an announcement in January of its impending conversion to a fully-fledged Islamic bank within three to five years. In February, MCB Bank announced the establishment of an Islamic banking subsidiary, MCB Islamic Banking Division; and interest has been registered by the bank with the SBP regarding the acquisition of a 55% stake in Shariah compliant Burj Bank. In February, government-backed Sindh Bank became the first bank to be granted an Islamic banking license by the SBP following its Islamic banking push.

According to data from the central bank, as of February 2014 there were five fully-fledged Islamic institutions and 14 commercial banks with Islamic windows offering Islamic financial products. The aim of the SBP's five-year strategic plan is to set a common direction for Pakistan's Islamic banking industry to augment existing growth momentum and to lead the industry to the next level of development, with key focus areas set to enable the policy environment, Shariah governance and compliance, awareness and capacity building and market development.

At the moment, almost 86% of the population is unbanked. In a population of around 180 million, of which around 98% are Muslim, this equates to only around 25.2 million people are with a bank account. The Islamic banking sector currently holds around a 12% market share, equating to around 3.02 million customers, which are split between 19 Islamic banks, giving each bank a potential base of only around 160,000 customers — patently an impossible situation and a strong argument towards consolidation.

However Irfan Siddiqui, the president and CEO of Meezan Bank, believes that there is ample room for new entrants to Pakistan's Shariah compliant banking sector, and that new players could instead help increase penetration of Islamic finance in both the banked and unbanked sector of the population. "New banking options would enhance both the geographic and demographic outreach of Islamic banking, making the benefits of Riba-free banking available to a much larger segment of Pakistan's population," he explained.

> ***"Each Islamic bank has a potential base of just 160,000 customers — patently a strong argument towards consolidation"***

"It would increase the competition in the market, which would result in improving the service levels at all Islamic banks. It would stimulate the banks to increase the diversity of products being offered to Islamic banking customers."

It is true that the distribution of customers between Islamic banks, like the distribution of assets, is not equally allocated. In 2013 Meezan Bank held US$121.78 million in terms of total income and US$2.6 billion in total assets under management (AUM) — compared to Burj Bank which held US$15.35 million in total income and US$447.13 million in total AUM; suggesting a clear weighting in terms of client assets.

Siddiqui believes that Islamic banking assets in Pakistan will reach PKR3 trillion in deposits (US$30.3 billion) under SBP's five-year strategic plan and the central bank predicts that Islamic banking market share will grow to 20%. However, at the current figures this will still mean just over 600,000 customers per Islamic bank — certainly not enough encouragement to suggest that more entrants are needed in an already crowded market. In fact, just this week the SBP issued new rules for the operation of Islamic banking windows, with written approval from the central bank becoming one of the requirements before the opening of each Islamic window.

Nevertheless, last year Yaseen Anwar, the governor of the SBP, announced that the central bank aims to provide basic banking services to every adult and bankable citizen in Pakistan: highlighting the importance of mobile, electronic and branchless banking using the high mobile phone penetration as a means to achieve this. Compared to just 25 million with bank accounts, mobile phone subscription has seen explosive growth in Pakistan with total subscription reaching over 115 million customers (63%) in all income segments of society. The SBP also recently made it mandatory through its branch licensing policy for all banks to set up 20% of their branches planned for future in rural and unbanked areas, to increase penetration.

So although an argument could be made for identifying the current Islamic retail banking sector in Pakistan as overbanked, the steps that the authorities are taking in order to both grow the Islamic market share and increase the banked population suggests that while it might be overcrowded now, the considerable potential of the vast unbanked Pakistani population could mean this is in fact only the beginning. — *RS*

Hong Kong institutions keen to tap Islamic wealth

Asia Pacific is reportedly home to approximately 59.2% of the world's Muslim population yet it commands less than 15% of the share of the global Islamic finance industry (according to the Global Islamic Finance Report 2013), signaling robust market potential and a host of opportunities for Shariah compliant finance. This potential has not gone unnoticed, especially by Hong Kong, one of the world's leading international financial centers after London and New York.

As a major economic powerhouse, Hong Kong has in recent times ramped up its efforts to strengthen its position in the growing global Islamic finance ecosystem. The special administrative region passed its long-anticipated Sukuk bill last month, with plans to raise approximately US$500 million via Sukuk under the territory's Government Bond Program; which it is hoped will facilitate the growth of the industry in the island. In addition to its sovereign Sukuk plans however, several Hong Kong firms have also recently revealed their ambitions to tap Islamic wealth: including luxury aromatic Oud oil manufacturer Treedom Group.

"Prospective entrants should be encouraged by the fact that this area (Islamic finance) has great potential for growth, especially in Asia," said Antony Bell, Treedom's international business development manager, to Islamic Finance *news*.

Treedom, in collaboration with Bahrain's Shariyah Review Bureau (SRB), recently launched the Oud Asset Agreement (OAA), a high-yield Shariah compliant impact savings plan and a sister product to the Forward Purchase Agreement (FPA) which has been available for some time now in the Asian market. "When we decided to open an office in Dubai we strongly believed that making the FPA Shariah compliant would help in sales in that area," explained Bell.

With its parent company in Hong Kong and offices in the UK, UAE and Thailand, Treedom's customer base has been predominantly from Southeast Asia. However, it is hoped that the OAA will expand its base to include the GCC and the wider Middle East. Bell confirmed that the firm is in negotiations with several banks in Asia and the UAE with regards to offering this investment product directly to the banks' clients, as response thus far has been encouraging.

"For companies who are going into the Muslim market, it is highly likely that they will want to have their products screened for Shariah compliance and validated from a Shariah perspective," explained Mansoor Ahmad, the assistant general manager of SRB, who was involved in the process of reviewing and certifying as well as overseeing the Shariah compliance of OAA, to Islamic Finance *news*. "The demand is driven from various angles and primarily comes from the Muslim market — either from individuals or institutional investors themselves."

According to Mansoor, SRB has also been approached by several other Hong Kong-based firms who have expressed interest in conducting their business in compliance with Islamic tenets. Although these remain in the early stages of discussion, they bear testament to the increasing interest from Hong Kong corporates in the Islamic market."The main focus has been on real estate but there are other areas being discussed as well, including infrastructure funds," confirmed Mansoor.

Although the global advisory firm faced taxation issues in carrying out the certification and development of some of the products in Hong Kong, Mansoor pointed out that the unique economic environment of the country provides an unparalleled competitive advantage when it comes to Islamic finance. "The beauty about Hong Kong is that it is already a developed market. There are businesses picking up momentum which I can confidently say are not seen anywhere else in the world."

With the right business models in place, supported by international expertise and the rising domestic appetite for Islamic money, Hong Kong players should be ones to watch in the Islamic finance space. — *VT*

Russia: A vast opportunity for Islamic finance

Islamic finance in Russia is a quietly growing industry with an impending sovereign Sukuk announced and a noteworthy Murabahah Islamic financing facility secured by AK BARS Bank. REBECCA SIMMONDS investigates the country's developing Islamic finance industry.

Legal and regulatory
There have been no legislative changes affecting Islamic finance in Russia over the last six months, with providers of Islamic financial products operating within the country's existing regulations. However the main financial regulator, the Central Bank of Russia, has made recent enquires with financial institutions in the country currently offering Islamic finance products regarding their facilitation and implementation under the existing legislation.

Business environment
In February, the IDB reaffirmed its support of the development of Islamic finance in Russia as a non-member country with a prominent Muslim community; and IDB president Dr Ahmad Mohammad Ali was invited to discuss the development of the country's Islamic finance provision with banking officials by Russian Federation Council deputy speaker Ilyas Umakhanov.

In 2013, the Russian National Rating Agency began issuing ratings regarding Shariah compliance for native companies, and a number of regional banks have also started promoting Islamic finance solutions for trading and other commercial operations. The fifth International Economic Summit of Russia and the countries of the OIC was held in October and attracted country and banking representatives from the UAE, Pakistan and Turkey among others. The summit concluded with the signing of investment agreements worth US$951 million and followed news issued in May 2013 by Rustam Minnikhanov, the president of Tatarstan, that a sovereign Sukuk issuance of US$200 million to finance the Smart City Kazan project had been confirmed.

Banking and finance
According to a 2012 survey by Pew Research, Muslims make up between 8-10% of the country's population of 140 million, although some estimates place the number at closer to 25 million self-identified Muslims in Russia. The Islamic finance industry with the Federation began in the retail sector, with consumer financing and in microfinance; the industry continues to grow in these sectors although the biggest news in the last six months has come from the commercial sector with the procurement of a US$100 million Murabahah Islamic financing facility by Tatarstan-based AK BARS Bank (ABB).

ABB secured the deal in January — its second Islamic financing facility, with proceeds being used to fund Shariah compliant assets and investment projects across Tatarstan and the regional states in which ABB operates. The deal involved participation by 11 banks including Citi, Commerzbank and Emirates NBD Capital acting as mandated lead arrangers and bookrunners and generated a lot of interest from investors resulting in oversubscription. Islamic Finance *news* obtained an exclusive interview with ABB (*A new frontier: Former Soviet Union forges ahead with Islamic finance, Vol 11, Issue 04*) in which the bank outlined the background of the deal. ABB is also aiming to create greater awareness in the GCC and the Middle East about the interest for Islamic finance in Russia through its investor relation service.

Islamic leasing is an area which is growing increasingly popular in the region, with backers of the Eurasian Leasing Capital increasing its equity to US$10 million in response to a positive uptake in the company's leasing services and a good pipeline of business. Eurasian Leasing is an Ijarah company funded by the Bahrain-based Ijara Management Company, a fully-owned subsidiary of the Islamic Corporation for the Development of the Private Sector (ICD), a private investment arm of the IDB.

In November, IBA-Bank of Moscow, a wholly-owned subsidiary of the International Bank of Azerbaijan, was granted a preliminary permit by the Central Bank of Russia to develop Shariah compliant financial instruments, with Shariah compliant banking to be introduced in stages between 2014 and 2015. Reports have stated that ABB is also considering the introduction of Islamic finance retail products at the end of the year.

Following the Sochi Winter Olympics it was reported that two Russian banks with entities that offered Shariah compliant banking had been struck from JPMorgan Chase and Co's list of correspondent banks. Sberbank and VTB have since established new correspondent banking relationships; Sberbank with Bank of America and Bank of New York and VTB with Bank of America and Citi.

Challenges and opportunities
Russia was identified as a potential market for Takaful and Shariah compliant bancassurance products in a recent report, with rapid economic growth highlighted as a driver of and low awareness levels as a hindrance to market growth. Education of the market has been identified as a challenge and a growing need for the country's Islamic finance industry as an interpretation of Islamic financing as 'free money' is still prevalent in many of those seeking out a Shariah compliant option.

Given the lack of regulations specific to Islamic finance, greater knowledge regarding Islamic finance tenets and structures is also required by the national financial regulators. The current situation between Russia and the Ukraine could have a negative impact on the conventional market, but given the fledgling status of the country's Islamic finance industry and the international ties between Russia and the Middle East it seems unlikely that the industry will be adversely affected.

Outlook
Within the Federation, Islamic finance is a steadily growing industry with a large potential market. The growing ties between Russia and the Middle East and the OIC countries provide a likely resource for aid in developing the country's Islamic finance provision and as a potential pipeline for Islamic finance investment.

Building on industry: Islamic project and infrastructure financing

Project and infrastructure funding is a sector that is becoming increasingly popular in Islamic finance. Providing the real assets required for Islamic investment and appealing to the socially responsible tenets of the industry, Shariah compliant finance could provide an answer to the pressing issue of infrastructure financing and fill the gap left by conventional banks unwilling to invest in development projects. REBECCA SIMMONDS examines the opportunities for Islamic infrastructure financing.

A recent report by The Economist noted an estimate by McKinsey of a funding gap of US$57 trillion needed for global infrastructure construction and maintenance between now and 2030 — yet failed to identify Shariah compliant finance as a possible source to meet this demand. This highlights a significant omission, which there is no question that Islamic financing has the potential to fill if it can raise its profile enough to appeal to a wider global audience. However, the industry has already established a considerable footprint in the sector through national and supranational agencies and operations.

IDB developmental funding
The IDB has allocated millions in funding towards socio-economic development project in member countries and Muslim communities in non-member countries. Most recently the IDB board of executive directors approved US$490 million in support of projects in the energy sector.

The bank in 2014 to date, has committed to US$59 million of funding for a road project in Burkina Faso and in February approved US$630 million in new financing allocated to infrastructure projects.

Asia
Earlier this year, sovereign wealth fund 1Malaysia Development (1MBD) announced plans to issue RM2.4 billion (US$735.56 million) in unrated Sukuk to private buyers to finance the relocation of eight defense units. The proposed Sukuk will hold tenors of one to 10 years. 1MDB is also coordinating the development of the Malaysian Tun Razak Exchange project which has an indicative gross development value of RM26 billion (US$7.97 billion) and is expected to become a global center for international Islamic and conventional finance.

In Indonesia, the Indonesian Financial Service Authority (OJK) recently announced the possibility of a study into regulations and procedures regarding the issuance of retail corporate Sukuk. Easing the way for retail corporate Sukuk could give a boost to the country's Islamic finance market as corporates take the opportunity to gain funding for developmental projects. The finance ministry of Indonesia in March issued IDR461 billion (US$40.5 million) in Sukuk at auction but was unable to meet its intended target with six-year project-based Sukuk. The ministry has however decided to increase governmental projected-based Sukuk issuances in 2015, with a plan to issue up to IDR6.9 trillion (US$604.2 million) worth of Sukuk using seven infrastructure projects as underlying assets, including the double-track railway from Muara Enim to Lahat in South Sumatra, the monorail project in Surabaya, roads in Jayapura and Raja Ampat in Papua, as well as the renovation of Hajj dormitories in six provinces across the country.

Africa
In March, Islamic Finance *news* reported that Kenya has an infrastructure project in place with a budget of KES360 billion (US$4 billion) a year for the next 10 years and is hoping to augment this budget with Islamic project financing from Middle Eastern investors. Countries including Tunisia, Egypt, Nigeria and Libya are also increasingly looking towards Islamic finance as an alternate source of infrastructure funding.

Europe
Increased focus in the UK and Luxembourg in growing their Islamic finance provision and strengthening their respective existing industries, is benefiting other European countries as investor interest moves into new markets such as Germany, and EU countries such as Italy voice a desire to grow their Islamic finance provision. In Germany sectors including energy, healthcare and infrastructure are generating interest from Islamic investors, whilst Fiona Woolf, the Lord Mayor of London, on a recent trip to the Middle East promoted 35 infrastructure projects in the UK pipeline, that would also benefit from investment generated from Islamic finance.

Middle East
Much of the funding for upcoming infrastructure projects in Dubai and Qatar, given the impending Expo 2020 and FIFA World Cup 2022, is expected to be provided by the government and generated from private investment that will be a combination of Islamic and conventional investment. In February this year, it was reported that Qatar intends to spend up to US$205 billion on infrastructure projects between 2014 and 2018; projects include the Qatar Rail project, a 2400-megawatt Facility D independent water and power project and the Sharq road system.

In Saudi Arabia, the Saudi Electricity Company (SEC) in January issued an SAR4.5 billion (US$1.2 billion) Sukuk in order to fund power generation projects. SEC has plans to spend SAR622 billion (US$16.53 billion) between now and 2023 adding 40,000 megawatts of installed generating capacity and expanding transmission and distribution networks.

Outlook
The outlook for infrastructure and project financing in Islamic finance is positive as demand for funding in the Middle East and Africa grows. S&P expects Sukuk be increasingly used to fund infrastructure development by corporates as well as governments. Infrastructure funding is expected to drive Sukuk issuance in the GCC as the year progresses and more projects get underway.

Establishing successful Islamic banks in uncharted territories: Spotlight on Maldives Islamic Bank

What does it take to turnaround a pioneer Islamic banking institution in a small country like the Maldives (population 325,000) with key challenges such as the absence of supporting infrastructure, non-availability of talent and lack of economies of scale?

One approach is to adopt a typical MNC-style strategy entailing the recruitment of expensive human resources and huge marketing budgets. Failure of this strategy may result in colossal sunk costs for the stakeholders, especially given the fact that results are uncertain when experimenting in new markets.

On the contrary, the stakeholders could opt for gradual improvement in profitability by taking simple measures and establishing a board that facilitates the management in achieving the desired goals. As the majority stakeholder, the Islamic Corporation for the Development of the private sector (ICD) opted for the latter in case of Maldives Islamic Bank (MIB). The results were highly encouraging.

MIB commenced operations in March 2011 as the first Islamic commercial bank in the Maldives. Initial paid up capital was US$11.76 million with ICD's contribution of US$10 million. The government of the Maldives was the other shareholder of the bank. Although the journey since inception has been challenging, the ICD successfully managed to achieve the desired goal.

The bank posted a pre-tax loss of US$979,000 for the year 2012 due to difficulty in mobilizing assets on account of limited product offering. Liquidity management was a daunting task in the absence of Shariah compliant instruments. Trade finance business was negligible with a non-existent correspondent banking network. There was a dire need to streamline critical success areas of the bank including operations, retail and financing functions. Competent Islamic finance professionals had to be recruited from abroad due to a dearth of talent in the local market. Business planning was deficient resulting in an inability to meet budgetary targets. Above all, there was mounting pressure from MMA to meet the minimum capital requirement.

The ICD worked closely with the management of the bank to resolve the above mentioned problems in the most practical and economical manner. The board was reconstituted with a clear mandate to implement the strategy required for a turnaround of the bank. Being well aware of the key issues and challenges faced by the bank, the board steered the bank towards the growth trajectory. The board acted as an 'enabler' with a 'hands on' approach.

> ***"The ICD's experience so far suggests that it is possible to earn a healthy return on equity in such marketsby focusing on simple solutions rather than complex costly initiatives"***

The ICD supported the management in negotiations with the regulator for the placement of excess funds under a Wakalah agreement with the state entities. Pakistan-based Burj Bank, in which the ICD is a core sponsor, facilitated the process of establishing a correspondent banking relationship with Habib American Bank in the US. Furthermore, a consultant was engaged by the ICD to assist MIB in the development of new products, policies and recruitment of human resources. As result MIB launched several products in 2013.

Home financing under diminishing Musharakah, construction materials financing and balance transfer facilities were introduced by the bank in 2013. On the retail side, cash withdrawal service via POS were launched for the first time in the Maldives. The bank also initiated Saturday banking. Moreover, an MoU was signed with Maldives Hajj Corporation and with the Ministry of Education to provide consumer financing. Another first by MIB was the launch of the Instant Debit Card in the Maldives.

The results were reflected in the financial performance of MIB during 2013. The bank posted a pre-tax profit of US$359,000 in 2013. Average returns from financing and investment almost doubled to 10.7% in 2013 from 5.5% in 2012. This is just the beginning. The ICD aims at strengthening MIB further through continued support and guidance. The bank is targeting a return on equity of 17% by 2016 with a balance sheet footing of US$147 million.

MIB is not the only new Islamic bank to have struggled to achieve profitability. The ICD encounters a similar situation is most of its member countries,which are generally small in size and lack Islamic banking infrastructure. The ICD's experience so far suggests that it is possible to earn a healthy return on equity in such markets by focusing on simple solutions rather than complex costly initiatives.

A hands on approach by the board, strong financing, retail and operation functions, efficient liquidity management, ongoing product development and restrained non-performing loans are the critical success factors for Islamic banking institutions across the globe.

Prospects for the growth of Islamic finance in Tunisia

The sixth-largest African economy with a 2010 growth rate of over 3.7%, Tunisia has a long tradition of Islamic finance but so far has struggled with political hurdles that have prevented its successful development. RIHAB GRASSA discusses the history and prospects for Islamic finance in the country.

Tunisia is a 98% Muslim country bordered by Algeria and Libya. In 2011, The World Economic Forum Competiveness report ranked Tunisia as the 40th most competitive country in the world (out of 148) and the first most competitive country in Africa. For the same year, the World Economic Forum Competiveness report ranked Tunisia at 44 in terms of its higher education provision in the world, which makes it the first in Africa and third among Arab countries.

The entrance of the Islamic financial industry in Tunisia is not new. Tunisia has been involved in the development of Islamic finance since its early stages. However, for political reasons, the Islamic finance industry has neither been developed well nor promoted by the government.

In Tunisia, Islamic finance commenced in 1983 with the establishment of the first offshore Islamic bank, Bayt Al Tamweel Al Saoudi Al Tounsi, also known as BEST Bank, which in 2009 became Al Baraka Bank of Tunisia. This was in line with the strategy being implemented by the Bahrain-based Al Baraka Banking Group (ABG) to have a unified new corporate identity for the group and its subsidiary banks. At that time, there was significant political opposition to the establishment of an Islamic bank in the country.

Consequently, in 1985, as a result of an amendment to the offshore legislation, Al Baraka Bank was allowed to come onshore provided its deposits did not exceed 1% of the total Tunisian banking system — a rather extreme setback to its growth opportunities. Nevertheless, after the revolution, in 2013 Al Baraka Bank was allowed to become a resident bank and to provide services to local customers. The bank currently operates through a network of eight branches.

One year after the creation of BEST Bank, the first offshore re-Takaful company was established in Tunisia, known as BEST Re (ReTakaful). BEST Re is owned fully by the Dubai-based Islamic Arab Insurance Co (Salama), the largest and oldest Takaful group in the world. The main purpose of this company is to undertake Takaful business in North Africa, especially in Algeria, Libya, Morocco and Tunisia.

1999 saw the creation of the first Islamic leasing company, Bayt Al Tamwil El Saoudi Al Tounsi for LEASE, known as BEST Lease. Ten years later, Noor Bank of Tunisia was opened, Tunisia's first Gulf-supported bank in Tunisia and a representative office of Dubai's Noor Bank.

It was not until May 2009 that the first wholly Tunisian Islamic bank was established, named Zitouna Bank. Zitouna Bank is the first wholly regionally-owned Islamic bank in the Maghreb Arab region, with a paid capital of TND75 million (US$47.34 million) aiming to develop Islamic products (both financing and deposit products) for businesses and individuals. It was founded in 2009 by Tunisian businessman, Mohamed Sakhr El Materi, who is the son-in-law of the ex-president Zine El Abidine Ben Ali. The bank opened to the public in 2010. After the revolution, the Islamic bank came under the supervision and the control of the government.

Zitouna Bank operates through a network of 32 branches. Despite the fact that no Islamic banking regulations have been developed by the Tunisian monetary authority, Zitouna Bank has been able to develop its Islamic financial contracts under the inherent flexibility of the Tunisian civil law framework. Before 2013, Zitouna Bank was the only bank allowed to offer Islamic financial products and services to the domestic retail market. Zitouna Bank offers to individuals and companies a range of products and services relating to deposit accounts, investment accounts, financing, equity investments. In addition, Zitouna Bank provides financial planning advice and services related to foreign trade. In September 2012, the president of the IDB Group visited Zitouna Bank to affirm his capital commitment to the bank.

In 2010, Gulf Finance House of Bahrain and the Tunisian government decided to establish the first offshore finance center in North Africa. The center is part of the Tunis Financial Harbor with invested capital of US$3 billion. Gulf Finance House hoped that the center would permit Tunisia to take advantage of its strategic position on the Mediterranean, and operate as a bridge between Europe and the rapid growing economies of North Africa countries and the sub-Saharan Africa. However, it was not until the 15th March 2014 that Gulf Finance House decided to commence its US$3 billion financial park and real estate development project in north of Tunisia's capital. The project was suspended for five years due to financial pressures and political instability in 2011.

By the end of 2010, several Islamic asset management companies including FCP Valeurs Al Kaouther were also established. In 2011, Zitouna Takaful was created with a capital of TND15 million (US$9.13 million). Zitouna Takaful is an insurance and reinsurance company offering a wide range of General Takaful and Family Takaful products for individuals, professionals and businesses. The purpose of Zitouna Takaful is to respond to increasingly expressed requests from customers wishing to use practices of Islamic finance. Zitouna Takaful is the first Islamic insurance company with multi-branches in Tunisia whose activities, products and investments are subject to the validation and control of a Shariah committee.

In general, Tunisia's Islamic finance assets are very small, representing 2% of total financial assets. Despite its local demand and potential, the pre-revolution political regime had not been supportive of developing the Islamic finance

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industry in Tunisia. However, this is all changing quickly in a new different political environment.

> ***"Despite that fact that no Islamic banking regulations have been developed by the Tunisian monetary authority, Zitouna Bank has been able to develop its Islamic financial contracts under the inherent flexibility of the Tunisian civil law framework"***

In Tunisia, the rise of Islamic parties has been associated with strong potential for expansion in a number of new non-traditional segments in even the most staid of industries, such as the financial services sector, where Islamic finance has garnered an increasing amount of attention. In its 2012 Finance Act, Al Nahda, the Islamist party which has claimed victory in Tunisia's October 2011 elections, showed an intention to incorporate several changes to facilitate and support the spread of Islamic finance practices, including a special legislative and regulatory framework for Islamic finance. The Tunisian government supports not only the development of Islamic finance but also sees it as a tool to turn the country into an Islamic finance hub in North Africa.

In January 2012, the government proclaimed some significant regulatory changes in the tax structure for Islamic financial products and services. In fact the project of 'Loi de Finance 2012' (financial law of 2012), predicted a specific tax framework for Islamic financial products and services.

By the end of 2012, a comprehensive Islamic finance regulatory framework covering Sukuk issuance, banking, Takaful and even Zakat and Waqf was drafted and is currently awaiting government review and adoption. To be fair, the drafting started pre-revolution. Also, the central bank has announced that Tunisia intends to issue Sukuk worth TND1 billion (US$630 million) in 2014 to plug its budget deficit. Indeed, in the state's 2013 budget, the Ministry of Finance included funding with Sukuk.

The aim is that the issue of Sukuk at the domestic market level and the foreign market level will open the way for other local companies to issue Sukuk overseas. It is aimed for this Sukuk issuance to attract foreign investors since 66% of the subscription will be allocated to foreign investors and the residue to the local market. The central bank hopes Islamic finance will facilitate business funding since the Tunisian economy needs to now set up enterprises that are able to create jobs.

In February 2013, United Gulf Financial Services — North Africa (an investment company based in Tunisia and a subsidiary of the Bahrain-based United Gulf Bank, a member of the KIPCO Group) announced the launch of the Shariah compliant fund (Themar Investment Fund) with a capital of TND50 million (US$32 million). Themar is financed by the Islamic Corporation for the Development of the Private Sector and the Deposits and Securities Fund of Tunisia.

Themar is the largest Shariah compliant Tunisian investment fund under the Tunisian Monetary Authority. The fund targets small and medium Tunisian institutions in different business sectors seeking finance to support the Tunisian economy. Priority is given to existing and restructured projects in urban areas. The fund targets to create up to 1,000 new jobs. The fund will provide financial resources to institutions, with high growth potential, through enhancing their financial sustainability and their human and operational resources. The success of the fund will serve to increase foreign direct investment and develop further Islamic banking in the country.

In June 2013, El Amana Takaful was created with a capital of TND10 million (US$6.09 million). This is the second insurance company of its kind approved by the Tunisian government to date. On the one hand, up to 60% of this Takaful company is part of a Tunisian-Saudi partnership between several Tunisian insurance and reinsurance companies (Map, Comar, Astree and Tunis Re) and, on the other hand, is 34% (Baraka Bank Tunis and Best LEASE) directly or indirectly owned by the groups, Dallah Al Baraka and Al Baraka Bank Bahrain, which are both owned by Saudi businessman Sheikh Salah Abdallah El Kamel. In addition, the MZABI Group holds a 6% stake.

In the January 2014 Fiscal Law, the Ministry of Finance included a special tax system instruments for Sukuk and the Islamic fund.

The Tunisian government has taken the first steps to develop Islamic finance in the local financial market. However, there is a lot of work needed to be done to build a comprehensive domestic Islamic financial system. Even though more than 98% of the Tunisian are Muslims, Islamic finance is still only emerging when compared to countries across the GCC and in Southeast Asia.

Rihab Grassa is an Islamic finance consultant based in Dubai and a researcher responsible for content at The Tunisian Islamic Finance Association. She can be contacted at asso.tun.de.finance.islamique@gmail.com.

The fourth pillar: A new way forward for Islamic pensions

As social and economic trends shift, traditional structures are becoming less able to cater for an aging population. Currently the median age of six Muslim majority countries is in the 20s, but the old age support ratio (the ratio of retired people to those of working age) is set to plummet from double to single digits over the next few decades. Islamic Finance *news* talks to Islamic pensions specialist SHEIKH FAIZAL MANJOO, CEO of UK-based Minarah MultiConsulting, about his model for a whole new pillar of pension provision.

According to the 2013 Pension Takaful Report from Milliman: "We are moving towards a financial economy rather than a real economy, which means we are becoming more dependent on financial instruments for our survival. If Muslim countries don't start planning to avoid the aging population problems that OECD countries now face, the effects could be disastrous." The United Nations and the Geneva Association have highlighted three income streams essential to sustaining the aging global population: state pensions, occupational pensions, and personal pensions. While occupational pensions are the largest pillar and state pensions are the most broadly provided, the personal income stream represents a significant issue particularly in Muslim countries where often either the awareness is not high or disposable income is too low to fund the third pillar.

To address this, Faizal has proposed a new model whereby Islamic pension provision is underpinned by a philanthropic as well as commercial ethos. "Islamic economics has a well-established philanthropic sector (Infāq) which needs to be reactivated. Takaful companies have the right philosophy for it, which needs to be harnessed."

Through the concept of Waqf, he suggests that we can add a fourth pillar based on the voluntary sector, enabling Muslim countries to assist the elderly through charitable donations. The structure would enable consistent Waqf donations within a community into a pension pool, which then offers Waqf certificates to those who are needy and meet certain criteria: for example, who don't have the income to purchase a personal pension and/or who do not have access to an occupational pension. These donations are invested into long-term income-providing projects. "This is nothing new for the Muslim world," Faizal explains. "What I have tried to do is re-engineer it for the financial economy."

However, there are several issues surrounding the development of the Islamic retail pensions industry that have inhibited its growth. One is the lack of available pension products — annuities are widely considered impermissible by the Shariah due to their elements of Riba and Gharar — while another is the absence of long-term investment assets with which to back pension products. A third problem is that of longevity risk: whereby retirees outlive their pension provision. "At a national level, that risk is very high, and can only be underwritten by a government," explains Faizal.

Professor David Blake, the director of the Pensions Institute at Cass Business School, has proposed the concept of longevity bonds to assist private sector pension schemes and annuity providers hedge this risk. Faizal suggests that this concept could be harnessed to develop similar longevity Sukuk: based on long-term, income-generating state infrastructure investments such as toll roads and airports.

At the moment, the Sukuk markets are largely inaccessible to retail investors. However, Faizal highlights the recent RM1.5 billion DanaInfra Sukuk issuance to finance the MRT project in Malaysia, of which RM300,000 (US$91,974.6) was earmarked for retail buyers to widen the investor base. "With smaller denomination Sukuk, retail investors can also enter the Islamic capital market,

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Table 1: Selected retirement data for six Muslim-majority countries

Country	Malaysia	Indonesia	Pakistan	Bangladesh	Turkey	Saudi Arabia
2012 per capita income (US$)	10,000	3,200	1,155	838	10,500	24,911
Savings rate (% GDP)	35	32	20	26	13	47
Population (2012)	29	248	179	153	76	29
Population growth rate	1.6	1.04	2.1	1.37	1.2	2.9
Median age	27.1	28.5	21.9	23.6	30.1	25.7
Old age support ratio (2012)	13	12	14	14	11	22
Old age support ratio (est 2050)	4	3	7	4	3	5
Labor force participation rate	65	68	54	71	51	50
65+ population (mns)	1.5	15.1	7.2	8	5.3	0.9
Life expectancy (males)	72	70	64.5	68.2	72	72.4
Life expectancy (females)	77	74	68.3	72	77.2	76.4
Retirement age	60	55	60	59	60	60

Source: Milliman Pension Takaful Report 2013

Continued

and this is what would sustain longevity Sukuk," explained Faizal. "People can buy these bonds and then cash them in to receive coupons at a certain age".

Developments such as these will inevitably take time. In the same way it took Takaful years to pick up speed, so it will be for Islamic pensions, because in the past the demand has not been there – due to extended family networks, Bait Al Mal, shorter life spans and lower disposable income. As this is changing, demand is growing and recognition is emerging. However, Faizal believes that Muslim populations in the developed world such as the UK and France will see a more rapid take-up than across the GCC and Asia where awareness is lower.

"In Europe we have a more financially sophisticated population so if you have the right product, they will take it up faster. But my personal opinion is that it will be slow. It could take up to 20-30 years for the right product to come to market, the right awareness to be created, the right regulatory framework to be established to protect those funds."

It's not just a question of buying a pension – it is about how you invest those funds in long-term projects, and that is a big challenge. I don't think at this moment we have a wide enough spectrum of investment vehicles to handle that. —*LM*

Bumitama Agri makes its debut in the Sukuk market

Bumitama Agri, a company listed on the Singapore Exchange, has made its foray into the Malaysian Sukuk market. The palm oil producer launched a Sukuk program of up to RM2 billion (US$606.29 million) on the 18th March 2014. In an exclusive interview with Islamic Finance *news*, John Chong, CEO of Maybank Kim Eng Group and Maybank Investment Bank (Maybank IB), revealed the workings of this inaugural issuance.

"The Islamic financing principle of Musharakah was chosen because it does not require the issuer to commit a pre-identified tangible asset for the tenure of the Sukuk program. Bumitama was able to contribute its general business as the Musharakah venture. In addition to the ease and convenience granted to Bumitama under the Musharakah principle, the structure was chosen due to its familiarity by investors in the Malaysian Sukuk market," said Chong. With the intention of diversifying its US dollar funding sources, Bumitama was attracted to raise cost-efficient funding by tapping the depth and breadth of the Malaysia ringgit Sukuk market and swapping the proceeds into US dollar when opportunistic market windows appear.

Following a swift one-day book-building exercise, Maybank IB used the investor demand to price the issuance at the lower end of the final price guidance. Bumitama's maiden Sukuk offering was ultimately printed as a RM500 million (US$151.57 million) issuance with a five-year tenor and profit rate of 5.25% per annum. By capitalizing on opportunistic swap market windows, the Bumitama's issuance went on to achieve a competitive post-swap US dollar pricing. The debentures were subscribed by: Malaysian investors (99%) and Singapore investors (1%); comprising financial institutions, asset management companies, insurance companies and corporate accounts.

According to Chong, among challenges faced during the process of the issuance were: Bumitama's unfamiliar credit profile, being a foreign issuer tapping into the Malaysian capital markets for the first time, and the volatile market conditions.

Islamic medium-term notes program of up to RM2 billion (US$606.29 million) in nominal value

18th March 2014

Issuer	Bumitama Agri
Issuance Price	RM500 million (US$151.57 million) , issued at par
Purpose of issuance	Capital expenditure, working capital, investments, refinancing existing debt and general corporate purposes, all of which shall be Shariah compliant
Trustee	Malaysian Trustees
Tenor	Five years
Coupon rate / return	5.25% per year
Payment	Semi-annual basis
Currency	Ringgit Malaysia
Maturity date	18th March 2019
Lead manager(s)	Maybank Investment Bank (Maybank IB), United Overseas Bank (Malaysia) (UOB)
Principal advisor(s) and bookrunners	Maybank IB and UOB
Dealer(s)	Maybank Kim Eng Securities, United Overseas Bank
Swap counterparty(ies)	Malayan Banking, CIMB Bank
Governing law	Laws of Malaysia
Legal advisor(s) / counsel	Adnan Sundra & Low (for principal advisors and lead arrangers as to Malaysian law), Christopher & Lee Ong (for issuer as to Malaysian law), Melli Darsa & Co (for principal advisors and lead arrangers as to Indonesian law), and Stamford law Corporation (for principal advisors and lead arrangers as to Singapore law)
Listing	None
Underlying assets	The Shariah compliant general business of the issuer, pursuant to the Shariah principle of Musharakah
Rating	'AA3' by RAM Rating Services
Shariah advisor(s)	Maybank Islamic
Structure	Musharakah

Overcoming the hurdles, Maybank conducted a comprehensive marketing and distribution program which comprised of investor presentations in Kuala Lumpur, Malaysia and site visits to Bumitama's oil palm plantations in Central Kalimantan in Indonesia. For Maybank IB, the transaction represented in-roads to its regionalization agenda and its future in cross-border Sukuk financing transactions.

Timing to market and market conditions were key considerations for Maybank IB to launch a Sukuk offering successfully. "We monitored the market for opportunistic conditions to ensure that an optimum pricing was achieved to meet the expectations of the issuer. By identifying and capitalizing on opportunistic swap market windows, Maybank IB helped Bumitama achieve a competitive post-swap US dollar pricing," explained Chong.

The RM500 million (US$151.57 million) five-year Sukuk Musharakah represented the first issuance under the RM2 billion (US$606.29 million) Sukuk program. Proceeds therefrom will be advanced by Bumitama to its for capital expenditure, working capital, investments, refinancing existing debt and general corporate purposes, all of which shall be Shariah compliant. — *NA*

Milestone Islamic private investment in public equity transaction

SINGAPORE

By Yeo Wico

A milestone event occurred on the 13th February 2014. The Islamic Bank of Asia (IB Asia) entered into a SG$15 million (US$11.83 million) convertible commodity Murabahah facility agreement with Ley Choon Group Holdings, an underground utilities infrastructure construction and maintenance service provider listed on the Mainboard of the Singapore Exchange Securities Trading (the SGX-ST). This investment is seen as the first Islamic private investment in private equity (PIPE) transaction in Singapore.

IB Asia is a joint venture partnership between DBS Bank, one of the largest financial services groups in Asia, and prominent investors based in the GCC. Established in 2007 and headquartered in Singapore, IB Asia focuses on merchant banking activities including direct investment, advisory, treasury and capital market services.

The Murabahah financing has an innovative, flexible structure allowing for conversion into shares of Ley Choon at the option of IB Asia at a pre-agreed conversion price.

Whilst there have been Islamic equity or equity-linked investments in Singapore, this transaction opens up a new market for Islamic investors seeking a hybrid investment in growth companies which are already listed on the SGX-ST. This may prove to be an exciting prospect for investors who prefer higher returns than fixed income investments, coupled with lower risks than upfront equity investments.

Yeo Wico is a partner at Allen & Gledhill. He can be contacted at yeo.wico@allenandgledhill.com.

IFN Country Correspondents

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

BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh

BELGIUM: Prof Laurent Marliere
CEO, ISFIN

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

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
founder, New Line Capital Investment Limited

INDIA: H Jayesh
founder partner, Juris Corp

INDONESIA: Farouk A Alwyni
CEO of Alwyni International Capital and the chairman of Centre for Islamic Studies in Finance Economics and Development

IRAN: Majid Pireh
Islamic finance expert, Securities & Exchange Organization of Iran

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

JAPAN: Serdar A Basara
president, Japan Islamic Finance

JORDAN: Khaled Saqqaf
partner, Al Tamimi & Co

KOREA: Yong-Jae Chang
partner, Lee & Ko

KUWAIT: Alex Saleh
partner, Al Tamimi & Co

LEBANON: Johnny El Hachem
partner – corporate, Bin Shabib & Associates

LUXEMBOURG: Said Qaceme
senior manager of Advisory & Consulting, Deloitte Tax & Consulting

MALDIVES: Aishath Muneeza
deputy minister, Ministry of Islamic Affairs, Maldives

MALTA: Reuben Buttigieg
president, Malta Institute of Management

MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman

MOROCCO: Ahmed Tahiri Jouti
senior consultant, Al Maali Islamic Finance Training and Consultancy

NEW ZEALAND: Dr Mustafa Farouk
counsel member for Islamic financial institutions, The Federation of Islamic Associations of New Zealand (FIANZ)

NIGERIA: Auwalu Ado
Shariah auditor, Jaiz Bank

OMAN: Riza Ismail
senior associate, Trowers & Hamlins

PAKISTAN: Muhammad Shoaib Ibrahim
managing director & CEO, First Habib Modaraba

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

QATAR: Amjad Hussain
partner, K&L Gates

RUSSIA: Roustam Vakhitov
managing partner, International Tax Associates

SAUDI ARABIA: Nabil Issa
partner, King & Spalding

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

SOUTH AFRICA: Amman Muhammad
CEO, First National Bank-Islamic Finance

SINGAPORE: Yeo Wico
partner, Allen & Gledhill

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

SWITZERLAND: Khadra Abdullahi
associate, Investment banking, Faisal Private Bank

SYRIA: Gabriel Oussi,
general manager, Oussi Law Firm

TANZANIA: Khalfan Abdullahi
head of product development and Shariah compliance, Amana Bank

THAILAND: Shah Fahad
vice-president and head of strategic marketing and product development, Islamic Bank of Thailand

TURKEY: Ali Ceylan
partner, Baspinar & Partners

UK: Roshan Madewala
CEO and director, Research Intelligence Unit

UAE: Rima Mrad
partner, Bin Shabib & Associates

US: Joshua Brockwell
investment communications director, Azzad Asset Management

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

Risk management issues in the non-bank financial institution sector

LEASING

By Dr Shahinaz Rashad

Non-bank financial institutions, compared to conventional banks, have proven to be the most conducive to financial inclusion and meeting the peculiar needs of Shariah compliant small and medium enterprises and microfinance (MSMEs). In Islamic finance, earnings and wealth creation must be linked directly to an economic activity such as leasing and investment. Thus, financial transactions tend to be more asset-backed rather than asset-based — that is, backed by the lease or sale of assets or investments in an enterprise, and containing similarities with equity. In comparison, a bank's credit decision is mainly focused on the financial position of a client, whether it be corporate or an MSME. Risk decisions are mainly based on the credit risk and the risk of default, with less consideration to the underlying asset.

Leasing contracts (Ijarah) occur when a written commercial agreement is concluded between the owner of an asset (the lessor) and the end user (the lessee) of a specific asset, giving the lessee the right to utilize it ('usufruct') in return for a lease installment (lease rental) over a stipulated period. Thus, a leasing agreement involves two parties: the lessee and lessor. In contrast, credit occurs when a written agreement is concluded between the bank and a purchaser, giving the purchaser the required funding to secure an asset. The funding obtained is compensated over a set period in time by means of predetermined installments (a loan). With this method of funding, the purchaser (debtor) is then indebted to the bank (creditor). In general, the payment of the asset is proof of the ownership. In a credit financing, the bank is granting a loan to the customer (debtor). Then the customer pays the supplier and consequently he will become the owner of the asset.

In contrast, in a leasing agreement the leasing company (lessor) pays the vendor and thus becomes the owner of the asset. In comparison to bank credit, leasing is considered to be an asset-based financing. In leasing, the risk approach is included in the asset value estimation. When leasing, an asset is assessed in terms of its market value over the term of the lease agreement. If the asset has a strong market value, no collateral and/or guarantee would be normally required as opposed to providing collateral and/or guarantee in the case of an asset with weak market value. The quality of the cash flow derived from the asset takes precedence over the asset value. Thus, leasing suits the MSME segments as it envisages the distinction between ownership from the economic use of an asset.

Equally well, the non-bank financial institutions compared to conventional banks can play a major role in financial inclusion in terms of financing non-bankable microfinance enterprises. The fact that microfinance start-ups typically are not deemed creditworthy in addition to the intensive nature of microfinance and the subsequent additional capital charge does not necessarily make microfinance a viable business proposition for commercial banks. This is especially true in countries where central banks restrict conventional banks; which receive deposits, from engaging in risk sharing. The default rates are also negligible, which makes it an attractive proposition in spite of the small ticket sizes.

By its nature, Islamic finance is suitable for both existing and start-up micro financing projects. The investments are typically in a tangible business venue and have a high level of social responsibility attached to them. There is a wide range of structures in Islamic finance which lend themselves to micro finance initiatives. In this regard, Islamic microfinance enterprises can play a major role in financing and investment, with partnership contracts such as Mudarabah and Musharakah potentially the most suitable.

Microfinance institutions tend to build a close relationship with their microfinance clients, which makes a joint venture ultimately viable and mitigates risk. Thus, the institution will not only supply money, but also expertise related to the setting up and successful running of a company. It is highly likely that the microfinance enterprise will initially only put in expertise while the institution contributes cash and will take his/her profit share as agreed in Mudarabah/Musharakah agreements. The advantage of this is that it provides a form of security to the entrepreneur and encourages savings to be built up. The entrepreneur should, however, be free to use excess profits to repurchase units and obtain full ownership over their business, for example through a diminishing Musharakah structure. This mechanism could help bring about sustainability overtime through transforming microfinance for small and medium enterprises.

Professor Dr Shahinaz Rashad is the executive director of the Financial Services Institute – Egyptian Financial Supervisory Authority. She can be contacted at shahinaz.rashad@efsa.gov.eg

IFN Sector Correspondents

ASSET MANAGEMENT
Sean Daykin, head of investment funds, Emirates NBD Asset Management
CROSS-BORDER FINANCING:
Fara Mohammad, senior lawyer and consultant in Islamic finance
DEBT CAPITAL MARKETS:
Muhammad Shoaib Ibrahim, managing director & CEO, First Habib Modaraba
DERIVATIVES
ISDA
LAW (MIDDLE EAST)
Bishr Shiblaq, head of Dubai office, Arendt & Medernach
LEASING:
Professor Dr Shahinaz Rashad, executive director, Financial Services Institute, Egyptian Financial Supervisory Authority.
MERGERS & ACQUISITIONS
Jamal Hijres, CEO, Cappinova Investment Bank
MICROFINANCE (ASIA):
Dr Mahmood Ahmed, executive vice president and director training, Islami Bank Training and Research Academy
MICROFINANCE (AFRICA):
Mansour Ndiaye, director of microfinance, Assistance and Consulting for Development
PRIVATE BANKING & WEALTH MANAGEMENT
Khadra Abdullahi, associate, investment banking, Faisal Private Bank
PRIVATE EQUITY & VENTURE CAPITAL:
Arshad Ahmed, partner, Elixir Capital
REAL ESTATE (EUROPE)
Philip Churchill, founder partner, 90 North Real Estate Partners
REAL ESTATE (MIDDLE EAST):
Yahya Abdulla, head of capital markets — Middle East, Cushman & Wakefield
REGULATORY ISSUES (ASIA)
Intan Syah Ichsan , chief operating officer, Samuel Aset Manajemen
REGULATORY ISSUES (MIDDLE EAST):
Mohammad Abdullah Malik Dewaya, head of Shariah compliance and audit, Maisarah Islamic Banking Services
RETAIL BANKING:
Ris Rizqullah, lecturer, Trisakti University
RISK MANAGEMENT:
Hylmun Izhar, economist, Islamic Research and Training Institute, Islamic Development Bank Country
SECURITIES & SECURITIZATION:
Nidhi Bothra, executive vice president, Vinod Kothari Consultants
STOCK BROKING & TRADING:
Athif Shukri, research analyst, Adl Capital
SUKUK
Marco Mauri, senior director of asset management, Alkhair Capital Saudi Arabia
TAKAFUL (UAE)
Rima Mrad, Partner, Bin Shabib & Associates
TAKAFUL & RE-TAKAFUL:
Dr Sutan Emir Hidayat, senior lecturer, University College of Bahrain
TREASURY PRODUCTS:
Nafith ALHersh Nazzal, certified financial & investment advisor

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How do you apply Murabahah in structuring Sukuk contracts (cost plus or deferred payment Sukuk)?

What is Murabahah?

As mentioned above Murabahah is a purchase and then resale transaction which is a way of accessing funds instead of raising them through borrowing. The capital provider purchases the desired commodity from a third party and resells it at a predetermined price to the capital user. The capital user has effectively obtained credit without paying interest by paying the agreed price by installments, by deferral, over time.

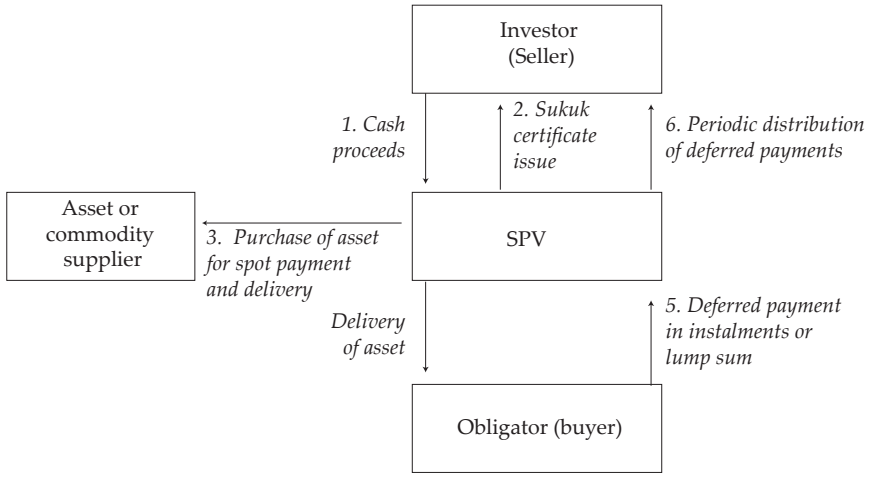
What are Sukuk Murabahah?

With Sukuk Murabahah the SPV can use the investors' capital to purchase an asset and sell it to the obligator on a cost-plus-profit-margin basis. The obligator (the buyer) makes deferred payments to the investors (the sellers). This arrangement is a fixed-income type of Sukuk, and the SPV facilitates the transaction between the Sukuk holders and the obligator.

> ***"With Sukuk Murabahah the SPV can use the investors' capital to purchase an asset and sell it to the obligator on a cost-plus-profit-margin basis"***

A company (the originator) needs, say US$100 million. It will issue Murabahah Sukuk for this amount by selling assets to the special purpose vehicle (SPV) for US$100 million. The SPV will finance the company and buy the asset by issuing Murabahah Sukuk equal to the amount needed to purchase the asset ($100 million). The investors will share the proportion of that asset as Sukukholders.

Figure 3.4 Sukuk Murabahah



After the SPV buys the asset, it will sell it back to the company at a predetermined amount of money equal to the initial amount and the margin. The payments represent the periodical payments for the investor. At maturity, the investors get the full amount of the Sukuk payment and the return of the principal of the Sukuk Murabahah.

How do you structure Sukuk Murabahah?

With Sukuk Murabahah the SPV can use the investors' capital to purchase an asset and sell it to the obligator on a cost-plus-profit-margin basis. The obligator (the buyer) makes deferred payments to the investors (the sellers). This setup is a fixed-income type of Sukuk, and the SPV facilitates the transaction between the Sukukholders and the obligator.

The Murabahah contract process begins with the obligator (who needs an asset but cannot pay for it immediately) signing an agreement with the SPV to purchase the asset on a deferred-payment schedule. This agreement describes the cost-plus margin and deferred payments, the key features of a Murabahah contract.

After the contract is signed the Sukuk Murabahah is structured as in Figures 3.4 and 3.5 and follows the steps below:

1. The investors subscribe to the Sukuk and pay the proceeds to the SPV, which acts as their trustee.
2. The SPV issues Sukuk certificates to the investors.
3. The SPV purchases the asset from a supplier.
4. The SPV sells the asset to the obligator as per the contract and per the contract terms. The delivery takes place on the spot.
5. The obligator pays the deferred payments to the SPV in a lump sum or by installments.
6. The SPV distributes the deferred payments to the Sukukholders.

This format was used in 2005, when Bahrain-based Arcapita Bank issued Murabahah Sukuk with a five-year term for US$200 million. The bank used proceeds from these Sukuk to purchase commodities that it then sold.

Key features of the Murabahah structure

- The consideration (deferred price) must be at an agreed rate and for an agreed period;

continued...

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Box 3.5 Murabahah certificates	
These documents of equal value issued for the purpose of financing the Murabahah commodity and the certificate holders become the owners of the Murabahah commodity.	**Issuer sells**: Murabahah commodity **Subscribers are**: the buyers of that commodity **Mobilized Funds**: are the purchasing cost of the commodity **Certificate holders**: Owns the Murabahah commodity or price of selling it.

Source: AAOIFI

- In order to ensure that the issuer SPV obtains marketable title to the commodities from the commodity supplier in order to facilitate their on-sale to the originator. The issuer SPV may require certain representations and warranties from the commodity supplier that the commodities will be purchased free of any encumbrances or liens;
- During the period of ownership of the commodities, by the issuer SPV, there is the risk of price fluctuation in the market value of the commodities. This can be mitigated by minimizing the duration of issuer SPV's ownership and specifying the deferred price payable by originator (as purchaser);
- If the originator requests physical delivery (as opposed to constructive delivery) there may be a risk that the commodities are damaged whilst in transit. This risk may be mitigated by undertakings from the originator in the Murabahah agreement to accept the commodities on "as is" basis;

Tradability Issues with Sukuk Murabahah

- Shariah, prohibits the trading of debt receivables, particularly when doing so at a discount given that this may give rise to interest (Riba). This limits the negotiability of Sukuk Murabahah which represent entitlements to shares of debt receivables from the purchaser of the underlying Murabahah.
- A potential problem with Murabahah Sukuk is that these cannot be traded in the secondary market at a negotiated price and hence, are not liquid. Murabahah receivables are in the nature of pure debt and hence the instrument that is evidence of such debt (Shahadat-Al- Dayn) can be transferred only at its face value.

> ***"In fact many of the Sukuk emanating from Malaysia would not be acceptable investments for investors from the Gulf states"***

- The practice, however, has been found to be totally unacceptable in the Middle East and other parts of the globe. It has been rightly asserted that the sale of debt at a negotiated price (price that is different from the face value of debt) or at a discount opens the gates to riba-based transactions. Only if investors hold on to the instruments until maturity would the yield on the instrument constitute a legitimate profit and not be riba.

When can Sukuk Murabahah be traded?

- Sukuk Murabahah would be negotiable if they were issued prior to the sale of the Murabahah commodities, from the originator to the underlying purchaser.
- This is because the Shariah analysis turns on whether there is some ongoing ownership stake between the Investor and the Sukuk asset following a transfer of the Sukuk certificate (which is permitted) or whether the transfer shifts ownership and creates a debt obligation on a third party (not permitted). As such, Sukuk, certificates issued prior to a Murabahah commodity sale would represent ownership in those commodities rather than the right to the receivables generated by their sale;
- The transfer of Sukuk Murabahah is permitted even if they are issued after the sale of commodities under the underlying Murabahah, as long as they are traded at face value (rather than sold at a discount or a profit).
- Sukuk certificates derived from an underlying Murabahah structure may still be negotiable if the Murabahah receivables form a small proportion (exact percentages may vary depending on the transaction and the analysis of each Shariah scholar) of a larger portfolio of Sukuk assets .These assets would comprise mostly other

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Murabahah and Sukuk Murabahah — the view from Malaysia

It is important to recognize that the AAOIFI Sukuk standards, discussed earlier are binding in the Gulf states but are not mandatory in Malaysia. This has important implications in terms of whether the Sukuk are deemed to be Shariah compliant for all Islamic investors. In fact many of the Sukuk emanating from Malaysia would not be acceptable investments for investors from the Gulf states.

The current practice of Islamic banking in Malaysia has been criticised as being insufficiently different from conventional banking. One of the foci of this criticism is the application of the Shariah based Bai al-Inah contract in creating a number of so-called Islamic financing products. Bai al-Inah is a sale contract with immediate repurchase. It takes place when a financial institution sells an asset on credit terms and immediately buys back the asset, for cash, at a lower price. The classical jurists are in disagreement in assessing the legality of the contract. It was prohibited by a majority of jurists including the Hanafis, Malikis and Hanbalis, but allowed by al-Shafi'i.

Continued

negotiable instruments such as Sukuk Ijarah, Sukuk Musharakah and/or Sukuk Mudarabah and are usually packaged into a hybrid Sukuk .

As mentioned despite being debt instruments, the Sukuk Murabahah could be negotiable if they are the smaller part of a package or a portfolio, the larger part of which is constituted of negotiable instruments such as Sukuk Mudarabah, Musharakah, or Ijarah.

> ***"In fact the Malaysian schools have very different rulings from the GCC madhabs"***

Sukuk Murabahah have, however, become popular in Malaysian market due to a more liberal interpretation of Fiqh by Malaysian jurists permitting the sale of debt (Bai-al-Dayn) at a negotiable price. This makes Sukuk Murabahah Shariah compliant within Malaysia. This is discussed on box story.
It should be noted that although some of these instruments have been generally accepted as being in compliance with Islamic principles in order that they can be traded in the secondary market, the negotiability of certain others is still a point of debate. This is due to controversy surrounding their legal acceptability or compliance with the Shariah. The effect is that some of these bonds can be traded in the secondary market while the trade of others is limited to the primary market because Shariah acceptability means that they can only be exchanged at face value.

It is important to understand that differing regions of the world follow different schools of jurisprudence (madhabs) with the effect that the acceptability of Sukuk from some madhabs are not acceptable to others. In fact the Malaysian schools have very different rulings from the GCC madhabs.

Brian Kettell was, until recently, an advisor to the CEO at ICD, part of the IDB Group based in Jeddah, Saudi Arabia. He had many Shariah-related responsibilities and was actively involved in the ICD Sukuk structuring team.

He worked for several years as an advisor for the Central Bank of Bahrain where he worked on structuring the first two Sukuk ever issued.

Subsequently, Kettell taught workshops on Islamic banking and finance at a range of financial institutions including the World Bank, African Development Bank, National Commercial Bank (Saudi Arabia), Global Investment House (Kuwait), Noor Islamic Bank (UAE), the UK Treasury, the Central Bank of Iran, the Central Bank of Syria, the Securities Investment Institute and the Institute for Financial Services .

Kettell is the most published book author on the subject in the world. He is the author of :

- *Sukuk: A new Global Investment Asset Class (Oxford Press)*
- *Sukuk : A Guide to the Shariah Structures (Oxford Press)*
- *Case Studies on Sukuk (Oxford Press)*
- *Islamic Capital Markets (Oxford Press)*
- *Islamic Finance in a Nutshell (John Wiley)*
- *Frequently Asked Questions on Islamic Finance (John Wiley)*
- *Introduction to Islamic Banking and Finance (John Wiley)*
- *Case Studies on Islamic Banking and Finance (John Wiley)*
- *A Workbook on Islamic Banking and Finance (John Wiley)*
- *Islamic Sukuk : A Definitive Guide to Islamic Structured Finance*
- *Opportunities in Islamic Finance (ed):CPI Financial*
- *Islamic Banking and Finance in the Kingdom of Bahrain (BMA)*

Contact details
www.gulfSukuktraingcourses.com
bkettell@hotmail.com
mobile : +971 (0) 566399300

Islamic finance in Russia: A promising market

Islamic assets in Russia continue to grow and the country is seeing increased interest from both domestic and international investors. MADINA KALIMULLINA explores the new developments in a market of vast and largely untapped potential.

In 2013 the assets of Islamic finance companies of Russia continued to grow and average reported income for the investors in 2013 reached 15%. The biggest of them, Amal Financial House in Kazan, in 2013 reported profit to investor accounts varying from 12-16%.

Islamic finance in Russia is continuing its development in two main directions. The first is based on the smaller non-banking initiatives while the second is led by projects with bigger banks' involvement.

Bottom-up developments in Russian Islamic finance sector were enriched in 2013 by a new company — Masraf Financial House, based in Makhachkala in the Republic of Dagestan. The company became the third private Islamic finance company in Russia.

It is especially important that the Islamic finance market in Russia has new projects appearing, notwithstanding the fact that there is still no special legislation for Islamic finance on the market and the market is very much dependant on investment funds and the population's enlightenment.

The Islamic finance market in Russia continues to have regional scope. The mains centers are Kazan (Tatarstan) and Makhachkala (Dagestan). And both regions are looking at Moscow as one of the main regions for further development. In March 2014 Amal Financial House made a presentation in Moscow appointing a representative for the region.

The company chose the strategy for gradual entering the Moscow market: starting from an official representative, then forming an investment pool and opening a full-range office. The assets of Amal Financial House in 2013 grew by 32%. One of its biggest achievements last year was finalizing the work on its own software for financial operations, which was identified as the main target of the company for the year.

Dagestanian Lariba-Finance trustee partnership grew by 60% in the number of participants, and the number of financed deals in the same period increased twice. Average profit for investors of Lariba-Finance varied from 12-20% per annum.

As mentioned, the successful small Islamic finance projects in Russia are not based on banks or at least have a partner bank, not forming the core institution in the structure. At the same time in 2013 and early 2014 the Russian central bank withdrew banking licenses from many banks in Russia.

> ***"There is still no special legislation for Islamic finance on the market and the market is very much dependant on investment funds and the population's enlightenment"***

Still, in 2014 several Russian banks showed interest to the Islamic finance sector. And in January AK BARS Bank finalized its commodity Murabahah deal for US$100 million, which was the bank's second Islamic finance deal.

In March 2014 another Tatarstan bank under the name Tatfondbank established an Islamic finance department with the objective to develop a full-range Islamic finance division, inviting experts from the former Yumart-Finance company, one of the pioneers in the market, which sold its assets to Amal Financial house in 2011.

An important step for infrastructure development in 2013 was the establishment of a Shariah rating by the second largest Russian rating agency — National Rating Agency. The purpose of the Shariah rating is to verify the conformity to the social and ethical norms of the Shariah by the companies on the Russian market.

In 2013 a few companies (chosen from among the exhibitors of Moscow Halal Exhibition) were screened on a trial basis through certain criteria which later were modified and perfected. The methodology of the Shariah rating screening has been also checked and amended by the members of the Russian Associations of Experts in Islamic Finance.

The year 2013 in Russia saw several important events on Islamic finance and business, the biggest of which were the Moscow Halal Expo and Kazan Summit. The first regional Islamic finance conference, in Makhachkala, was organized by Lariba-Finance company in May 2013 with the support of the Russian Muftis Council.

All these events contribute to the industry's development. New AAOIFI Shariah standards translations into the Russian language are being published, new books and manuals being translated and written and new educational programs implemented.

Step by step Islamic finance is making its way onto the Russian finance market, involving new parties and companies, investors and clients, forming new infrastructure and creating awareness.

Madina Kalimullina is the director of Economic Department, Russia Muftis Council. She can be contacted at m.kalimullina@muslim.ru.

Shariah compliant project finance — innovative structuring solutions

Shariah compliant financing of projects within the Middle East has become increasingly prevalent, with several recent projects being financed exclusively on a Shariah compliant basis and almost all projects involving some element of Shariah compliant finance. ROBIN BALMER explores recent innovations.

Saudi Arabia, which is the largest market in the Middle East for project financing, has seen numerous projects financed on a Shariah compliant basis. The financing of Rabigh 2 and the Sadara Petrochemicals Project, which both concluded in 2013, had a tranche of Shariah compliant finance provided on a combination of Istisnah-Ijarah and Wakalah-Ijarah structures. In addition, the US$2 billion financing of the Jubail Acrylates Project in Saudi Arabia which concluded in 2012, was exclusively Shariah compliant and was also provided on a combination of Istisnah-Ijarah and Wakalah-Ijarah structures.

The Istisnah-Ijarah and Wakalah-Ijarah structures are well-established options for Shariah compliant project financing. Each structure combines disbursements being made pursuant to an Istisnah (procurement) or Wakalah (agency) contract for the construction of certain project assets with debt service being paid in the form of rental under an Ijarah Mawsufah Fi Dimma (a forward lease pursuant to which the asset is leased to the project company by the financiers post completion with advance rental being paid pre-completion for the right to lease).

The Istisnah-Ijarah and Wakalah-Ijarah structures are substantially similar but the Wakalah-Ijarah structure is preferred by certain banks in Saudi Arabia as being more Shariah compliant due to the project company acting as agent of the financiers in arranging construction of the assets, such that the assets are considered to be owned by the financiers from inception of the Wakalah facility, and the fixed schedule of stage payments and lease rental payments which will be set out within the documentation to avoid uncertainty.

Both the Istisnah-Ijarah and Wakalah-Ijarah structures require that there are tangible assets under construction and available to be financed which equate to the value of the facility being provided. The principal difference between the structures is that the Istisnah facility can be provided to procure a percentage of the overall project assets whilst the Wakalah facility will require specified assets to be identified.

> *"As the project market in the Middle East and, in particular, Saudi Arabia becomes more diversified with the use of complex structures such as PPP and project Sukuk, there will need to be more innovative Shariah compliant structuring solutions found to bridge the challenges which arise"*

Where a project does not involve assets that will be owned by the project company and can be transferred to the financiers, such as a concession agreement, the Istisnah-Ijarah and Wakalah-Ijarah structures are not feasible methods of financing and alternative Shariah compliant structures must be utilized. It is in this scenario that increasingly innovative Shariah structuring solutions must be found.

Two major groundbreaking project finance transactions in Saudi Arabia, the Madinah Airport Expansion PPP and the Sadara Petrochemicals Project Sukuk issuance, required structuring solutions in relation to the non-transferability of the assets from the project company to the financiers

The Madinah Airport Expansion PPP is the first full public private partnership (PPP) project in Saudi Arabia and is to be developed on a 25-year concession agreement which has been structured as a Build-Transfer-Operate (BTO) project so that the Civil Aviation Authority of Saudi Arabia (GACA) retains ownership of the airport infrastructure. The project consortium, through the special purpose vehicle incorporated for the project, TIBAH Airports Development Company, will be responsible for the management of the airport, including airside and landside operations but GACA will continue to act as regulator, retain title to the assets and will be responsible for air traffic control operation.

With key infrastructure assets such as those found in an airport expansion project, it was not possible for the project company to own these strategic assets; therefore it was necessary to create a new structure whereby the rights (i.e. intangible assets) granted to the consortium under the BTO contract rather than tangible/fixed assets underpinned the financing structure. This was achieved by assigning to the agent bank certain of the rights of the project company under the BTO contract pursuant to a transfer of rights agreement. The project company was then appointed by the agent bank to act as its manager to perform the services required under the BTO contract pursuant to a management agreement and to pay profit generated as a result to the financiers calculated in a manner similar to the rental payments that would have been made under an Ijarah Mawsufah Fi Dimma.

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The Sadara Petrochemicals Project Sukuk issuance, only the second project Sukuk ever issued in Saudi Arabia, encountered a similar challenge to that in the Madinah Airport Expansion PPP. The underlying structure of the Sukuk issuance was an Istisnah-Ijarah structure but the complication was that an orphan Saudi joint stock company was required to issue the Sukuk and would need a title to assets from inception in order to do so on a Shariah compliant basis unlike the traditional route of an agent bank appointing the project company to act as the procurer of the construction of the project assets and transfer of the project assets on completion.

An industrial land lease contract had been granted by the Royal Commission for Jubail and Yanbu to Sadara Chemical Company (Sadara) which needed to form the basis of the Istisnah-Ijarah structure that would underpin the Sukuk issuance but which had prohibitions on transfer or assignment to Sadara Basic Services Company (SBSC), which had been incorporated to act as the issuer of the Sukuk, without prior written approval.

To structure around this complication a Musharakah agreement was entered into in order to form an unincorporated partnership between Sadara and SBSC. Pursuant to the Musharakah agreement, SBSC contributed the issuance proceeds from the Sukuk and Sadara made a contribution in kind of the rights, benefits and entitlements in, to and under the land lease contract as capital to the Musharakah. SBSC was then able to issue the Sukuk certificates as being backed by assets. As the Musharakah is not a body corporate capable of entering into contracts, the parties to the Musharakah appointed Sadara Assets Leasing Company to act on their behalf as Musharakah authorized agent. The Musharakah authorised agent then entered into the Istisnah-Ijarah documentation with Sadara as the procurer.

As the project market in the Middle East and, in particular, Saudi Arabia becomes more diversified with the use of complex structures such as PPP and project Sukuk, there will need to be more innovative Shariah compliant structuring solutions found to bridge the challenges which arise and practitioners will increasingly need to be creative thinkers.

Robin Balmer is an Of Counsel at the Dubai office of Norton Rose Fulbright. He can be contacted at Robin.Balmer@nortonrosefulbright.com.

Sri Lanka's Shariah compliant unit trust industry

The concept of the unit trust was introduced to Sri Lanka in 1991-92 and since then the local government has taken many initiatives to promote the industry and offers many benefits to unitholders. ATHIF SHUKRI explores the development of the sector.

The strong government support has positively contributed to the industry and the past decade has witnessed the number of unit trust funds increasing from 13 to 40, four of which are Shariah compliant funds. The historical performance of unit trusts during this period suggests they provide impressive growth in relation to treasury bills and bank deposits over a medium to long-term investment horizon.

Sri Lanka has been a relatively early entrant to the Islamic banking and finance industry and over the years, the sector has witnessed tremendous growth with Islamic financial institutions now straddling the entire financial spectrum: from commercial banking, leasing, Takaful insurance, asset management and others. The number of licensed players offering Islamic products and services has now reached double digits.

However, the product range on offer has been mainly restricted to basic deposit products (Mudarabah), leasing (Ijarah) and financing products (Murabahah and Wakalah). Therefore there is an evident dearth of products and services that cater to the alternative investment needs of Shariah-conscious investors in the country. This has influenced many asset management companies in the country to size up the opportunity and offer alternative Shariah compliant investment avenues through offering Shariah compliant unit trusts.

Sri Lanka's unit trust industry is open to foreign nationals wishing to invest in a market where GDP growth is expected to increase by over 7% for the next few years. Investors are not subject to any capital gains tax or tax on dividends and the ease with which foreigners can enter and exit the market makes Sri Lanka a very attractive investment destination.

Performance of Shariah compliant unit trusts in Sri Lanka during 2013

Benchmark performance	12 months (as at the 31st Dec 2013)
CSE All Share Price Index	4.78%
S&P SL 20 Index	5.79%

Fund	Performance
Crescent I Fund	10.58 %
Comtrust Adl Mudaraba Fund	10.50 %
Amana Heraymila Sharia Fund	10.99 %
Namal Sharia Fund	-18.38%

Source: The Unit Trust Association of Sri Lanka

Shariah compliant unit trusts in Sri Lanka

Crescent i Fund is Sri Lanka's first ever open-ended Shariah compliant equity fund, launched in 2011 as a joint initiative by Adl Capital and Comtrust Asset Management. The Crescent i-Fund provides investors with an opportunity to invest in Shariah compliant stocks listed on the Colombo Stock Exchange and fills a void in which Shariah-conscious investors have previously been deprived due to the lack of Shariah compliant investment avenues to benefit from the Sri Lankan stock exchange

The year 2013 witnessed an increase in the net asset value (NAV) of the fund by 10.58%, which compares extremely favourably with a 4.78% increase in the All-Share Price (ASPI) Index for the same period

Comtrust-Adl Mudarabah Fund was launched in January 2013 as the very first money market fund based on Shariah principles in Sri Lanka. A combined initiative of Comtrust Asset Management and Adl Capital, the rupee-denominated fund recorded an effective annual growth of 10.5% p.a., which compares remarkably well in comparison to Shariah compliant investments of similar tenor offered in Sri Lanka's Islamic banking and finance market.

Amana-Heraymila Shariah Fund is a balanced fund, which was jointly launched by Heraymila Capital and Amana Capital. The fund primarily invests in Shariah compliant listed equity and income securities. The investment objective of this fund is to achieve a balance between capital appreciation and income over the medium to long-term.

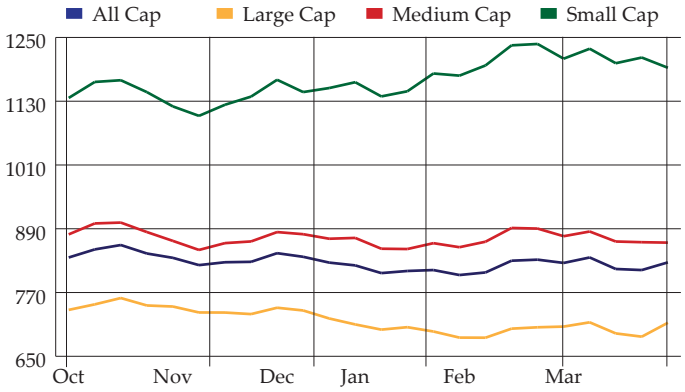
Namal Sharia Fund was launched by National Asset Management (NAMAL), the pioneer unit trust management company in Sri Lanka, in a joint collaboration with Dar Al Sharia Legal and Financial Consultancy of the UAE. Dar Al Sharia is a subsidiary of Dubai Islamic Bank, one of the oldest and largest Islamic banks in the world, and specializes in Shariah compliant structuring and documentation for all types of Sukuk, syndication and funds. Namal Shariah Fund is a growth fund that primarily invests in Shariah compliant equities listed in the CSE.

It is pertinent to mention that the NAMAL Amana Growth Fund was launched several years ago and, as a closed-ended fund with a fixed maturity of five years, completed its envisaged life cycle and re-distributed the profits and capital to the investors in the fund.

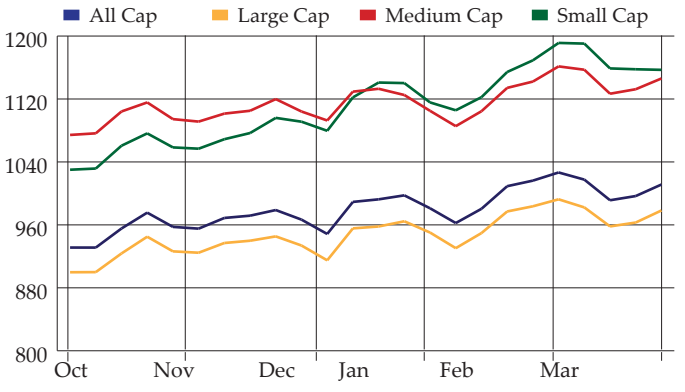
Athif Shukri is a research analyst at Adl Capital. He can be contacted at athif@adlcapital.com

ISSUER	SIZE	DATE ANNOUNCED
Damac Real Estate	US$500 million	28th March 2014
Maybank Islamic	RM10 billion	27th March 2014
Bumi Armada Capital	RM1.5 billion	27th March 2014
Saudi Investment Bank	TBA	21st March 2014
Gulf Finance House	US$500 million	20th March 2014
Bank Muscat - Saudi Arabia	SAR1 billion	20th March 2014
Bank Muscat	OMR500 million	20th March 2014
Sabana Sukuk	SG$85 million	12th March 2014
Fawas Abdulaziz Alhokair Co	TBA	11th March 2014
FGB Sukuk Company II	US$1.07 billion	7th March 2014
IDB	TBA	7th March 2014
Government of Malaysia	RM3 billion	26th February 2014
DanaInfra Nasional	RM200 million	24th February 2014
1Malaysia Development	RM2.4 billion	19th February 2014
TSH Sukuk Ijarah	RM20 million	18th February 2014
Kiler GYO	US$100 million	13th February 2014
Government of Tunisia	TND700 million	7th February 2014
Government of Indonesia	IDR1.57 trillion	6th February 2014
Flydubai	TBA	4th February 2014
BNM Sukuk	RM1 billion	28th January 2014
Citra Marga Nusaphala Persada	IDR1.75 trillion	23rd January 2014
Albaraka Turk Katilim Bankasi	US$300-400 million	10th January 2014
IJM Corp	RM3 billion	10th January 2014
Government of Saudi Arabia	TBA	8th January 2014
Government of Luxembourg	EUR200 million	7th January 2014
Government of Oman	OMR200 million	6th January 2014
Bank Asya	US$500 million	23rd December 2013
Ahmad Zaki Resources	RM1 billion	19th December 2013
Bank Rakyat	RM9 billion	10th December 2014
BIMB Holdings	RM1.7 billion	10th December 2014
State Bank of Pakistan	PKR50 billion	9th December 2013
SP Setia	RM700 million	6th December 2013
Central Bank of Qatar	QAR1 billion	6th December 2013
Kuwait Airways	TBA	4th December 2013
Hong Kong Government	TBA	28th November 2013
Perusahaan Listrik Negara	IDR2 trillion	27th November 2013
South African Government	TBA	26th November 2013
Mudajaya Group	RM1 billion	19th November 2013
Emirates	US$4.5 billion	18th November 2013
Federal Government of Nigeria	TBA	13th November 2013
KPJ Healthcare	RM1 billion	7th November 2013
Asian Development Bank	TBA	6th November 2013
Jordanian Government	TBA	30th October 2013
UK Treasury	GBP200 million	29th October 2013
Malaysia Building Society	RM3 billion	29th October 2013
Jana Kapital	RM4 billion	29th October 2013
Tunisian Government	TND1 billion	29th October 2013
Moroccan Government	TBA	25th October 2013
National Enforcement and Registration System	RM595 million	25th October 2013

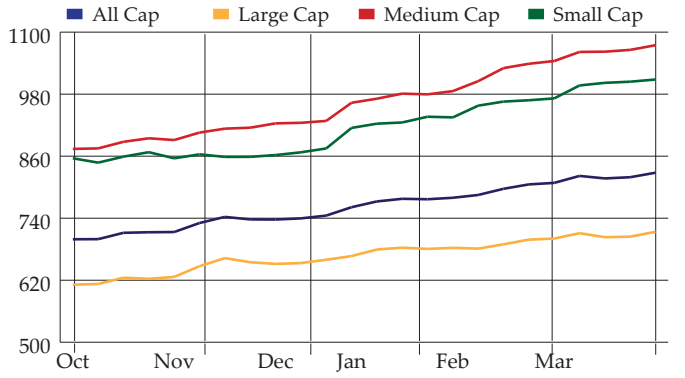
REDmoney Asia ex. Japan *6 Months*



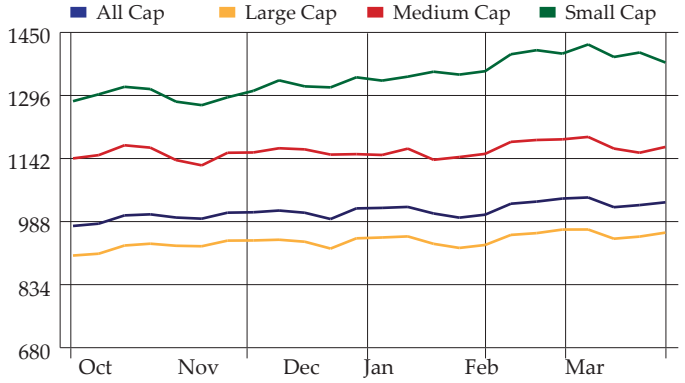
REDmoney Europe *6 Months*



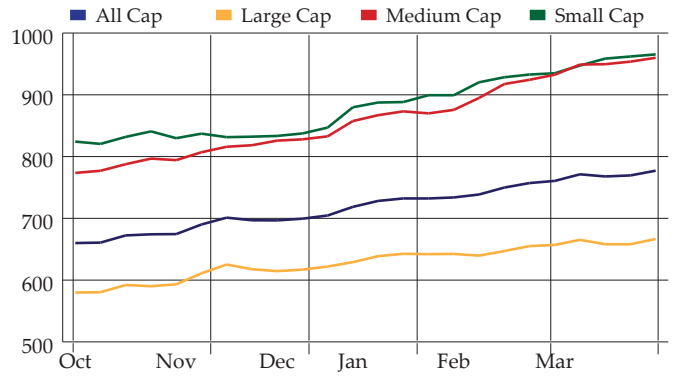
REDmoney GCC *6 Months*



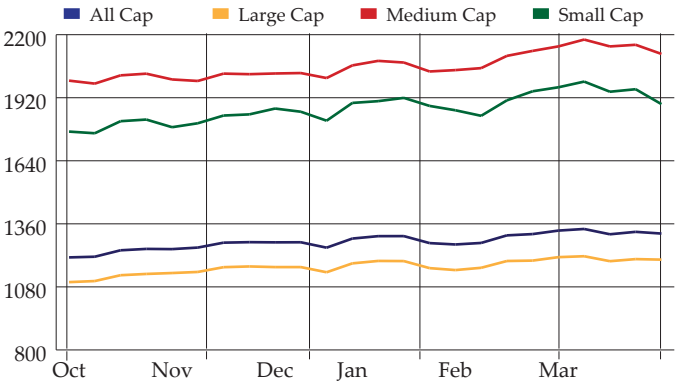
REDmoney Global *6 Months*



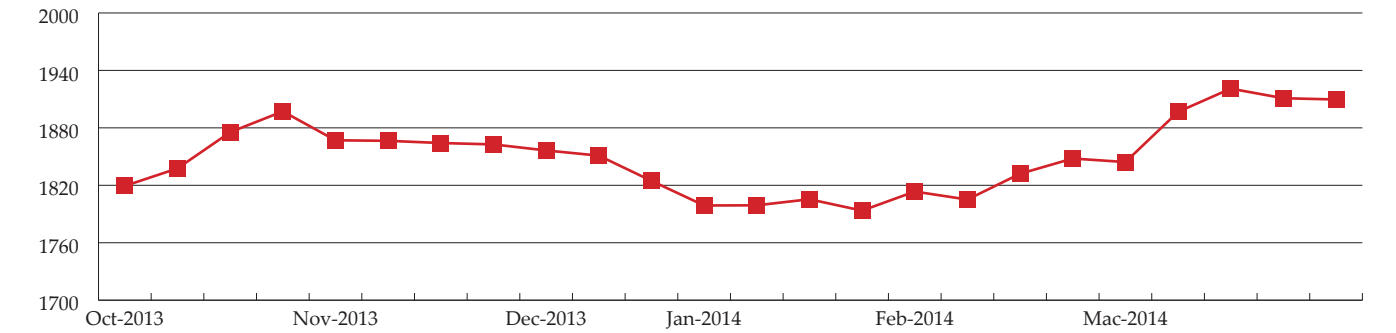
REDmoney MENA *6 Months*



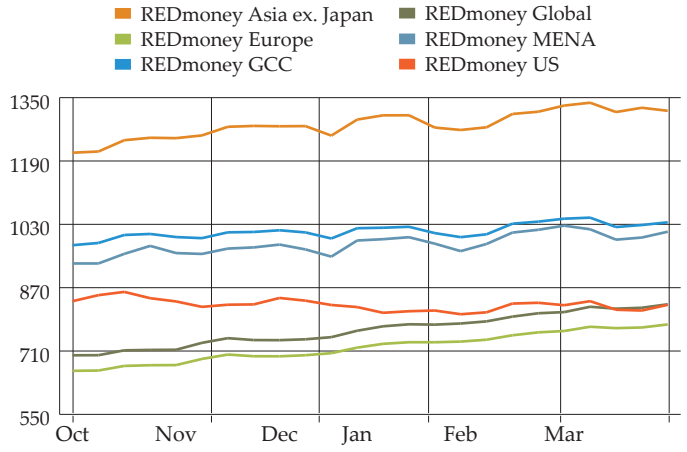
REDmoney US *6 Months*



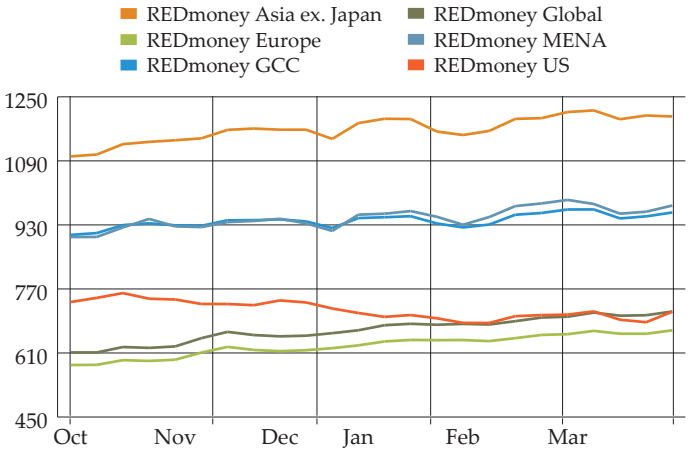
SAMI Halal Food Participation (All Cap) *6 months*



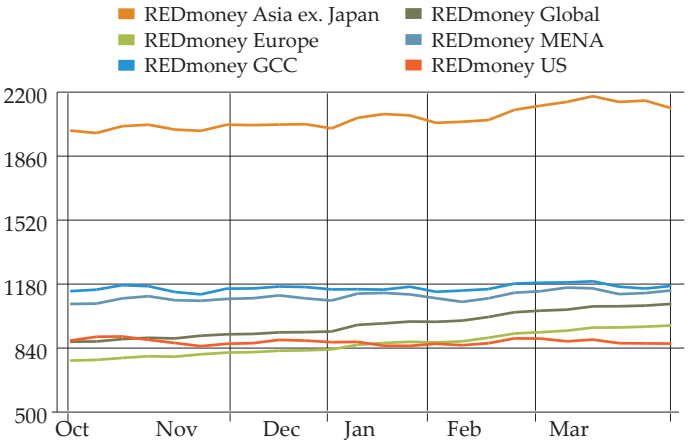
REDmoney Global Shariah Index Series (All Cap) *6 Months*



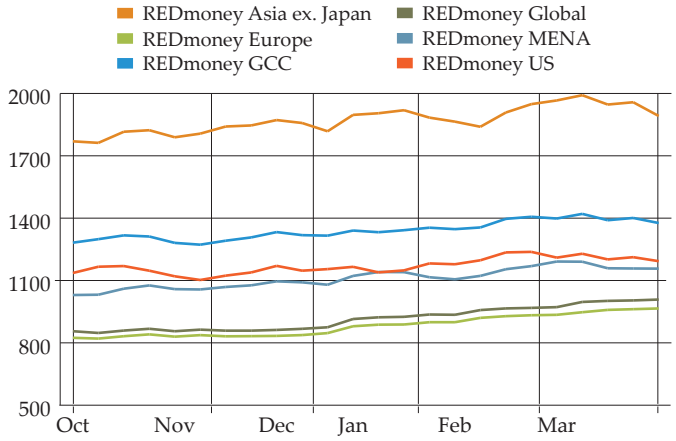
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



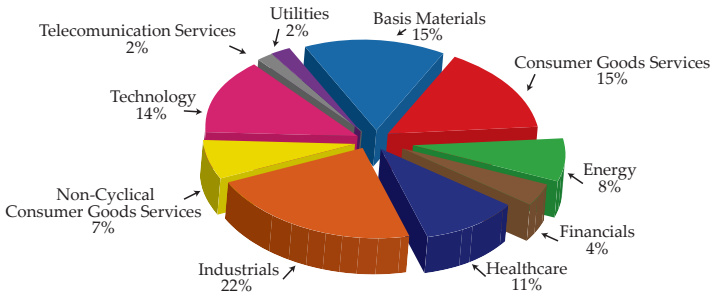
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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

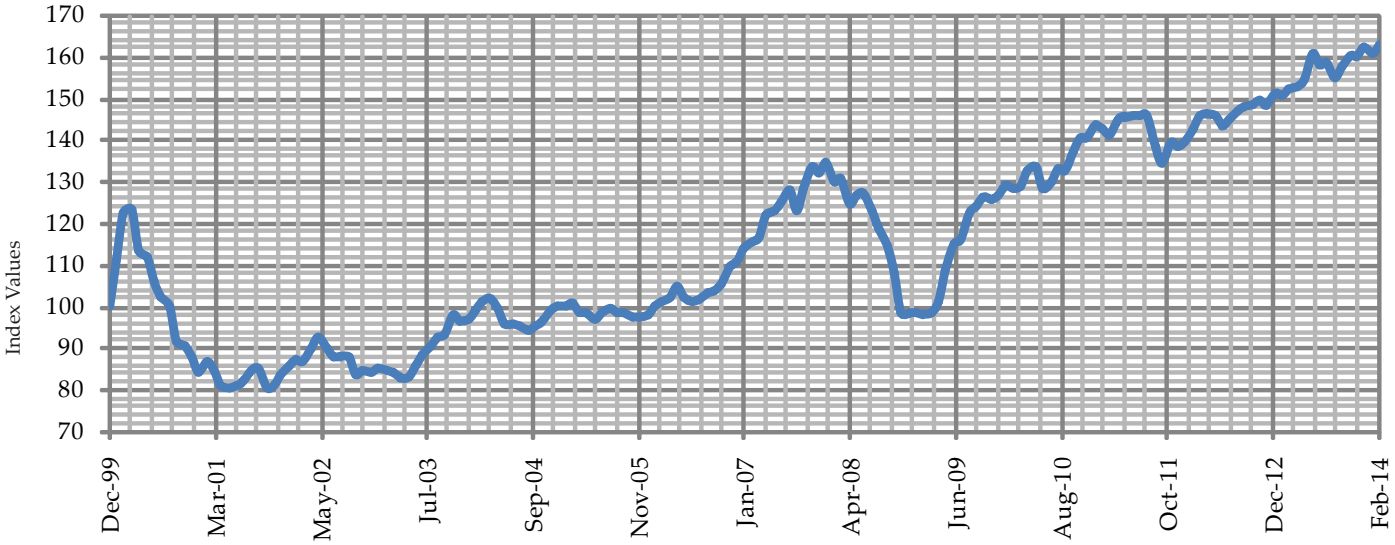
REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

Andrew Morgan
Managing Director, REDmoney Group

Email: Andrew.Morgan@REDmoneygroup.com
Tel +603 2162 7800

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly Returns for Developed Markets Fund

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	AlAhli Healthcare Trading Equity	The National Commercial Bank	11.65	Saudi Arabia
2	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	11.11	Ireland
3	ETFS Physical Silver	ETFS Metal Securities	10.11	Jersey
4	AlAhli US Trading Equity	The National Commercial Bank	8.08	Saudi Arabia
5	AmPrecious Metals	AmInvestment Management	8.03	Malaysia
6	ETFS Physical PM Basket	ETFS Metal Securities	6.76	Jersey
7	JPM Islamic Global Dynamic Equity (USD) A (acc)	JPMorgan International Bank	6.61	Luxembourg
8	Azzad Ethical Mid Cap	Azzad Asset Management	6.18	US
9	ETFS Physical Gold	ETFS Metal Securities	6.00	Jersey
10	Al Madar US Index	Almadar Finance & Investment	5.97	Kuwait
	Eurekahedge Islamic Fund Index		**3.80**	

Based on funds which have reported February 2014 returns as at the 31st March 2014

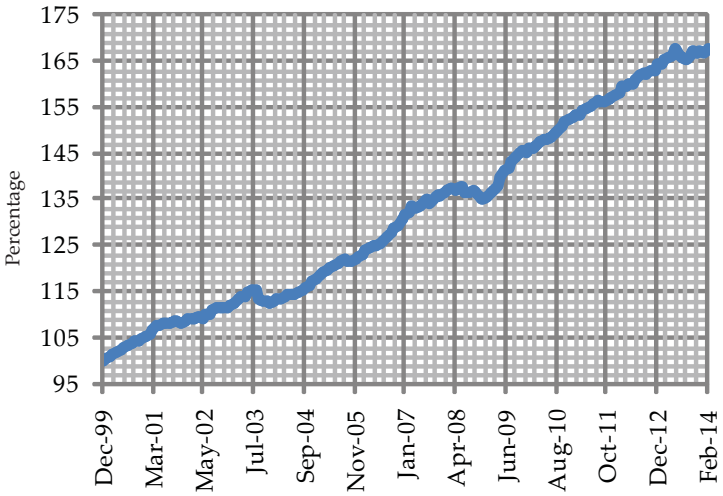
Top 10 Monthly Returns for Emerging Markets Fund

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al-'Aqar KPJ REIT	AmMerchant Bank	11.65	Malaysia
2	Atlas Islamic Stock	Atlas Asset Management	10.01	Pakistan
3	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	9.87	Pakistan
4	Al Meezan Mutual	Al Meezan Investment Management	9.37	Pakistan
5	Tharwa Islamic	Tharwa Investment Company	9.29	Kuwait
6	AlAhli Emerging Markets Trading Equity	The National Commercial Bank	9.02	Saudi Arabia
7	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	8.60	Pakistan
8	Al-Aman Islamic	Al-Aman Investment Company	7.84	Kuwait
9	JS Islamic	JS Investments	7.66	Pakistan
10	NewFunds Shariah Top 40 Index ETF	NewFunds Pty	7.27	South Africa
	Eurekahedge Islamic Fund Index		**2.56**	

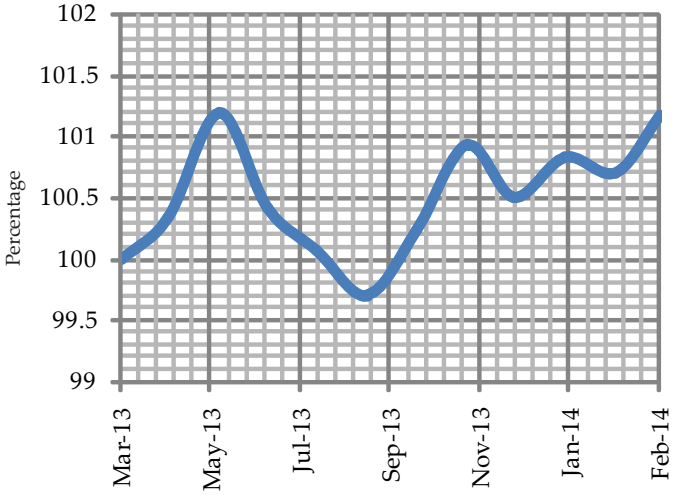
Based on funds which have reported February 2014 returns as at the 31st March 2014

Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, global investing (which would focus on funds investing with global mandate instead of a specific country or geographical region), fund of funds, real estate as well as the Sortino ratio. Each table covering the duration, region, asset class and ratio will be featured on a five-week rotational basis.

Eurekahedge Islamic Fund Fixed Income Index over the last 5 years



Eurekahedge Islamic Fund Fixed Income Index over the last 1 year



Top 10 Islamic Fixed Income Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	MAA Takaful Shariah Flexi	MAA Takaful	3.23	Malaysia
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	1.93	Pakistan
3	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	1.85	Pakistan
4	Jadwa Global Sukuk	Jadwa Investment	1.70	Saudi Arabia
5	CIMB Islamic Enhanced Sukuk	CIMB-Principal Asset Management	1.54	Malaysia
6	BIG Dana Muamalah	Bhakti Asset Management	1.51	Indonesia
7	MAA Takaful Shariah Income	MAA Takaful	1.11	Malaysia
8	MAAKL As-Saad	MAAKL Mutual	0.89	Malaysia
9	Public Islamic Enhanced Bond	Public Mutual	0.82	Malaysia
10	AmBon Islam	AmInvestment Management	0.71	Malaysia
	Eurekahedge Islamic Fund Index		**0.66**	

Based on 87.88% of funds which have reported February 2014 returns as at the 31st March 2014

Top 10 Annualized Sortino Ratio for ALL Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	14.86	Pakistan
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	14.82	Pakistan
3	BIG Dana Muamalah	Bhakti Asset Management	10.59	Indonesia
4	Commodity Trading - SAR	Riyad Bank	6.76	Saudi Arabia
5	Public Islamic Income	Public Mutual	3.97	Malaysia
6	AlAhli GCC Growth and Income	NCB Capital Company	3.69	Saudi Arabia
7	Public Islamic Bond	Public Mutual	3.30	Malaysia
8	PB Islamic Bond	Public Mutual	3.27	Malaysia
9	Altaira Funds - Ethical Global High Dividend (I)	Altaira Wealth Management	2.98	Luxembourg
10	Oasis Crescent Balanced Stable Fund of Funds	Oasis Crescent Management Company	2.93	South Africa
	Eurekahedge Islamic Fund Index		**0.19**	

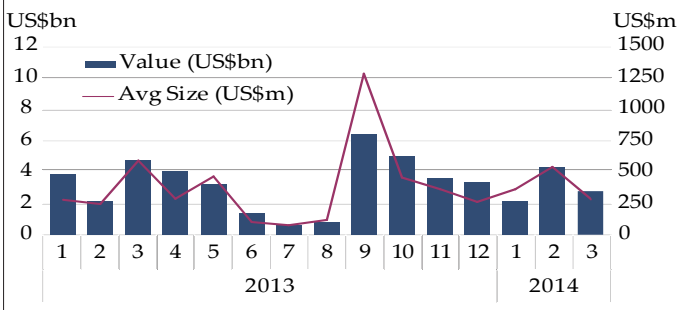
Based on 86.77% of funds which have reported February 2014 returns as at the 31st March 2014
Based on reporting funds with at least 12 months of returns till February 2014 as at the 31st March 2014

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

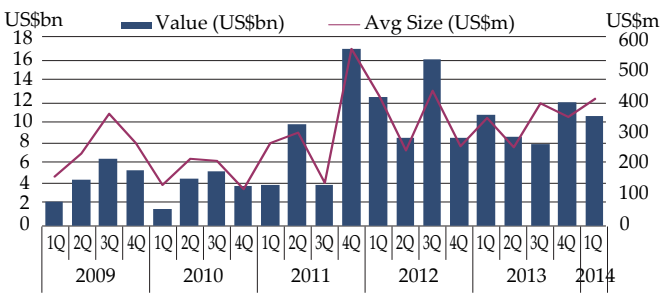
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
25th Mar 2014	National Higher Education Fund	Malaysia	Sukuk Murabahah	Domestic market public issue	757	Maybank, CIMB Group
13th Mar 2014	Imtiaz Sukuk II	Malaysia	Sukuk Musharakah	Domestic market public issue	304	Maybank, CIMB Group
12th Mar 2014	Rantau Abang Capital	Malaysia	Sukuk Musharakah	Domestic market public issue	305	Standard Chartered Bank, HSBC, CIMB Group
11th Mar 2014	SME Bank	Malaysia	Sukuk Wakalah	Domestic market public issue	305	Kuwait Finance House, Maybank, AmInvestment Bank
6th Mar 2014	Bumitama Agri	Indonesia	Sukuk Musharakah	Domestic market public issue	153	UOB, Maybank
4th Mar 2014	Gamuda	Malaysia	Sukuk Murabahah	Domestic market public issue	122	HSBC, AmInvestment Bank
3rd Mar 2014	Syarikat Prasarana Negara	Malaysia	Sukuk Murabahah	Domestic market public issue	610	RHB Capital, Maybank, Kenanga Investment Bank, CIMB Group
27th Feb 2014	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,500	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, RHB Capital, Natixis, CIMB Group, Commerzbank Group
20th Feb 2014	Bandar Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	455	AmInvestment Bank
18th Feb 2014	DIP Sukuk	United Arab Emirates	Sukuk	Euro market public issue	300	Dubai Islamic Bank, Citigroup, Emirates NBD, Al Hilal Bank
17th Feb 2014	National Commercial Bank	Saudi Arabia	Sukuk	Domestic market public issue	1,333	Saudi National Commercial Bank, JPMorgan, HSBC, Gulf International Bank
13th Feb 2014	Dubai Investments Park Development Company	United Arab Emirates	Sukuk	Euro market public issue	300	Dubai Islamic Bank, Citigroup, Emirates NBD, Al Hilal Bank
13th Feb 2014	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	391	HSBC, Maybank, CIMB Group
10th Feb 2014	EXIM Sukuk Malaysia	Malaysia	Sukuk	Euro market public issue	300	BNP Paribas, HSBC, Maybank, CIMB Group
28th Jan 2014	Saudi Electricity Company	Saudi Arabia	Sukuk Istithmar	Domestic market public issue	1,200	Banque Saudi Fransi, HSBC
24th Jan 2014	TNB Western Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	1,109	CIMB Group
24th Jan 2014	Pengurusan Air SPV	Malaysia	Sukuk Ijarah	Domestic market private placement	364	RHB Capital, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
22nd Jan 2014	Bright Focus	Malaysia	Sukuk Musharakah	Domestic market public issue	410	Standard Chartered Bank, Maybank
10th Jan 2014	Mudajaya Corporation	Malaysia	Sukuk Murabahah	Domestic market public issue	110	OCBC, CIMB Group
23rd Dec 2013	BGSM Management	Malaysia	Sukuk Murabahah	Domestic market public issue	2,091	RHB Capital, CIMB Group, AmInvestment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



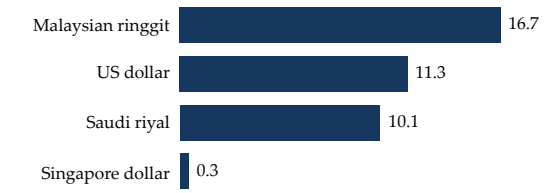
Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$(mln)	Iss(%)	Managers
1	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market public issue	4,056	10.5	Saudi National Commercial Bank, HSBC
2	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	2,500	6.5	Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank, HSBC, First Gulf Bank, RHB Capital, Commerzbank Group
3	Sadara Chemical Company	Saudi Arabia	Sukuk Musharakah	Domestic market public issue	2,000	5.2	Deutsche Bank, Riyad Bank, Al-Bilad Bank, Alinma Bank
4	Malakoff	Malaysia	Sukuk	Domestic market public issue	1,521	4.0	Maybank, CIMB Group
5	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	1,500	3.9	Standard Chartered Bank, Deutsche Bank, Citigroup
6	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	1,396	3.6	RHB Capital, CIMB Group, Maybank, AmInvestment Bank
7	National Commercial Bank	Saudi Arabia	Sukuk	Domestic market public issue	1,333	3.5	Saudi National Commercial Bank, JPMorgan, HSBC, Gulf International Bank
8	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,250	3.3	Standard Chartered Bank, HSBC, QInvest
8	Ooredoo Tamweel	Qatar	Sukuk	Euro market public issue	1,250	3.3	Deutsche Bank, HSBC, DBS, Qatar National Bank, QInvest
10	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	1,233	3.2	HSBC, RHB Capital, CIMB Group, AmInvestment Bank, Maybank, Kenanga Investment Bank
11	Saudi Electricity Company	Saudi Arabia	Sukuk Istithmar	Domestic market public issue	1,200	3.1	Banque Saudi Fransi, HSBC
12	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	1,175	3.1	RHB Capital, AmInvestment Bank, Maybank, CIMB Group
13	TNB Western Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	1,109	2.9	CIMB Group
14	DanaInfra Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	820	2.1	RHB Capital, Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank
15	Sukuk Funding (No 3)	UAE	Sukuk Musatahah	Euro market public issue	750	2.0	Standard Chartered Bank, Goldman Sachs, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank
16	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	746	1.9	Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, QInvest, Bank Alkhair, Bank of America Merrill Lynch
17	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	718	1.9	CIMB Group
18	Power & Water Utility for Jubail & Yabbu - Marafiq	Saudi Arabia	Sukuk	Domestic market private placement	667	1.7	HSBC
19	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	581	1.5	AmInvestment Bank
20	TNB Northern Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	543	1.4	HSBC, KAF Investment Bank
21	Turkiye Finans Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.3	Saudi National Commercial Bank, HSBC, Citigroup, Noor Bank
21	SIB Sukuk Co III	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, Kuwait Finance House, Al Hilal Bank
21	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	500	1.3	Mashreqbank, Standard Chartered Bank, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
21	Al Hilal Bank	UAE	Sukuk Mudarabah / Wakalah	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
25	Pengurusan Air SPV	Malaysia	Sukuk Ijarah	Domestic market private placement	473	1.2	CIMB Group, RHB Capital, Bank Islam Malaysia, AmInvestment Bank
26	Imtiaz Sukuk II	Malaysia	Sukuk Musharakah	Domestic market public issue	460	1.2	Maybank, CIMB Group
27	Bandar Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	455	1.2	AmInvestment Bank
28	Almarai	Saudi Arabia	Sukuk	Domestic market private placement	453	1.2	Banque Saudi Fransi - BSF, Standard Chartered Bank, BNP Paribas, HSBC
29	Bright Focus	Malaysia	Sukuk Musharakah	Domestic market public issue	410	1.1	Standard Chartered Bank, Maybank
30	SABB	Saudi Arabia	Sukuk	Domestic market private placement	400	1.0	HSBC
					38,484	**100**	

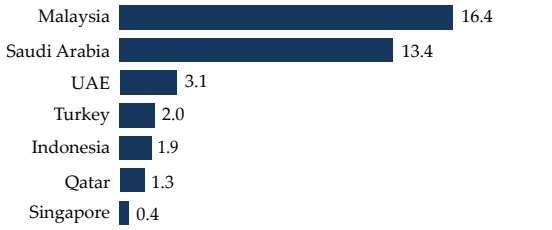
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	6,179	22	16.1
2	CIMB Group	5,887	41	15.3
3	Maybank	3,439	28	8.9
4	AmInvestment Bank	2,838	23	7.4
5	RHB Capital	2,718	34	7.1
6	Saudi National Commercial Bank	2,486	3	6.5
7	Standard Chartered Bank	2,204	15	5.7
8	Deutsche Bank	1,384	5	3.6
9	Citigroup	1,013	7	2.6
10	QInvest	741	3	1.9
11	Banque Saudi Fransi	713	2	1.9
12	National Bank of Abu Dhabi	681	6	1.8
13	Al Hilal Bank	531	7	1.4
14	Riyad Bank	500	1	1.3
14	Alinma Bank	500	1	1.3
14	Al-Bilad Bank	500	1	1.3
17	DBS	345	3	0.9
18	First Gulf Bank	338	2	0.9
19	JPMorgan	333	1	0.9
19	Gulf International Bank	333	1	0.9
21	Emirates NBD	324	5	0.8
22	Natixis	313	2	0.8
23	Dubai Islamic Bank	300	3	0.8
24	Goldman Sachs	284	3	0.7
25	Kuwait Finance House	283	4	0.7
26	KAF Investment Bank	271	1	0.7
27	Affin Investment Bank	268	3	0.7
28	Qatar National Bank	250	1	0.7
29	OCBC	241	6	0.6
30	BNP Paribas	228	3	0.6
	Total	**38,484**	**114**	**100**

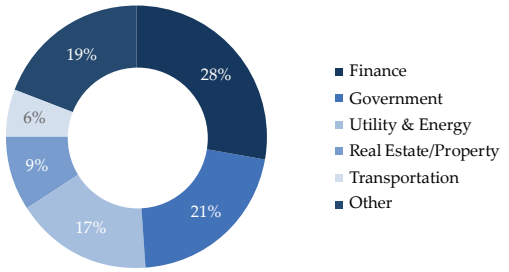
Sukuk Volume by Currency US$ (billion) *12 Months*



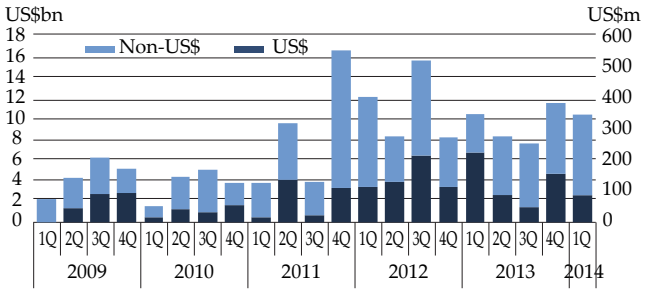
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



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

	Mandated Lead Arranger	US$ (million)	No	%
1	Public Investment Fund	674	3	15.8
2	Samba Financial Group	434	2	10.1
3	National Bank of Abu Dhabi	311	2	7.3
4	HSBC Holdings	311	2	7.3
5	Riyad Bank	291	2	6.8
6	Banque Saudi Fransi	283	1	6.6
7	Alinma Bank	281	2	6.6
8	Gulf International Bank	211	1	4.9
9	Arab Petroleum Investments	191	2	4.5
9	National Bank of Kuwait	191	2	4.5

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

	Legal Advisor	US$ (million)	No	%
1	Clifford Chance	3,794	3	33.6
2	Allen & Overy	3,065	4	27.2
3	Sullivan & Cromwell	1,494	1	13.2
3	White & Case	1,494	1	13.2
5	Baker Botts	668	1	5.9
5	Chadbourne & Parke	668	1	5.9
7	Mohammed Al Zamil & Emad Al Kharashi Law Firm	97	1	0.9

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Standard Chartered Bank	533	6	7.6
2	HSBC	439	3	6.3
3	Emirates NBD	414	5	5.9
4	Abu Dhabi Commercial Bank	397	3	5.7
5	Abu Dhabi Islamic Bank	395	3	5.6
6	Saudi National Commercial Bank	324	3	4.6
7	Dubai Islamic Bank	314	3	4.5
8	National Bank of Abu Dhabi	294	3	4.2
9	Citigroup	283	2	4.0
10	Riyad Bank	236	2	3.4
10	National Bank of Kuwait	236	2	3.4
10	Arab Petroleum Investments	236	2	3.4
13	Arab Banking Corporation	193	4	2.8
14	Barwa Bank	189	3	2.7
15	Noor Bank	187	4	2.7
16	Qatar Islamic Bank	179	3	2.6
17	Samba Capital	169	2	2.4
18	Deutsche Bank	160	1	2.3
18	Credit Agricole	160	1	2.3
20	Sumitomo Mitsui Financial Group	156	1	2.2
20	Gulf International Bank	156	1	2.2
20	Arab Bank	156	1	2.2
23	First Gulf Bank	155	2	2.2
24	Sberbank	149	3	2.1
25	Islamic Development Bank	99	2	1.4
26	Masraf Al Rayan	90	1	1.3
27	Banque Saudi Fransi	89	1	1.3
28	RHB Capital	58	2	0.8
28	CIMB Group	58	2	0.8
30	SABB	50	1	0.7
30	Al Hilal Bank	50	1	0.7
30	Ajman Bank	50	1	0.7

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

	Bookrunner	US$ (mln)	No	%
1	Emirates NBD	668	4	19.6
2	HSBC	419	1	12.3
2	Citigroup	419	1	12.3
2	Abu Dhabi Commercial Bank	419	1	12.3
5	Noor Bank	399	4	11.7
6	Standard Chartered Bank	249	3	7.3
6	Arab Banking Corporation	249	3	7.3
8	Barwa Bank	149	2	4.4
9	Al Hilal Bank	100	1	3.0
10	National Bank of Abu Dhabi	64	1	1.9

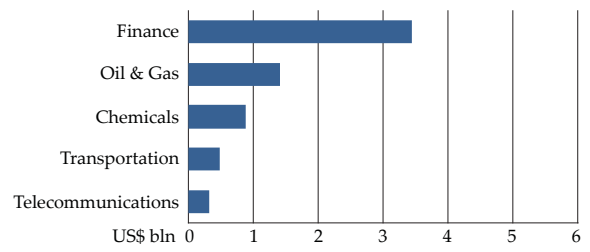
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
10th Jun 2013	ICD	UAE	1,675
5th May 2013	Saudi Aramco	Saudi Arabia	1,400
17th Jul 2013	Al Jubail Petrochemical (Kemya)	Saudi Arabia	800
18th Jun 2013	Turkiye Finans Katilim Bankasi	Turkey	502
18th Jul 2013	Albaraka Turk Katilim Bankasi	Turkey	427
23rd Dec 2013	Kuveyt Turk Katilim Bankasi	Turkey	388
2nd May 2013	Bank Asya	Turkey	383
5th Jun 2013	Gulf Marine Services	UAE	340
1st Jun 2013	Mobily	Saudi Arabia	321
26th Sep 2013	Qatar Electricity & Water	Qatar	271

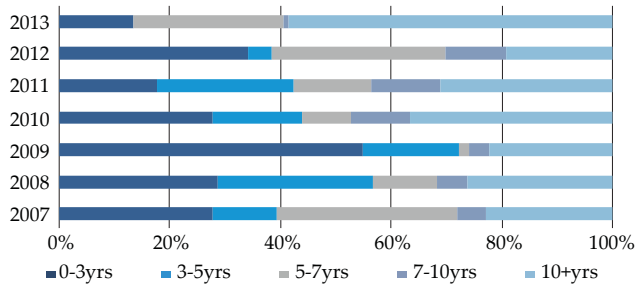
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,587	4	36.9
2	UAE	2,333	4	33.3
3	Turkey	1,700	4	24.3
4	Qatar	271	1	3.9
5	Malaysia	116	2	1.7

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

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APRIL 2014			
15th	**IFN Indonesia Forum**	**Jakarta**	*REDmoney Events*
MAY 2014			
19th - 22nd	**11th Islamic Financial Services Board Summit**	**Mauritius**	*IFSB*
26th — 27th	**IFN Asia Forum 2014**	**Kuala Lumpur, Malaysia**	*REDmoney Events*
JUNE 2014			
17th	**IFN Iran Forum**	**Tehran**	*REDmoney Events*
26th	**IFN Europe Forum**	**Luxembourg**	*REDmoney Events*
SEPTEMBER 2014			
15th – 16th	**IFN Global Forum**	**Dubai**	*REDmoney Events*
29th	**IFN Kuwait Forum**	**Kuwait**	*REDmoney Events*
OCTOBER 2014			
13th	**IFN Sri Lanka Forum**	**Colombo**	*REDmoney Events*
20th	**IFN Bangladesh Forum**	**Dhaka**	*REDmoney Events*
NOVEMBER 2014			
4th	**IFN Africa Forum**	**Abuja**	*REDmoney Events*
6th	**IFN Turkey Forum**	**Istanbul**	*REDmoney Events*
17th	**IFN Saudi Forum**	**Riyadh**	*REDmoney Events*
DECEMBER 2014			
1st	**IFN Egypt Forum**	**Cairo, Egypt**	*REDmoney Events*

Islamic Finance *news*

Managing Editor Lauren Mcaughtry
lauren.mcaughtry@REDmoneygroup.com

Contributions Editor Sasikala Thiagaraja
sasikala@REDmoneygroup.com

News Editor Nabilah Annuar
nabilah.annuar@REDmoneygroup.com

Senior Journalist & Copy Editor Vineeta Tan
vineeta.tan@REDmoneygroup.com

Journalist Rebecca Simmonds
rebecca.simmonds@REDmoneygroup.com

Contributing Editor Ellina Badri
ellina.badri@REDmoneygroup.com

Correspondents Kamal Bairamov, Shabbir Kazmi, Shirene Shan

Production Manager Hasnani Aspari
hasnani.aspari@REDmoneygroup.com

Production Editor Norzabidi Abdullah
zabidi.abdullah@REDmoneygroup.com

Graphic Designer Eumir Shazwan Kamal Bahrin
eumir.shazwan@REDmoneygroup.com

Senior Production Designer Mohamad Rozman Besiri
rozman.besiri@REDmoneygroup.com

Business Development Manager Steve Stubbs
steve.stubbs@REDmoneygroup.com
Tel: +603 2162 7800 x 55

Head of Business of Development EMEA Mohamed Maksoud
mohamed.maksoud@REDmoneygroup.com
Tel: +971 4 427 3624

Subscriptions Director Musfaizal Mustafa
musfaizal.mustafa@REDmoneygroup.com
Tel: +603 2162 7800 x 24

Subscriptions Manager Ifran Tarmizi
ifran.tarmizi@REDmoneygroup.com
Tel: +603 2162 7800 x 63

Subscriptions Accounts Manager Mithun N Gangolli (*Dubai office*)
mithun.gangolli@REDmoneygroup.com
Tel: +971 4 427 3638

Admin & Support Executive Nurazwa Rabuni
nurazwa.rabuni@REDmoneygroup.com
Tel: +603 2162 7800 x 68

Financial Controller Faizah Hassan
faizah.hassan@REDmoneygroup.com

Deputy Publisher & Director Geraldine Chan (*Dubai office*)
geraldine.chan@REDmoneygroup.com

Managing Director Andrew Tebbutt
andrew.tebbutt@REDmoneygroup.com

Managing Director & Publisher Andrew Morgan
andrew.morgan@REDmoneygroup.com

Published By: REDmoney

MALAYSIA
Suite 22-06, 22nd Floor
Menara Tan & Tan
207, Jalan Tun Razak
50400 Kuala Lumpur, Malaysia
Tel: +603 2162 7800
Fax: +603 2162 7810

UAE
PO Box 126732, 3rd Floor,
X2 Tower, Jumeirah Lake
Tower (JLT), Jumeirah Bay,
Dubai, UAE
Tel: +971 4 427 36 23
Fax: +971 4 431 4614

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