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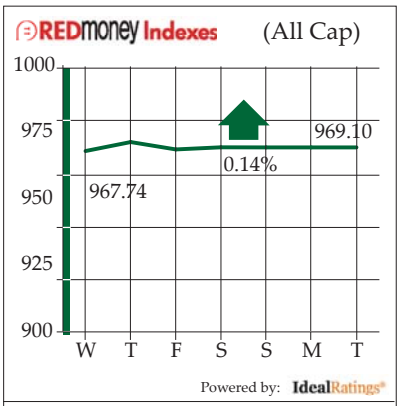

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IFN Shariah Scholars Survey: The results are in!

The position of Shariah scholars in Islamic finance is one of the most fundamental pillars of the industry and yet also one of the most controversial. The necessity of a Fatwa in every Shariah compliant transaction makes their role indisputable, yet concerns have repeatedly been raised across all segments and jurisdictions as to the perceived flaws in the current system. With little action being taken to address the situation, Islamic Finance *news* decided that it was time to face the issue head on.

Over the past two months we have conducted an extensive and exhaustive survey across the entire Islamic finance industry: using our unrivalled network and access to the market to study the opinions of experts, leaders and participants including bankers, lawyers, analysts and agencies. The comprehensive series of questions covered the entire universe of scholarly contribution to the industry and focused on the most fundamental areas of concern that over the past few years we have identified in our research.

The scholar series

Over the next four weeks, we will feature a series of reports bringing you the results of this survey – some of which may take you by surprise. We will cover the current state of the system (including its biggest problems and strongest positives) before moving on to the question of accreditation – what defines a scholar, and should they be required to hold specific qualifications? Following this we move on to the thorny issue of regulation and governance – how should scholars be regulated and how far should their influence be controlled? Do we need a global regulatory body or should each jurisdiction manage their own scholars – and if so, how can we address that most pressing of Islamic finance issues, standardization? How can we prevent a conflict of interest with scholars sitting on multiple boards – should the Malaysian method of 'one scholar, one bank' be implemented across the board, or should they be given a greater measure of freedom to conduct their own professional careers?

Finally, we will conclude with a summary of the key issues raised in the survey and our principal findings, along with a detailed analysis of the pricing of Fatwas and a summary of recommendations from the leading experts who participated in the survey.

The driving force

While few would question the invaluable contribution of scholars to our fledgling industry, many believe that concerns over their undue influence, differing standards across jurisdictions and irrationally high fees for Shariah compliant transactions are one of the biggest barriers holding back conventional players from entering the Islamic markets – and particularly, for conventional issuers to tap the Sukuk market. Market gossip and unfounded rumours achieve nothing and are good for no one, therefore Islamic Finance *news* decided that it was high time we sat down to discover what was really going on. This is not an attack on the scholars, who do a vital and valuable job: but instead an attempt to ascertain market feeling; identify the key issues and areas that must be addressed; and encourage a healthy debate on what changes are required to ensure the healthy progression and development of the industry.

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DEALS

Indonesia comes to market with US$1.5 billion dollar-denominated Sukuk

State of Osun seeks partners for its debut US$60.45 million Sukuk

Westports Malaysia makes full redemption of its US$243.93 million Sukuk Musharakah ahead of repayment deadline

Al Hilal Bank to conduct roadshow for inaugural US$500 million Sukuk next week

NEWS

Housing Development Finance Corporation launches first corporate Sukuk in Maldives

Amana Bank upgrades radiology unit of National Cancer Institute

New London-based asset management firm opening in the first quarter of 2014 will adopt both Shariah compliance and ESG Filters

Abu Dhabi actively investing in infrastructure projects across the world

Sufficient political will in the UK to fund infrastructure projects via Islamic finance, says co-chair of UK **Islamic Finance Task Force**

Abraaj Group ventures into the Moroccan pharmaceutical industry

Lack of understanding on Islam overshadows Middle East crisis as inhibitor to Islamic finance growth, says **INCEIF** CEO

Islamic syndicated financing at lowest levels since 2004

Bank of London and The Middle East looks to list on **NASDAQ Dubai**

IDB president and British foreign secretary call for support for Arab Countries in Transition

Dubai Islamic Bank partners with **Deutsche Bank** to facilitate European transactions

Masraf Al Rayan to conduct acquisition of **Islamic Bank of Britain** under cash terms only

Al Hilal Bank keen to grow net profits by more than 40% this year

Almarai Company's shareholders approve capital increase and Sukuk offering documentation during extraordinary general assembly

More banks opt for Sukuk as a means of raising capital

Bank Dhofar introduces mobile banking service

First Gulf Bank plans to trim down its consumer banking team by 10%

Liquidity is sufficient to maintain treasury bill offerings, says **Qatar Central Bank**

Oman's second fully-fledged Islamic bank to open doors at the end of the month

Major infrastructure projects in Dubai to be funded mostly through Shariah compliant financial instruments, says vice-chairman of **Dubai Chamber of Commerce and Industry**

Gulf-based banks not ready to comply with Foreign Account Tax Compliance Act

The **IDB** to launch Country Gateway Office in Turkey next week

Mashreqbank raises profit projection for 2013 by 30 percentage points on the back of lower provisions

Al Baraka Islamic Bank conducts survey to further improve products

Saudi Telecom Company sells Indonesian unit to settle US$1.2 billion debt dispute

Almarai Company's upcoming Sukuk has key differences from other issuances, says **IdealRatings**

Bahrain signs OIC's economic protocol

Al Salam Bank invests in Saudi Arabia's education sector

Ahli United Bank grants US$21.25 million in Islamic financing to Muharraq Seef Mall project

Meethaq to incorporate **Path Solutions**' Shariah compliant banking system

Al Madina Group partners with **Meethaq** for the development of Oman's fist Shariah compliant hotel

UAE corporate earnings see robust growth due to sound performance of banking sector in Dubai and Abu Dhabi

Total deposits of Qatari banks reach US$146.94 billion in the first half of 2013

BNI Syariah's eight-month profits increase by almost 100%

Jordan Islamic Bank sees 29.7% growth in half-yearly profits

European Islamic Investment Bank sees growth in assets under management for the first six months

TAKAFUL

Emirates Islamic Bank introduces auto Takaful scheme

Sun Life Financial to leverage on its Asian Takaful operators to reach global markets

Malaysian insurance space to see more M&A transactions as competition heats up

RATINGS

Fitch assigns ratings to **Ahli United Bank** Bahrain and its global subsidiaries

Fitch upgrades **Tamweel** and subsequently withdraws its ratings

Islamic International Rating Agency reaffirms **ABC Islamic Bank**'s national and international scale ratings

Fitch rates **Mubadala Development Company** at 'AA' with a stable outlook

Moody's affords definitive long-term rating of 'Baa3' to **Indonesia's** sovereign Sukuk

Fitch rates **Mashreqbank** at 'A' with a stable outlook

MOVES

Standard Chartered MENA CEO appointed as chairman of Islamic banking unit

Alizz Islamic Bank names **Saif Al Yarubi** as chief financial officer

Ithmaar Bank makes key senior appointments

IFN Shariah Scholars Survey: The results are in!

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The big issue

The results are compelling: 100% of survey respondents agreed that the current scholar system needs updating and improving. Some of the issues repeatedly raised included an absence of standardized qualifications, the limited number of scholars, a lack of good governance standards and an absence of support from the industry. However, despite these multiple issues the greatest responsibility is felt to lie with the scholars themselves. As one respondent said: "Most scholars are inclined to preserve their comfort zones and are not proactively responding to the changing needs of the industry."

Limited qualifications

"Scholars with limited banking and finance experience" were identified as one of the biggest issues troubling the industry. "There is a lack of detailed financial management expertise among the scholar community," explained a leading practitioner based in Indonesia. "This can lead to inconsistency and, at worst, bad decisions."

The absence of a recognized and required Shariah qualification was one of the most frequently raised points. According to a leading lawyer, areas of deficiency include: "A lack of financial markets or instruments knowledge; a lack of uniformity; over-reliance on necessity as a basis for Fatwas; and a lack of innovation."

A practitioner from Africa agreed that in his experience: "The problems are the lack of general culture, the lack of solid knowledge and specialization and the lack of an open mind due to the context. The absence of adaptability is also a great problem. Training must take into account the capacity of adaptation to different contexts."

However survey participants also identified a dearth of banking and finance knowledge as a factor currently preventing scholars from making informed and balanced decisions. The head of one Asian bank highlighted that: "Limited or lack of knowledge in business, commerce and banking among most scholars affects their relevance to contemporary industry issues," while the research manager of a major Saudi Arabian bank agreed that: "They need to be trained in acquiring banking skills, which many of them currently do not possess."

A lawyer from the Middle East noted that a lack of legal understanding and how it applies to the Shariah can also inhibit scholars, suggesting the provision of: "Intensive courses and training in the basic law (statutory and common law) relating to transactions, applicable regulations and market practices."

> ***"Most scholars are inclined to preserve their comfort zones and are not proactively responding to the changing needs of the"***

Over-concentration

Another issue is that of limited supply, with a well-known European academic highlighting "too few scholars" as the biggest problem currently affecting the industry, while another respondent defined the situation as: "Too few scholars chased by a growing number of industry operators."

A partner in a global consulting firm suggests however that instead of more scholars, the industry should be looking at removing the need for them altogether. He agreed that "reliance on a few scholars and individuals," is a major issue but points out that "a lot of the requirements could have been codified" to remove the necessity for them at all.

Unfortunately this is not yet the case, and the situation has reached the point where a very small number of scholars sit on multiple boards and wield undue influence over an industry whose hands are tied due to a lack of alternatives. Sheikh Abdulla Saoud Al Thani, the Qatar Central Bank governor and chairman of the IFSB, recently noted that: "With the top 50 scholars in the boards of more than 70% of Islamic financial institutions, it is clear that there is serious concentration risk of us being so heavily reliant on scholars which needs to undergo some review."

Superstar scholars

This situation has led to a dangerous reliance on 'superstar scholars' and subsequently a deeply worrying potential for conflict of interest. A Shariah supervisory board member of one Islamic bank highlighted his concerns that: "Scholars are chosen by virtue of their fame and popularity and not necessarily on the basis of their understanding of Islamic jurisprudence. The company also chooses and remunerates the board that is to regulate them – therefore creating a conflict of interest. This being the case, the standards are more skewed towards protecting the interest of the company and have continuously left out the interest of its partners."

Another respondent defined this as: "The halo syndrome" which he pointed out "does not encourage their being challenged by industry practitioners".

New blood

This is resulting in a wider problem of stagnation and a lack of innovation across the industry, and several respondents suggested that what is required to address this is an urgent injection of new blood. A senior academic from the Middle East explained that: "The current Shariah scholars are the first generation. It seems that the new generation has not come yet."

A product manager at a major international agency agreed that: "There are the 'superstar' scholars. Then there are the current students. There is no one in between. The students will obviously take some time to become experts, along with some experience down the line. There is a clear dearth of the ones in the middle who are equipped academically as well as having decent experience. Hence, the tight spread of the 'superstars' across hundreds of Islamic financial institutions, robbing the industry of innovation across markets, thereby also

continued...

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playing an acute role in stagnating the industry."

Lack of support

However, despite the serious issues the respondents also recognize that the responsibility does not rest on the scholars alone; and a lack of support from the industry is another impediment that must be addressed.

One lawyer explained that the biggest problem in his view is: "A lack of knowledge and understanding of the Islamic financial business and industry among Shariah scholars. Consequently, advice given or rulings made could be academic and may not address real issues facing the industry." However, he clarified that: "The Shariah scholars are not wholly responsible for this. Institutions referring issues to the scholars may not (and possibly often do not) provide complete details of the background to the issues. This could result in the advice given not addressing the real, practical issues." He recommended that: "Courses and training of Islamic finance professionals in basic Shariah principles would contribute to better understanding and appreciation."

An Indonesian academic also pointed out that: "The Maqasid Shariah is not well-delivered to those dealing with Islamic finance."

Inconsistency

An inconsistent understanding of the Shariah is exacerbated by a lack of consistency of interpretation across borders, with one respondent commenting that: "Disagreements across geographies does not help the global development of the sector."

The CEO of a major Islamic bank agreed that: "Significant divergences in the interpretation of Shariah law and its application to Islamic finance between jurisdictions such as the Middle East, South Asia and the Far East result in inconsistencies and lack of uniformity at a global level. This has implications on compliance risk and market/regulator confidence."

A leading global expert also raised the point that: "There is no transparency of the process globally, and no global process standards." In Saudi Arabia, for example: "Under the current system every bank appoints its own Shariah board whose members are generally common. It is better that the regulator should appoint one Shariah board and standardize the products. This will give freedom to scholars to view their opinon and not get influenced by the banks."

Strong support

Despite the varied and comprehensive concerns raised in the survey however, we also received a huge amount of support and recognition for the sterling work the scholars do, and the invaluable contribution they make to the industry.

"There is no doubting the passion and the commitment of scholars, and this has a huge motivational impact on industry practitioners," commented one respondent, while another highlighted the value of their "inquisitive and questioning minds."

Respondents also noted the contributions of individual agencies and countries in promoting progess. "The work in documenting Shariah standards by AAOIFI is commendable," said one; while "scholars in Malaysia have made significant contributions to the growth and development of the industry," said another.

A united front

It must be remembered that although there are flaws in the current system, it is incumbent upon us to work together and take responsibility as a united industry, rather than point the finger of blame at individual segments. We have a long way to go, and a lot to learn, but if we work together we have every opportunity to succeed. *—LM*

Next week we will move onto the thorny problem of accreditation and scholar qualifications, so put your thinking caps on.
If any of our readers have anything they would like to contribute in response to this article or in advance of next week's analysis, please contact **lauren.mcaughtry@redmoneygroup.com.**

DEALS

Marketing sale

INDONESIA: Indonesia has issued a 5.5-year dollar-denominated sovereign Sukuk worth US$1.5 billion at a coupon rate of 6.12%, according to Bloomberg. The yield on the paper was at the highest since 2009 as the government attempts to rescue the declining rupiah by increasing foreign exchange reserves.

Looking for partners

NIGERIA: Ogbeni Aregbesola, the governor of Osun state, has called for the involvement of investors in the West African republic's debut NGN10 billion (US$60.45 million) Sukuk.

Full redemption

MALAYSIA: Logistics company Westports Malaysia's RM800 million (US$243.93 million) Sukuk Musharakah program has been fully redeemed and subsequently terminated ahead of its maturity.

Meeting potential investors

UAE: Shariah compliant Al Hilal Bank, which is backed by the government of Abu Dhabi, will be conducting a roadshow for its inaugural US$500 million Sukuk next week in Asia, Europe and the Middle East. The Islamic tranche, which is part of the bank's US$2.5 billion debt-raising program, will be issued soon after the roadshow according to Mohammad Jamil Berro, the bank's CEO.

DEAL TRACKER Full Deal Tracker on page 29

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Al Hilal Bank	US	500 million	10th September 2013
TH Heavy Engineering	RM	51.54 million	6th September 2013
Almarai Company	SAR	1.7 billion	5th September 2013
Bank Asya	TRY	125 million	4th September 2013
Albaraka Turk Katilim Bankasi	US	200 million	4th September 2013

HDFC launches first corporate Sukuk in Maldives

MALDIVES: The Housing Development Finance Corporation of the Maldives (HDFC) launched a Sukuk Mudarabah of up to MVR50 million (US$3.2 million) on the 11th September. Based on a prospectus by the issuer, the issuance will be open to subscription on the 1st October. The HDFC is seeking to utilize the funds obtained from the auction to provide Shariah compliant mortgage financing facilities under its Islamic window, HDFC Amna.

Launched in December 2012, HDFC Amna recorded a housing portfolio of MVR29 million (US$1.86 million) in the first quarter of this year. The company was incorporated in 2004 and operates as a state-owned enterprise with a diverse shareholding comprising the government of the Maldives (49%), the International Finance Corporation (18%), the Asian Development Bank (18%) and HDFC Investments India (15%).

Subscriptions are open to any individual or corporate legal entity which is permitted to transact on the Maldives Stock Exchange (MSE), at a starting bid of MVR500 (US$32.07) per certificate and will close on the 27th November 2013. The papers hold a maturity of 10 years from the allotment date with a semi-annual profit share ratio of 65:35. The Sukuk offered will be eligible for trading on the MSE and is governed according to the laws of the Maldives. Advising on the deal is Mazlan & Murad Law Associates; together with Aishath Muneeza, the head of Islamic finance at the Capital Markets Development Authority of the Maldives and also the Maldives correspondent for Islamic Finance *news*, as the Shariah advisor. The banks involved in the transaction are Maldives Islamic Bank and Bank of Maldives, while KPMG is the deal's auditor.

The Sukuk issuance is part of the company's strategy to leverage its capital base on a broader portfolio of Islamic debt instruments, which will look to include local investors. In addition, HDFC also aims to create a secured low risk, long-term Shariah compliant investment avenue for Takaful operators, pension authorities, government and private corporations as well as members of the public.

ASIA

Social responsibility

SRI LANKA: Shariah compliant Amana Bank has extended aid in refurbishing the radiology unit of the National Cancer Institute in the city of Maharagama.

EUROPE

Best of both worlds

UK: A new London-based asset management firm operating on the basis of Shariah and ESG (environmental and social governance) principles, and complying to AAOIFI standards and UN principles for responsible investment, is slated to launch in the first quarter of next year, according to Reuters. Named Arabesque, the firm will be managed by a team led by former Barclays managing director Oman Selim and including Dominic Selwood, the former global head of Islamic products at Barclays; Alexander Kuppler, the former head of trading at DWS Investments; and Tarek Selim, the former head of structured solutions in Germany and Austria for UBS. The firm is currently seeking to fill the position of head of quantitative research.

GLOBAL

Huge investments

UAE: Abu Dhabi is planning to invest up to US$5 billion in Russian infrastructure in its capacity as a future joint-venture partner to Russia's state-backed private equity fund. Meanwhile, Abu Dhabi's sovereign wealth fund also recently invested in Australia through the acquisition of Sydney-based Tourism Asset Holdings, the owner of 31 of French hotel group Accor's hotels, for AU$800 million (US$744.22 million).

Strategic collaboration

GLOBAL: Speaking during her visit to the UAE to promote London as an Islamic finance center Baroness Warsi, the co-chair of the UK Islamic Finance Task Force, said that the positions of the UK and the UAE as financial hubs complement one another in moving the industry forward on a global scale. The baroness also affirmed that there is political will to see infrastructure projects in the UK funded fully or partially through Shariah compliant financing avenues.

Abraaj Group ventures into the Moroccan pharmaceutical industry

MOROCCO: The pharmaceutical industry in the MENA region is becoming increasingly attractive post-Arab Spring and in light of the changing geopolitical situation. According to a report published by the Economist Intelligence Unit, pharmaceutical sales in Morocco, Jordan, Egypt, Turkey and Saudi Arabia are expected to amount to a combined retail value of US$35.8 billion by 2016.

Dubai-based private equity investor Abraaj Group, which operates in growth markets, recently announced its investment in Steripharma, a Moroccan pharmaceutical company which markets and manufactures pharmaceutical products.

Abraaj, through one of its funds, will help to boost Steripharma's export capabilities to the North and Sub-Saharan Africa. The venture will also assist in the latter's growth plan of constructing a new plant to increase its production capacity.

Commenting on the transaction Ahmed Badreldin, Abraaj's senior partner and head of MENA operations, said: "Steripharma is among the best-performing sectors in Africa; the industry has been growing at a steady rate over the past few years and this momentum is expected to continue in tandem with overall economic growth being witnessed in Africa." He further explained that the strong demand in Morocco's pharmaceutical market has created the opportunity to develop high-quality GMP (Good Manufacturing Practice)-level products at an affordable price.

Abraaj has stakes in over 30 companies across the MENA region and has approximately US$7.5 billion in funds under management. In 2006, the investment firm launched a US$2 billion Shariah compliant growth and infrastructure fund due to mature in 2016.

With extensive experience in the healthcare sector, Abraaj currently has investments in nine hospitals as well as in pharmaceuticals, diagnostics, and medical devices manufacturing.

Awareness needed

GLOBAL: The president and CEO of International Center For Education In Islamic Finance (INCEIF) Daud Vicary Abdullah has opined that the Middle East crisis will not have a severe effect on the Islamic finance industry and could instead be viewed as a driver for reconstruction. The academician asserted that the negative views on Islam due to a lack of understanding remain the industry's biggest obstacle.

Record low

GLOBAL: According to Dealogic, Islamic syndicated financing for the first nine months of 2013 is at its lowest level since 2004, with just eight deals compared to 39 in the corresponding period of last year. Islamic loan volumes also saw a 57% dip this year to stand at US$7.6 billion from US$17.5 billion in September 2012. Abu Dhabi Islamic Bank is currently the most active lead arranger for Islamic syndications with a 9% market share, followed by Abu Dhabi Commercial Bank at 6.3% and Standard Chartered with a 5.3% market share.

Future listing

GLOBAL: Shariah compliant Bank of London and The Middle East will be listing 1.96 million shares on NASDAQ Dubai under the name BLME Holdings with no fresh capital being raised and no new shares being issued.

Support needed

GLOBAL: The president of the IDB Ahmad Mohamed Ali and the British foreign secretary William Hague have urged investors and development partners to provide economic support to Arab nations which are undergoing socioeconomic transformation.

Strategic partnership

GLOBAL: In order to facilitate its letters of credit into Europe, Dubai Islamic Bank has signed an MoU with Deutsche Bank which allows the former to utilize the latter's euro cross-border payment clearing solution and European trade expertise.

Cold hard cash

GLOBAL: Masraf Al Rayan, which extended the previous deadline to extend a takeover offer of Islamic Bank of Britain to the end of last month, has confirmed that should the acquisition follow through, the transaction would be conducted solely in cash.

MIDDLE EAST

Healthy projection

UAE: Shariah compliant Al Hilal Bank is positive in achieving around 42% growth in net profits to AED440 million (US$119.76 million) this year, against last financial year's AED310 million (US$84.38 million), said its CEO Mohammad Jamil Berro.

Productive meeting

SAUDI ARABIA: Dairy producer Almarai Company will increase its share capital by 50% to SAR6 billion (US$1.6 billion) from SAR4 billion (US$1.07 billion) through the issuance of 200 million shares, to bring its total number of shares to 600 million. The additional shares will be financed from retained earnings, as of the 31st March 2013. The decision was made during the company's extraordinary general assembly which also saw the approval of Sukuk documentation along with a continued pledge for shares in telecommunications firm Zain Saudi, which was recently afforded a five-year extension for the repayment on its US$2.3 billion Murabahah facility initially due in 2011.

More banks opt for Sukuk as a means of raising capital

GLOBAL: Over the last two weeks a number of major banks have come to the market stating their intentions to issue Sukuk for capital-raising purposes. The banks, spread over various markets including Turkey, Europe and the Middle East, are continuing a trend from last year which saw significant issuances from Abu Dhabi Islamic Bank, with its US$1 billion Tier 1 perpetual Sukuk; Qatar Islamic Bank, which issued US$750 million in Sukuk; and Saudi Hollandi Bank with its US$373 million domestically-placed Sukuk.

The most recent announcement came from Abu Dhabi-based Al Hilal Bank which intends to sell US$500 million-worth of Sukuk as part of its US$2.5 billion bond program. Other banks which have made similar announcements include Albaraka Turk Katilim Bankasi, which is looking to issue Sukuk worth at least US$200 million before the end of this year or early next year; and Bank Asya with a TRY125 million (US$61.78 million) issuance in the fourth quarter. Qatar Central Bank also closed two Sukuk issuances this week with maturities of five years, totaling QAR1 billion (US$274.46 million); while the most interesting deal to be announced so far is perhaps the upcoming Sukuk by one of the Eurozone's largest banking entities, Societé Générale, which will launch a RM1 billion (US$302.69 million) Sukuk by the end of this year — making it the first French bank to issue in Malaysia.

It is evident from the spate of banks coming to the Islamic capital market that capital-raising exercises are ramping up as part of the agenda to fulfill Basel III requirements. However, it also begs the question as to why banks would choose to issue Sukuk over other usual funding sources such as commodity Murabahah, or using proprietary assets or financing portfolios as a means of raising capital. Speaking to Islamic Finance *news* a Malaysia-based lawyer familiar with structuring Sukuk for banks looking to increase capital said: "The main reason banks issue Sukuk for capital-raising is to gain a certain profile; and they are usually looking to signal something to the market such as the ability to obtain liquidity from that specific market. Banks such as Societé Générale for example, have chosen Malaysia as the jurisdiction to issue because the Malaysian market is generally more active in terms of trading compared to the Middle East markets in which investors usually hold the paper to maturity.

"The assets have to satisfy certain capital requirements and are usually meant for Tier 2 capital. Based on the upcoming Basel III requirements, banks are only allowed to derive funds from certain sources, and have to fulfill requirements such as being low risk, guarantee a certain level of returns, and pay out certain forms of redemption over a certain period. This however depends on central banks across different jurisdictions. In Malaysia for instance, Basel III is already embedded in the capital requirements for banks in Malaysia," he added.

Other banks that have announced their intentions to issue Sukuk this year but have not revealed a definitive timeline or amount as yet include Barwa Bank in Qatar, Russia-based VTB Bank, Qatar Islamic Bank and Al Baraka Islamic Bank.

Keeping up with technology

OMAN: Bank Dhofar, which operates Maisarah Islamic, has launched its mobile banking platform which allows customers to conduct banking transactions, utility payments and mobile top-ups among others.

Workforce reduction

UAE: While Islamic window operator First Gulf Bank recently announced that it is expanding its investment banking operation team, the bank is also looking to restructure its consumer banking operation by letting go 10% (or 300 people) of its staff from its credit card and bancassurance units in an attempt to reduce operational costs.

Not hindered

QATAR: Despite a lack of demand for treasury bills due in part to tightening market liquidity brought about by the Syria crisis, Qatar Central Bank will not reduce its treasury bills offering and will continue to auction QAR4 billion (US$1.1 billion)-worth of debt every month.

Anticipated entry

OMAN: Alizz Islamic Bank is due to be fully operational on the 30th September following its soft launch on the 15th September. The bank joins Bank Nizwa as Oman's second fully-fledged Islamic bank.

Infrastructure finance

UAE: Hisham Abdullah Al Shirawi, the second vice-chairman of Dubai Chamber of Commerce and Industry, has highlighted that infrastructure projects in the emirate, including the expansion of the Dubai Metro and the construction of Dubai World Central, would be part-funded through Islamic financing facilities; particularly Sukuk.

Reluctant compliance

UAE: The chairman of UAE Banks Federation, Abdulaziz Al Ghurair, has suggested that UAE-based banks are not ready and are reluctant to implement the Foreign Account Tax Compliance Act (FATCA) as it would cost them at least AED100 million (US$27.22 million) to implement the infrastructure needed to comply with the regulation. Designed to reduce incidents of offshore tax avoidance by Americans, FATCA requires foreign banks, insurance operators and investment funds to send information of US citizens' offshore accounts worth a minimum of US$50,000 to the US Internal Revenue Service.

Showing support

TURKEY: The IDB will be launching its first Country Gateway Office in Turkey next week as part of its pledge to support Turkey's sustainable development initiatives via Islamic banking and finance.

Improved forecast

UAE: Mashreq Bank, which conducts Islamic banking operations, has raised its expectation for profits this year to 40% from 10-15% due in part to lower provisions, according to the Abdulaziz Al Ghurair, the bank's CEO.

Constructive feedback needed

BAHRAIN: As part of its strategy to expand its customer base Al Baraka Islamic Bank, in partnership with Ernst & Young, has launched a customer satisfaction survey to gauge customer sentiments and receive feedback.

Reaching a resolution

SAUDI ARABIA: Saudi Telecom Company (STC) has decided to sell its Indonesia arm Axis Telecom in a bid to restructure the US$1.2 billion financing procured by the subsidiary. Through the sale, STC will make a 90% repayment of the debt to its creditors including HSBC Holdings, Deutsche Bank and Citigroup.

Major highlights

SAUDI ARABIA: While the upcoming hybrid Sukuk by dairy firm Almarai Company may be similar to previous issuances in Saudi Arabia, IdealRatings has highlighted the significant and pioneering developments offered by the deal: including the appointment of a Shariah auditor six months following its issuance to monitor the performance of the Mudareb under the Mudarabah contract, which is believed to increase investor confidence in the Islamic bond's compliance to Shariah principles. While the Tawarruq component of the Sukuk complies partially with AAOIFI standards, no underlying commodity was mentioned in the offering circular.

Protocol adopted

BAHRAIN: The Ministry of Finance has signed and ratified two agreements in the OIC's Rules of Origin for Trade Preference System protocol, which includes the creation of regulations for economic cooperation between OIC states.

Al Salam Bank invests in Saudi Arabia's education sector

SAUDI ARABIA: In a filing to the Bahrain Bourse, Shariah compliant Al Salam Bank announced its acquisition of an equity stake in Riyadh-based Education Experts Company (EEC), one of the fastest-growing education institutions in the kingdom, as part of an increased focus by the Bahrain-based Islamic lender on the Saudi Arabian market.

Commenting on the transaction Talal Al Mulla, the bank's chief investment officer, noted that the transaction is the first of its kind. Expressing his confidence in the acquisition, he said: "The bank's partnership with EEC would result in consummating many opportunities in the region with acceptable risk-adjusted returns to Al Salam and its investor base."

Yousif Abdulla Taqi, the director and CEO of Al Salam, further stated that the Saudi government has demonstrated its support towards education over the last five decades, having allocated a substantial amount of the kingdom's annual budget for the sector.

There are currently a total of 34,749 schools, 24 universities and 508 affiliated education institutions in Saudi Arabia. The Education Ministry placed in motion a 10-year strategic plan in 2004, with SAR204 billion (US$54.38 billion) currently put towards the sector; an increase from SAR105 billion (US$27.99 billion) in 2008.

Established in 2011, EEC is a national company with several subsidiaries that provide educational training, research and counselling for individuals and institutions. The company also manages training facilities as well as organizes conferences and seminars for educational purposes.

Financing procured

BAHRAIN: Ahli United Bank has extended the developers of Muharraq Seef Mall a US$21.25 million Shariah compliant financing facility to part fund the construction of the shopping complex.

Investing in tech

OMAN: Bank Muscat's Islamic window, Meethaq, has signed into an agreement with Path Solutions whereby the former will incorporate the latter's iMAL Islamic banking system.

Shariah compliant hospitality

OMAN: Al Madina Group has signed three agreements with Meethaq, the Islamic banking window of Bank Muscat, for the construction of Grand Millennium Muscat Hotel, the sultanate's maiden Shariah compliant five-star hotel, and an integrated residential and commercial complex in Al Hail.

RESULTS

The UAE

UAE: Dubai registered a hike in corporate earnings to US$2.1 billion in the first half, marking a 28.2% year-on-year accretion which was attributed to the banking and construction sector. Emirates NBD, Mashreq Bank and Dubai Islamic Bank recorded profit increases of 40.3%, 40.1% and 26.1% respectively. On the other hand, Abu Dhabi saw a 5% year-on-year growth in corporate earnings to US$4.7 billion for the first half of the year due to the 14.4% year-on-year growth, or US$2.8 billion, in banking earnings. National Bank of Abu Dhabi, First Gulf Bank, Abu Dhabi Commercial Bank and Union National Bank were among the top gainers registering earning hikes of 25.6%, 13.4%, 11.5% and 5.7% respectively.

Qatari banks

QATAR: The total deposits of banks in Qatar reached QAR535 billion (US$146.94 billion) in the first half of 2013, an increase of 41%, said the governor of Qatar Central Bank.

BNI Syariah

INDONESIA: State-owned BNI Syariah has reported that its profits from January to August almost doubled to IDR77.85 billion (US$6.82 million) from IDR39.47 billion (US$3.45 million) the previous year.

Jordan Islamic Bank

JORDAN: Jordan Islamic Bank recorded post-tax net profits of US$34.7 million for the first half of the year, marking a 29.7% growth from the corresponding period last year.

European Islamic Investment Bank

UK: European Islamic Investment Bank reported a total of US$1 billion in assets under management for the period ending the 30th June 2013 from US$922 million in December last year. The bank's total operating income stood at GBP3.6 million (US$5.69 million), marking a loss of GBP30,000 (US$47,442.3) against the same period last year.

TAKAFUL

Auto Takaful plan

UAE: Emirates Islamic Bank has launched a Takaful plan offering coverage for automobiles. The solution, which is provided by Dubai Islamic Insurance & Reinsurance Company (AMAN), will be offered at a minimum annual rate of 2.3%.

Aiming for growth

GLOBAL: Canadian life insurer Sun Life Financial aims for its Takaful units in Malaysia and Indonesia to form a hub for Islamic insurance in the region, said Kevin Strain, the president of Sun Life Financial Asia. And while the insurance company is focusing on strengthening its newly-acquired Takaful business in Malaysia, Strain is open to the possibility of establishing an asset management firm in the Southeast Asian country in the future.

Changing landscape

MALAYSIA: Following the central bank's move to make it easier for foreign insurance operators to own stakes in local companies, the insurance sector has seen an increase in M&A activity and this is likely to continue, according to Alex Low, the chairman of Malaysian Insurance and Takaful Brokers Association.

The industry is also expected to see heightened competition among operators as regulators push to abolish taxes in the market by 2016, said Kong Shu Yin, the deputy chairman of General Insurance Association of Malaysia.

RATINGS

Ahli United rated

GLOBAL: Bahrain-based Ahli United Bank has been assigned a long-term issuer default rating (IDR) of 'BBB+' by Fitch while its viability rating has been downgraded to 'bbb' from 'bbb+'. The IDR for the bank's units in Kuwait and UK have also been affirmed at 'A-' and 'BBB+' respectively. The IDRs carry a stable outlook.

Ratings withdrawn

UAE: Property developer Tamweel's long-term issuer default rating (IDR), short-term IDR and support rating have been withdrawn following its upgrade by Fitch to 'A' from 'BBB+', 'F1' from 'F2' and '1' from '2', respectively. The firm's senior unsecured long-term rating of its guaranteed Sukuk issued by Tamweel Funding III has also been rated 'A'.

Bank reaffirmed

BAHRAIN: ABC Islamic Bank's respective national and international scale ratings of 'A+/A-1' and 'A-/A-2' have been reaffirmed by the Islamic International Rating Agency with a stable outlook.

Stable ratings

UAE: Mubadala Development Company's long-term issuer default rating (IDR) and senior unsecured rating have been rated 'AA' by Fitch while its short-term IDR has been assigned a rating of 'F1+'. The long-term rating carries a stable outlook. Mubadala is the investment arm of the government of Dubai.

Definitive rating

INDONESIA: Government-owned entity Perusahaan Penerbit SBSN Indonesia III's sovereign Sukuk issuance has been assigned a definitive long-term rating of 'Baa3' by Moody's with a stable outlook

'A' rating

UAE: Mashreqbank's long-term issuer default rating (IDR) has been assigned an 'A' rating with a stable outlook by Fitch.

MOVES

Standard Chartered Saadiq

GLOBAL: **Christos Papadopoulos**, the CEO of Standard Chartered's MENA operations, has been appointed as the chairman of its Islamic banking unit, Standard Chartered Saadiq.

Ithmaar Bank

BAHRAIN: **Ravindra Khot** has been appointed as the chief operating officer of Ithmaar Bank, while **Tawfiq Mohammed Al Bastaki** has been elected its chief risk officer and general manager for risk management and **Maysan Faisal Al Maskati** as the Shariah compliant bank's assistant general manager and head of asset management.

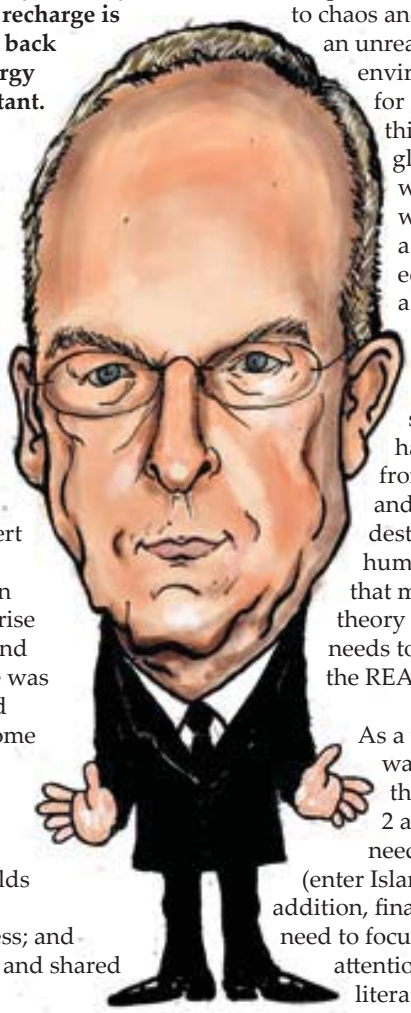
Alizz Islamic Bank

OMAN: **Saif Al Yarubi** has been appointed by Alizz Islamic Bank as its chief financial officer. Prior to joining the bank Saif was the finance director at sovereign wealth fund Investment Corporation of Dubai.

Daud speaks

By Daud Vicary Abdullah

I must admit that it is nice to be back at work after a fairly intensive period during Ramadan followed by a family holiday. Getting a battery recharge is always useful and coming back to work with renewed energy and vigor is always important. During the coming month I shall be travelling to Turkey, the UK and Bangladesh and I look forward to sharing those experiences with you in next month's article.



In the meantime I would like to share some thoughts that came to me while listening to a discourse on ethics in the current global economy between a well-versed expert in Islamic finance and the former head of the Anglican Church. It came as no surprise to me that in broad terms and indeed in specificities there was considerable alignment and agreement. In particular, some back-to-basics points were made at the outset of the discussion:

1. Money is sterile and holds no value in itself;
2. Resources are not endless; and
3. Risk cannot be avoided and shared risk is very ethical.

Fundamental and absolutely true!

The discussion then centered on toxicity, which was described as a forgetfulness of relationship and trust, which leads to chaos and the creation of an unreal and artificial environment. No prizes for guessing that this ties back to the global financial crisis where the focus was on a paper or a computer screen economy, rather than a REAL ECONOMY. Both discussants bemoaned the fact that the financial services industry had become detached from the real economy and that this has had a destructive effect on all humanity. It was agreed that modern economic theory and economics needs to be reconnected to the REAL WORLD.

As a way forward there was agreement that the principles of 1, 2 and 3 mentioned need to be reintroduced (enter Islamic finance). In addition, financial institutions need to focus a good deal more attention on producing literate citizens in the managing of global economic resources for the benefit of the REAL ECONOMY. Financial inclusion is absolutely vital and a measure of this would be to ensure that every member of society can participate.

> ***"It is not just a case of corporate social responsibility conscience money"***

It is not just a case of corporate social responsibility conscience money, but the urgent need to rebuild a more trustful and participatory society. Our industry needs to have a very clear view of what kind of human life we want to see as a result of our economic activity.

I make no apology for bringing this BACK to BASICS approach as a theme for this article. Our industry and the broader financial services industry must make a fundamental realignment in order to get back to the REAL PATH. I, for one, believe that it can be done — and that Islamic finance will be the torch that lights the path.

Never before has there been so much to do and with not a moment to lose.

SHARIAH PRONOUNCEMENT

Query:

An Islamic bank has issued a letter of credit which had a usance period of 90 days. The bank also agreed with the customer to finance the import under the letter of credit through Murabahah for a further 90 days (i.e. to allow an additional 90 days upon completion of supplier's credit of 90 days).

Upon the arrival of the documents from the supplier's bank, the customer signed a Murabahah agreement with the bank which stipulated that the customer would pay the Murabahah sale price 180 days from the date of signing the Murabahah agreement.

After few days, the customer requested the bank to pay the invoice amount to the supplier after 30 days instead of 90 days, i.e. reducing the usance period to make it 30 days. The customer has also offered to increase the Murabahah amount to compensate the bank for early payment.

Shariah guidance is sought on how to deal with this situation.

Pronouncement:

It is important to note that although calculation of Murabahah sale price – including the bank's profit – may be based on the cost incurred by the bank in acquiring the goods, there is no link between when the payment is to be made by the bank to the supplier and the payment date of Murabahah sale price by the customer to the bank. It means that variation in payment terms of one of them does not lead to any change on the other.

The bank may agree at its own discretion to pay the purchase price to the supplier before the agreed date (i.e. prior to completion of the usance period), provided that no change in the bank's purchase price shall be obtained on account of making early payment. This is because of the fact that upon concluding the deferred contract, the purchase price becomes a debt on the buyer (i.e. the bank), which must not be increased or decreased due to a change in payment terms since it will be tantamount to interest.

As regards to the customer's offer to increase the Murabahah amount due to payment to the supplier made by the bank earlier than agreed, the following Shariah guidance should be carefully noted:

a. In case the customer does not want to change the Murabahah payment date - which is in our example the 180th day from the date of signing the Murabahah agreement - and agrees from his side to increase the Murabahah sale price in order to compensate the bank for the longer financing period (150 days instead of 90 days), the bank will not be able to increase the Murabahah sale price for the reason mentioned above.

b. However, in case the customer agrees with the bank to change the Murabahah payment date to make it the 90th day from the new payment date to the supplier, i.e. after 120 days from the date of signing the Murabahah agreement, the bank may agree on the same so long as there will be no change in the Murabahah sale price. This will require the signing of a simple addendum by the bank and customer to the Murabahah agreement amending the Murabahah maturity date.

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

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Qatar Islamic banks pulling ahead

Due to strong government backing, a healthy underlying economy and powerful fundamentals, Qatar's Islamic banking industry is now one of the fastest-growing in the world. Assets are expected to almost double to US$100 billion by 2017 from US$57 billion at the end of 2012, making it the third-largest market in the region after Saudi Arabia and the UAE; and the sector is currently growing even faster than the conventional sector. However, doubts are now being raised as to the sustainability of such a rapid pace.

Islamic Finance *news* brings you a sneak preview into a new report from S&P on the sector, which focuses on the efforts by the Qatar government to make the country a center for Islamic banking.

With a surge in demand for local credit to finance massive upcoming state and infrastructure projects, the positive prospects for Qatar are hardly breaking news. However, the report warns that with a very small bankable population this growth could wane once the infrastructure activity slows down, and banks may have to look to overseas opportunity to sustain momentum.

Islamic banks currently hold a quarter of the country's total banking system, up from 13% in 2006, and this ground has been gained at the expense of conventional banks (following the 2011 ban on windows). Between 2006 and 2012, Qatar's Islamic banks grew their domestic loans and resident deposits by an average compound growth rate of 46% and 40%, respectively, versus 31% and 23% for the entire banking system.

"Most conventional banks except Qatar National Bank lost market share to the Islamic players over the past few years, thanks to Qatar National Bank's key role in financing government infrastructure and investment projects. At the same time, the other large conventional banks have faced significant competition from the Islamic banks," notes the report.

Qatari Islamic banks have however been slow to enter the debt capital markets, with only two Islamic banks (Qatar Islamic Bank and Qatar International Islamic Bank) so far issuing Sukuk, and the report also warns that: "The contractual maturity of the deposits collected by the Islamic banks is very short term, whereas the lending tenors are substantially longer," which has also inhibited capital market growth.

However, this may change in the near future as funding and liquidity requirements under Basel III will drive the Qatari Islamic banks to tap the debt capital markets more actively over the next few years and raise longer-term funding, which will have the added benefit of diversifying their funding profiles.

Yet with a total banking system already worth around US$240 billion and a bankable population of less than 2 million (of which a sizeable proportion are expats and migrant workers), domestic growth is inevitably limited. It seems as if Qatari conventional banks have already recognized this, and in the last year we have seen several overseas acquisitions in countries such as Turkey and the UAE. S&P warn that: "We see a possibility of Qatar's Islamic banks taking a similar approach in the long-term, once the credit growth in the country slows to visibly lower levels."

This is vital as at the moment, the sector has a worryingly high domestic concentration. Islamic banks' credit outside Qatar (as of July 2013) stood at just 6.3% of their total credit stock, or 4% of total Islamic banking asset base. Total foreign assets for Islamic banks stand at just 8.3% of their total balance sheet assets, compared to around 20% for the conventional sector. The banks also have high levels of restructured exposures and overdue amounts (largely due to the project-intensive nature of lending in the country) and S&P note concern that the government support of the banking sector could distort the real picture of the sector's overall health and strength.

Nevertheless, the future remains positive. Fast-paced credit growth, strong margins and low credit losses have led to strong performances and healthy capitalization and funding and liquidity metrics: and the report confirms that this looks set to continue for at least another two years. — *LM*

Barclays looks to become Africa's "Go-To" bank

Following the listing of Barclays Africa Group on the Johannesburg Stock Exchange last week, there are high hopes for the bank whose roots reside in the UK, to become the preferred banking provider to the African continent. The listing is a result of a deal which was proposed to investors at the end of last year which saw Absa bank, a South African success story which has a network spanning Mozambique, Tanzania, Namibia, Nigeria, Botswana and Zambia, buying into Barclays Africa for ZAR18.3 billion (US$1.86 billion) via a share swap of 129.5 million shares, bringing Absa's stake in the bank to 62.3%.

The deal, which was concluded in the first week of September was relatively quick in banking merger terms, and was not very far off the mark of the initial deadline of June 2013. According to the company's investor prospectus, the merger was mobilized to capitalize on Absa's reach across Africa and Barclays' expertise, and is a key step in realizing Barclays' One Bank in Africa ambition. It is also expected to diversify the bank's earnings, significantly increasing its Africa contributions and Absa's earnings growth prospects. As at the end of 2011, revenue contributions from Africa towards Barclays, which was then operating as a standalone entity in the region, was significant; with GBP1.3 billion (US$2.06 billion) in revenue originating from Africa alone, compared to GBP5.9 billion (US$9.38 billion) from global markets. In the first half of 2012, Barclays Africa charted revenues of ZAR7.75 billion (US$787.71 million).

> *"Outside of the UK and US, Africa has contributed to more than 10% of Barclay's 2013 first half profits"*

The new business strategy post-merger will encompass corporate and investment banking, bancassurance and retail and business banking, under a leveraged combined operating model. Under the retail and business banking, Islamic banking and agri-business are among the bank's key focus. The new merged entity is expected to benefit from Barclays Africa's geographical diversity, strong revenue — top four in seven countries, strong balance sheet and follow the same policies and procedures for risk governance as Absa.

With more global banks increasing their focus on the African continent, such as Standard Chartered which has expanded its Saadiq brand into high Muslim population countries of Africa, and Al Baraka Islamic Bank which has had a longstanding foothold in the continent, Barclay's merger with Absa, which has an Islamic banking window, is expected to be crucial to the bank's long-term growth strategy. Outside of the UK and US, Africa has contributed to more than 10% of Barclay's 2013 first half profits and post-merger, the enlarged Barclays Africa portfolio if taken into consideration, would have added 19% to the banking group's first half earnings. – *NH*

M&A: Yay or nay?

There have been talks of Dubai Islamic Bank and Emirates Islamic Bank possibly making a move to acquire a stake in Noor Islamic Bank, which is 45%-owned by high net worth individuals with the remaining 50% and 5% respectively owned by the Dubai government and the UAE sovereign wealth fund Emirates Investment Authority. While Islamic Finance *news* has confirmed with one of the banks that these hearsays are merely rumors, such a prospect nonetheless highlights the increasingly vibrant M&A space of late.

As compared to 2009 when Islamic M&A deals were down almost 50%, this past year we have seen the arena pick up pace in terms of institutions expressing their interest in merging; from BMI Bank and Al Salam Bank in Bahrain, to BIMB Holdings and Bank Islam in Malaysia.

"In the banking sector in general, including Islamic banking, there is always scope for consolidation. The larger institutions have muscles, they have more critical mass and they have a higher capacity to lend with better capital which is appealing to other smaller institutions," a Dubai-based banker told Islamic Finance *news*. While consolidations are generally viewed positively by the industry as it allows smaller players achieve bigger scale and obtain a competitive advantage as they leverage on larger entities' liquidity, infrastructure and expertise, this could also nonetheless signal a less than optimistic market condition.

"The market is becoming ever more competitive," says a source. "With so many players in the market, and [the market] mostly dominated by longstanding international players, many GCC banks will need to merge to compete with the international banks to stay ahead of the game." With the remnants of the 2008 financial crisis still hanging in the air and a relatively silent Islamic financial market this time of the year, the oversaturated Shariah compliant landscape may see more M&A deals in the near future as smaller regional players no longer find it feasible to operate independently. –*VT*

Turkey: An appetizing investment opportunity

A new report confirms that Turkey is the place to be right now. The recently-released Turkey Infrastructure Report from Business Monitor notes that despite short-term growth being dented by social unrest and macroeconomic problems, the country still expects a year-on-year growth of around 6% – making Turkey one of the most attractive investment destinations in the world.

In particular, the rail sub-sector is expected to be a strong performer, with a big boost expected due to planned privatizations and the break-up of national rail operator TDCC. Chinese investment is already pouring into the country and is expected to fund the construction of a new US$35 billion 700km high-speed train line from Edrine to Kars as well as the final rail link between Istanbul and the capital, Ankara.

The contract for the country's third airport, expected to be the world's largest upon completion, was in May this year awarded to Turkish consortium Limak Holdings for a record US$22 billion, while road infrastructure growth is expected to average 7.3% between 2013-17. Turkey is also privatizing its power and energy sector, which should see opportunities for large investment, with two new nuclear power station contracts already awarded and a third in the pipeline; and the sector is expected to see growth of almost 8% over the next five years.

> *"The state urban regeneration plan is expected to attract foreign investment of up to US$500 billion over the next decade"*

The healthy construction sector also looks to be riding out the European debt crisis well, although the report warns that downside risks still exist, with "structural flaws in the domestic pension and banking sectors making project financing difficult, along with the increasingly high cost of credit". Nevertheless despite the tough business environment construction did not appear to slow and a healthy project pipeline has allayed concerns, with sector growth of around 5.3% forecast for the period 2013-22. After a challenging 2012 growth in both the residential and non-residential real estate sector is expected to pick up, and with the privatization of the healthcare system there are also considerable opportunities in this sector with numerous hospital tenders coming onto the market. In addition, the state urban regeneration plan is expected to attract foreign investment of up to US$500 billion over the next decade, while the country is also in the process of developing a new Istanbul Financial Center.

While Turkey is a late entrant into the Islamic banking arena and has been slow to expand its domestic banking sector or enter the debt capital markets, this is rapidly changing as both the government and participation banks issue Sukuk, new licenses are expected to be forthcoming and overseas banks demonstrate strong interest in the country.

The UAE is currently the most active GCC investor in Turkey, accounting for 56% of all GCC foreign direct investment into Turkey between 2004-11 according to data recently released by National Commercial Bank.

With such a mouthwatering spread, however, it surely won't be long before more hungry mouths come to the table. — *LM*

Saudi Arabia remains in healthy position as the driving force of the GCC

RAM Ratings recently conducted a country assessment on Saudi Arabia's fiscal position. According to the report, as the world's largest oil producer and the driving force of the GCC and the Organization of Petroleum Exporting Countries (OPEC), the kingdom has a healthy balance sheet with a 3.6% debt-to-GDP ratio in 2012. This has significantly decreased from 79.5% recorded in 2003. Saudi Arabia currently holds the third-largest foreign reserves in the world, worth US$600 billion, after China and Japan.

The kingdom's economic performance is underpinned by its large oil and gas reserves. Though unemployment rate remains at a high level, the government has mobilized many initiatives including the allocation of up to SAR204 billion (US$54.38 billion) in the yearly budget for education purposes. The growth of its non-oil sector on the other hand, is driven by the increasing number of infrastructural projects. This year, the Saudi government has allocated US$7 billion for water and electricity projects. According to the Kuwait Financial Center (Markaz), this amount is expected to reach US$133 billion over the next 10 years. The monetary policy of the country in maintaining a fixed exchange rate between the Saudi riyal and US dollar will also remove exchange rate volatility and manages inflation.

Saudi Arabia has a strong external position supported by considerable oil exports and vast foreign reserves. In addition the kingdom, which is governed by Islamic law, possesses a stable political environment. Several progressive reforms have recently been implemented in the country such as the allocation of 20% of parliament seats to women. A legal body called the 'Allegiance Council' has also been formed in order to decide on the successor to the kingdom's throne. Based on the World Bank's 'Worldwide Governance Indicators', Saudi Arabia also provides a stable business environment, with a moderate level of government efficiency, control of corruption and political stability. By virtue of the Foreign Investment Act passed in 2000, RAM believes that the kingdom is more open to foreign investors compared to its regional peers. — *NA*

Morocco: The African center of Islamic finance?

Following the formation of the new government in January 2012 with a reformed constitution and more power to the parliament, the ruling PJD party is seemingly keen to revive efforts to introduce Islamic finance in Al-Maghrib, the kingdom of Morocco. SYED SIDDIQ AHMED explores.

Legal and regulatory: Morocco has been one of the few countries to emerge relatively unscathed following the Arab Spring, perhaps in part due to some smart moves such as constitutional reforms and the ceding of selective powers to its people in the first few months following the crisis. Thus far there have also been several moves by the industry to introduce Islamic finance in Morocco: for instance in 2007 when the central bank, Bank Al-Maghrib (BAM) issued a circular allowing banks to market three Islamic banking products as alternative products; and in 2009 when double registration tax on properties was withdrawn for alternative products and value added tax was reduced from 20% to 10%. In 2010 there were also amendments made to Law 33-06 on securitization, designed to facilitate Sukuk structuring.

At present, the market is awaiting the publication of a revised banking law that is pending ratification by the Moroccan parliament. The law, which was drafted by the special committee under the supervision of the Ministry of Finance and BAM, will include a full chapter on Islamic banks: defining terms of reference and establishing the agency in charge of providing licenses and mechanisms of financial control over these banks.

According to the Moroccan minister of general affairs and governance, Najib Boulif, the Islamic finance bill is expected to come into force by early 2014, following a revised draft law issued in August 2012 for participatory banking activities. Articles 52 to 73 of the amended Law 34-03 refers to setting up individual Shariah boards at the banks and Shariah committee at the central bank level. Takaful regulation is also expected to be covered in the bill. Authorities have indicated that they will issue limited licenses to carry out Islamic banking in the initial stages. Foreign Islamic banks will be limited to 49% shareholding in the banks. The efforts of Faisal Islamic Bank Group's chairman, Prince Mohammed Al Faisal Al Saud, to expand Islamic banking in Morocco were welcomed by prime minister Abdelilah Benkirane in April 2013.

Business environment: In the early 1990s there were attempts to set up participative banking operations (OBP) by unlicensed institutions, albeit with little success. Managed by Wafa Gestion, a subsidiary of Attijariwafa Bank, the Attijari Moucharaka fund was launched in November 1996 as the first Shariah compliant fund listed on the Casablanca Stock Exchange. Although without formal Shariah approval, the fund has due diligence checks to ensure its Shariah compliance. The fund invests in areas such as telecommunications, real estate, retailing and food industries and held assets under management (AUM) of MAD111.42 million (US$13.3 million) as of August 2013. Currently three local banks also offer limited personal Islamic financing products. Despite the publication of the 2007 circular, however, there remain many obstacles for the participatory banking industry: such as fiscal and regulatory impediments, expensive products, lack of awareness, untrained staff and the absence of Shariah boards and expertise.

With a view to the impending enactment of the Islamic banking law, four Islamic banks from Kuwait, Bahrain, Qatar and Saudi Arabia submitted applications to BAM in late 2012 for licenses to operate in Morocco. Qatar International Islamic Bank (QIIB) and Faisal Islamic Bank are among those seeking to enter the Moroccan Islamic finance space. In April 2013, Malaysia's INCEIF signed an MoU with the Université Internationale de Rabat (UIR) for the development and expansion of Islamic finance in academic, professional, research and publication areas.

Opportunities: Strategic geographical location and deep trade relations with developed European nations together with trade affinities with the Arab world give Morocco an edge in the Islamic finance space. With huge oil liquidity in the Middle East, Shariah compliant investment opportunities in Morocco will provide ample space to park funds. Considerable infrastructure development offers opportunities for Islamic project finance and Sukuk issuance; while Morocco's growing economy could also create possibilities in the Islamic venture finance sector. The Casablanca Stock Exchange has shown considerable interest in Shariah compliant securities, and there is said to be strong demand from the Moroccan population (which is 99% Muslim) for Islamic banking products and services.

With many European companies, banks and industrial organizations setting up businesses in Morocco, the country can also act as a bridge for the proliferation of Islamic finance in Europe. The new government has already taken some bold steps like substantially increasing fuel prices; and with reforms gradually taking shape it is to be hoped that Islamic banking, Takaful, Shariah compliant funds and other areas will see strong growth.

Challenges: The conventional banking stakeholders have shown resistance to the accommodation of Islamic finance due to fears of losing their position in the market. It remains to be seen how the amended laws are assimilated and how the challenges of compatibility and acceptance are handled by the industry. Unlike the previous attempt, the renewed regulations must ensure that Islamic products are price-competitive, marketable and clearly Shariah compliant.

A shortage of adequately trained human capital may pose a considerable challenge to the kingdom's endeavors. The government, despite having taken certain concrete steps, is still a coalition of three major parties; and Shariah-sensitive matters such as Islamic finance will need careful maneuvering if they are to be universally accepted.

Outlook: With a strong legal and regulatory infrastructure backed by a developed financial sector and competent human resources, there is little doubt that legislative approval of the new law for Islamic finance will open up huge opportunities for the country. Given the new government's firm commitment to the development of Islamic finance, Morocco with its potential strengths looks set to become one of major players in the Islamic finance industry in Africa and worldwide.

Breaking the mould: Exploiting the full potential of Islamic securitization

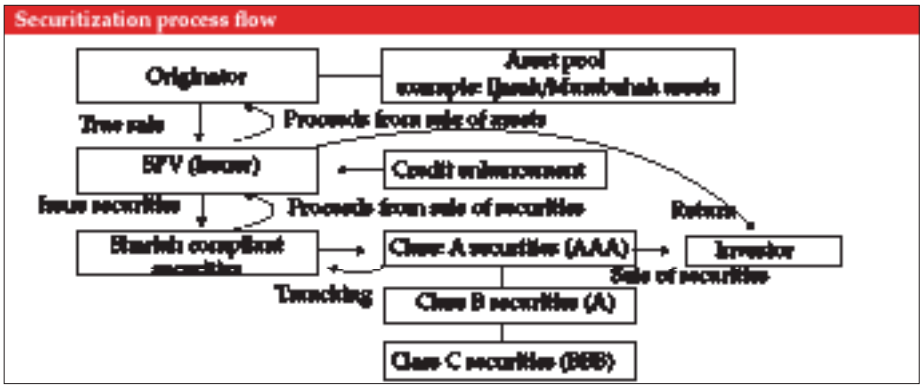
Securitization is a commonly used method of releasing liquidity through the recycling and monetizing of assets by financial institutions. Supported and stimulated by a requirement for robust regulatory, governance and supervisory infrastructure, SYED SIDDIQ AHMED discusses why securitization in many Islamic economies is nevertheless yet to fully exploit its potential.

Assets in Islamic securitization

Islamic finance demands that transactions are backed by assets; and the act of pooling them together to structure financial instruments has seen substantial growth in the recent years. While successful securitization entails the availability of credit and financial information of the underlying assets, the role of rating agencies, financial expertise and accounting standards are also prerequisites. Even markets where Islamic finance has proliferated, securitization has not yet been exploited to its full potential. For example Qatar, which is one of the fastest-growing Islamic economies in the world, does not yet have a rating agency.

In Islamic securitization, not only the 'pool' of assets is required to be Shariah compliant but also the assets in the pool must be derived from Shariah compliant activities. The assets in Islamic securitization may be Ijarah receivables or partnership interests in Mudarabah or Musharakah or Murabahah contracts. The pooling of assets may be done with or without the credit enhancement/s. In conventional securitization the collateral rights are transferred to the bondholders whereas in an Islamic securitization a minimum level of ownership rights in the underlying assets are expected to be transferred to the investors. The cash flows and the returns to the investors are linked to Shariah compliant assets pooled in for the securitization. There may be certain restrictions on trading the securitized instruments depending on the jurisdiction. Islamic securitizations have used offshore financial jurisdictions such as the Channel Islands to set up their special purpose vehicles (SPVs) to efficiently manage their tax obligations.

According to AAOIFI the tradable Sukuk must represent ownership of Sukukholders, with all the rights and obligations that accompany ownership. The originator of the issuance must establish the transfer of ownership of the assets in its books and must not retain them as its own assets.



Why Islamic securitization?

Islamic securitization offers substantial economic benefits. There are opportunities for financial engineering of products and innovative Shariah compliant securitization structures, especially in some developing Islamic economies where Islamic financial institutions struggle to manage liquidity. The dearth of good Shariah compliant securitized instruments means there is huge potential to overtake 'buy-to-hold' instruments and move towards secondary trading for robust liquidity management.

The standardized structures for Islamic securitization are important and will save time, effort and cost as well as bringing substantial efficiencies into the system - without which there is a risk of imitating conventional securitization structures. Islamic finance standard-setting bodies like IFSB and AAOIFI have made significant progress towards achieving this goal. Many reputed western law firms have now gained expertise in Islamic securitization and have a deep understanding and knowledge of structuring Shariah compliant asset securitizations. Developing Islamic economies have the opportunity to learn and gradually gain expertise in the field. Securitization plays an important role in the development of Islamic finance industry and holds the potential to be one of the preferred practices in the mainstream financing.

Overcoming the hurdles

There is a paucity of identifiable reference assets that meet the Shariah requirements for securitizations that offer attractive yields. Islamic securitization often requires issuers to originate their own Shariah compliant assets rather than buying asset pools in the market. Support features like credit enhancement and liquidity provisions are required to comply with Shariah parameters. The credit enhancement procedures may change the character of the transaction. The retention of undistributed amounts from the excess spread paid to the investors and administrators signify that the transaction may not be a complete pass-through. There may be challenges in managing liquidity to cover any possible short-term requirements to match the cash-flow timings.

In order to derive benefits from both macroeconomic and microeconomic perspectives, it is crucial that asset securitization instruments like Sukuk and other Shariah compliant papers and notes are traded on a large scale. It may be a challenge to obtain ratings from major international ratings agencies, especially when the securitization structure involves complex Shariah structuring and is reliant upon local laws and regulations. There are ongoing challenges as to the applicability and enforceability of Shariah law and the extent to which it can harmonize with the secular law. Issues regarding the true sale of assets and dealing with bankruptcy-related matters also pose a challenge.

Some observations on the activities of Islamic bank Shariah supervisory committees in Bangladesh

Following an analysis of the Shariah committees of seven banks in Bangladesh, DR MAHMOOD AHMED identifies concerns in their management of Islamic banking activity in the country.

To observe the activities of the Shariah Supervisory Committees (SSCs), the 2011 annual reports of seven fully-fledged Islamic banks have been studied carefully. The following observations have been made:

1. The SSCs are formed of different dignitaries including Moulana (religious leaders), Mufti, professors, PhD holders, barristers, Alhaj (an individual who has performed a pilgrimage to Makkah) and other educated persons. They are also religious scholars, economists, lawyers and bankers. Almost all SSCs have been formed with a combination of such dignitaries. But it seems that these experts have been doing what their education equips them to do, and they have been doing it well but unfortunately they, perhaps, cannot contribute much to achieve Maqasid Al Shariah (goals of the Shariah) in real life circumstances, which are very different from the environment reflected in books on Shariah, Islamic economics, money, banking and finance.

2. Only one bank mentioned that a library has been established in the Shariah Council Secretariat with about 500 books on the Quran, Hadith, Fiqh, Islamic economics and banking. Honorable members of the council learn Shariah issues and guidelines to run the bank's operations. They take necessary data from these books and conduct research. No other banks have been reported with such a necessary backup in terms of fundamental research.

   However this is necessary because the trend of focusing on duplicating conventional financial products through a kind of Islamic financial engineering started in 1990s and came to dominate the scheme in the new century. The most important areas seem to be Sukuk (duplicating bonds) and Tawarruq (duplicating bank loans).

> ***"In one bank, there are seven insiders out of 11 members of the SSC. Yet the appointment of insiders in the SSC is a deviation from the AAOIFI standards"***

3. Some banks have paved the way for independent opinions and suggestions by forming the SSC with outsiders only. Their reports have been found to be more transparent because they are presented under two major headings: i) opinions, and ii) suggestions. On the other hand, some banks have formed their SSC with both outsiders and insiders – with he chairman, vice-chairman, director, and CEO all sitting on the committee. In one bank, there are seven insiders out of 11 members of the SSC. Yet the appointment of insiders in the SSC is a deviation from the AAOIFI standards 1(e) & 5(a).

4. Reports of SSC activity have been presented in different ways, with some banks mentioning the issue of Zakat payment by the bank and others remaining silent. Stakeholders are generally interested to know whether the Islamic bank deducts the Zakat Payable by the depositors and shareholders from their accounts or not.

5. Compensation realized and interest income are two components of doubtful income of an Islamic bank. The SSC finds the amount of doubtful income important to indicate the operational efficiency of a Shariah-based bank. However some reports of SSCs of the banks under study note that they do not mention the amount of doubtful income at all. Although some banks mention it, only one bank detailed its doubtful income in full.
6. The Muraqib conducts Shariah audit and inspections in the Islamic bank. Only one bank did not mention anything about the Muraqib and its operations.

The limitations of the SSCs have to be overcome to ensure more Shariah compliance in banking operations in Bangladesh. For this purpose, Bangladesh Bank Guidelines for Islamic Banking may be aligned with the Shariah Governance System of AAOIFI. This may also serve as a lesson for other countries.

Dr Mahmood Ahmed is the executive vice-president at Islami Bank Bangladesh. He can be contacted at mahmoodahmed280@gmail.com .

ICD Islamic Money Market Fund

In August 2013 the ICD launched a new fund, the ICD Money Market Fund (MMF). This fund is the first fund that has been launched, structured and fully managed by the ICD since its inception.

For the past five years the ICD has been managing a US$247 million UIF fund as a sub-Mudarib, but the MMF is the first fund that the ICD has structured internally and is managing with its own resources. The MMF is a liquidity management fund that will provide periodic income to its investors by investing in Shariah compliant placements, investments and financing products. The target fund size is US$200 million in which the ICD had already seeded US$50 million. The offering will consist of 200 million units at US$1 each.

The ICD Money Market Fund is a Labuan Islamic limited liability partnership registered under the Labuan Limited Partnerships and Limited Partnerships Act 2010. This unique structure enables investors to enter into a partnership agreement as limited partners with the ICD as a designated partner who will be managing the fund as Mudarib.

The ICD will be managing the fund through the newly-established SPV, ICD Fixed Income, which was incorporated in Labuan. The MMF is an open-ended fund and the term of the partnership shall continue until the partnership is dissolved under the partnership agreement.

The partnership intends to achieve its objective by investing in Shariah compliant placements, investments, and financing products globally benefiting from the ICD's global reach and competitive advantages in several markets, especially in member countries as a multilateral financial institution and a member of the IDB group.

In addition to that, the fund will capitalize on the ICD's proprietary market knowledge and access to Shariah compliant placement avenues in a geographically diversified region to earn above market returns for institutional unit holders

All investments will be certified by the Shariah committee to be compliant with the Shariah guidelines of the partnership. Investments will be in one or more of the following forms: commodity Murabahah; syndicated commodity Murabahah; restricted and unrestricted Wakalah agreements; Sukuk; Islamic commercial paper; banker's acceptance; and any other Shariah compliant investment and financing products.

Investments made by the partnership are not restricted to any sectors or subsectors provided that all investments, including any restrictions on any exposures to any country or region, are to be discussed and approved by the investment committee.

> ***"The MMF is the first fund that the ICD has structured internally and is managing with its own resources"***

The target return on investments of the fund is 4-5% per year net return on invested capital contributions. Accumulated/periodic returns will be distributed to investors' accounts upon investors' redemption request and may be reinvested at the investor's discretion. The fund manager will identify suitable counterparties with potential investment opportunities for the fund and will carry out due diligence on proposed investments. The manager will also monitor the ongoing performance of investments.

An investment committee has been established for the fund by the manager. The investment committee of the fund will approve and monitor all investment decisions, approve strategy and monitor the fund's portfolio. The fund manager will deploy two types of strategy to manage the investments of the MMF. The types of such strategy will be based on regulatory requirement, liquidity risk management, and required rate of return from investments.

It is divided in to two parts: (a) cash management, (b) investment management. The MMF will maintain at least 90% of its funds in investment instruments. The MMF will not invest in project finance or green field projects.

The fund manager appoints the Shariah committee of the IDB Group as the Shariah committee of the partnership in the first year, but as the business volume of the MMF increases, the fund will contract the services of external Shariah committee.

With a view to provide Shariah compliant liquid fund management solutions, the ICD treasury has been generating incremental revenue for the past five years as follows:

The ICD treasury is well-positioned to access deal flow opportunities and to co-invest in wide range of geographic locations, markets, counterparts and Shariah compliant instruments. The target rate of return from ICD treasury investments up to end of the second quarter of 2013 is 6%. Average return for the portfolio since January 2011 is 5.1%.

The ICD treasury can reach out to counterparts in both member and non-member countries of the ICD to generate risk-adjusted return to the investors of liquid fund, especially those who prefer to receive their profit and principal investment within a two-year time horizon. The MMF will be leveraging on the ICD's treasury performance in generating an above market return for its investors.

Construction of new Malaysian airport receives financing through various Islamic structures

Malaysian airport management group Malaysia Airports Holdings (MAH) recently issued two tranches of its Sukuk program worth RM2.5 billion (US$789.85 million). The tranches of the Sukuk Musharakah, which were issued at RM250 million (US$75.98 million) each, carry a maturity period of three and five years respectively. Proceeds accrued thereof will be utilized to part-finance the new KLIA 2 airport, refinance MAH's existing borrowings and for general corporate purposes. Previously in 2010, MAH used an Ijarah structure and a commodity Murabahah structure its RM3.1 billion (US$942.22 million) Sukuk program.

A portion of MAH's tangible assets are currently being used under the Ijarah structure and the new Musharakah structure would provide an alternative option as it is less asset-concentrated for MAH. In an interview with Islamic Finance *news*, MAH conveyed that the Musharakah structure was chosen because it suits the nature of the company's business model. MAH has revenue-generating business such as operations, management and maintenance of airports and other related services. Hence in a Musharakah venture, MAH contributes as a partner through its capital-in-kind businesses. The distinctive feature of the structure is that the instrument enables the issuer to defer the periodic payment due by providing advanced notice.

As the transaction is part of the RM2.5 billion (US$789.85 million) senior Sukuk and subordinated Sukuk program, it is the first rated perpetual subordinated program in Malaysia. MAH further explained that one of the challenges faced was maintaining the sanctity and international Shariah acceptability of the Musharakah structure during the rating process. As a structure that is based on profit and loss sharing, profits are expected to be distributed as agreed between the partners and loss is to be shared according to capital contribution. In accommodating the risks involved, all parties were in agreement that a 'liquid facility' may be provided by the managing partner to the issuer in the event that profits become insufficient to pay the periodic distributions that are due.

This inaugural issuance under MAH's Sukuk program was offered through a book-building process resulting in an excess of RM1.7 billion (US$516.7 million) which represented a bid-to-cover ratio of 3.4. Finally priced within the revised price guidance, the issuance was well-received by local investors: ranging from high quality accounts including government agencies, financial institutions, asset management companies, insurance companies and corporate accounts. The senior Sukuk Musharakah program and perpetual subordinated Sukuk program were rated 'AAA' and 'AA2' respectively by RAM.

The issuer has the option of listing the Sukuk on Bursa Malaysia under the exempt regime. Its tradability is governed by the Malaysian Capital Markets and Services Act 2007 (CMSA) whereby the certificates can only be offered, sold, transferred or otherwise disposed directly or indirectly to a person whom an offer or invitation to purchase falls within the ambit of Schedule 6 and 9 of the CMSA. — *NA*

Senior Sukuk Musharakah

RM500million (US$151.97 million)

MALAYSIA AIRPORTS

6th September 2013

Issuer	Malaysia Airports Holdings
Obligor	Malaysia Airports Holdings
Issuance price	At par value Tranche 1: RM250 million (US$75.98 million) Tranche 2: RM250 million (US$75.98 million)
Trustee	CIMB Islamic Trustee
Tenor	Tranche 1: Three years; Tranche 2: Five years
Coupon rate / return	Tranche 1: 3.85% per year; and Tranche 2: 4.15% per year
Payment	Semi-annual and fixed
Currency	RM
Maturity date	Tranche 1: 6th September 2016; Tranche 2: 6th September 2018
Lead manager(s)	CIMB Investment Bank, Citibank, HSBC Amanah Malaysia, Maybank Investment Bank
Principal advisor(s)	CIMB, HSBC, Maybank
Bookrunner(s)	CIMB, Citi, HSBC, Maybank
Governing Law	Malaysian law
Legal advisor(s) / Counsel	To MAHB: Raslan Loong To JLA: Zaid Ibrahim & Co
Shariah advisor(s)	CIMB, HSBC, Maybank
Investor breakdown	Three-year tranche: Financial institutions (62%), asset management companies (28%), insurance companies (2%), others (8%) Five-year tranche: Financial institutions (42%), asset management companies (26%), insurance companies (22%), others (10%)

Setting the standard at excellent

QATAR

By Amjad Hussain

The challenge of financing the many projects in Qatar (which will include the metro, the port project, Lusail City, Aviation City, and the stadia for the World Cup) is expected to be met easily by the Qatari banking sector. Total assets for Qatar's banking industry increased at a compound annual rate of 30% in the last 10 years to almost US$225 billion. The financial sector in Qatar has been a key foundation of the rapidly developing economy, with finance, insurance and reinsurance outputs accounting for nearly 10% of the country's GDP last year. Qatari government spending rose 2.2% to QAR178.2 billion (US$48.93 billion) in the last fiscal year.

> ***"Qatar has an estimated built asset wealth of US$143,000 per person"***

The Qatar Exchange has witnessed heavy profit-booking as local and foreign retail investors drained out QAR49 million (US$13.45 million) in a risk-averse reaction to the threat of a military attack on Syria. Entities like Industries Qatar, Nakilat, Qatar Islamic Bank, Masraf Al Rayan, Barwa Bank and Vodafone Qatar, among others, have been the biggest losers. However, despite the heavy selling, Qatar sentiment has stayed positive.

Qatar recently topped the MENA region in the global competitiveness ranking index compiled by the World Economic Forum. The state ranked 13th overall on the global list, fourth in the competitiveness of institutional framework globally, sixth in the macroeconomic environment segment and third in the efficient market category. Qatar has also been praised for its low levels of corruption and undue influence on government decisions; high efficiency of government institutions; and strong security. This bodes well for the Islamic finance industry in Qatar as competitiveness and transparency have been identified as issues that need addressing on a global basis.

Qatar also ranked fourth in the Global Built Asset Wealth Index. The index, which is a combined effort between EC Harris and the Center for Economic and Business Research, quantifies the accumulated wealth of 30 countries' built assets. The index encompasses all the property and infrastructure that contributes to economic productivity. The index illustrates how Qatar compares to the 30 countries which collectively represent 82% of global GDP. It reveals that the total built asset wealth within these countries stands at US$193 trillion and Qatar has an estimated built asset wealth of US$143,000 per person. In addition, between 2011-12, the rate of growth in built asset wealth per person in Qatar stood at 8.4% — higher than any other country. Given the heavy focus on real estate and infrastructure in the Islamic finance sector, the ranking of Qatar in this index shows that the World Cup infrastructure spend is likely to continue to benefit the Islamic banks in Doha.

The Qatar Central Bank (QCB) has issued debt worth a total of QAR4 billion (US$1.2 billion). The issuance included three and five-year bonds worth QAR1.5 billion (US$411.84 million) each; plus three and five-year Sukuk worth QAR500 million (US$137.82 million) each. The issuance is aimed partly at financing major infrastructure projects in Qatar and partly to help local banks manage liquidity more effectively.

The QCB has also sent a draft circular on the new Basel III capital rules to conventional and Islamic banks that include the requirements for the issuance of instruments such as hybrid bonds, which may include perpetual debt and Sukuk. The final version of the capital rules will be completed once a quantitative impact study is undertaken for all the national banks. It will be interesting to see how these rules will impact Islamic banks which are already closely-regulated in Qatar.

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Permissible investments by Saudi Takaful companies

SAUDI ARABIA

By Nabil Issa

The Saudi Arabian Monetary Agency (SAMA) regulates the insurance industry in Saudi Arabia. In particular, insurance companies are governed by the Law on Supervision of Cooperative Insurance Companies (Royal Decree No. M/32 dated 02/06/1424H) and its Implementation Regulations and the Investment Regulations issued by SAMA.

Every insurance company must adopt an investment policy approved by SAMA. Any material changes to the investment policy must also be approved by SAMA.

If SAMA does not approve the insurance company's investment policy or the insurance company does not have any investment policy, then the insurance company must adhere to the investment standards set out in Table 1 of the Implementation Regulations (*see Table 1*) provided that investments outside Saudi Arabia will not exceed 20% of the total investments and in accordance with article 59(2) of the Implementation Regulations.

Article 59(2) provides that the insurance company must invest 50% of its total invested assets in Saudi riyals. SAMA's written approval is required if the insurance company wishes to reduce this percentage.

The regulations are silent on what constitutes "investments outside of Saudi Arabia".

The insurance company must take into account the investment concentration risks. Concentration in an investment instrument must not exceed 50% in one investment instrument, as mentioned in Table 1.

Table 1 of the Implementation Regulations

Investment type	% for general insurance	% for protection and savings insurance
Saudi-authorized banks	20% minimum	10% minimum
Saudi government bonds	20% minimum	10% minimum
Saudi riyal-denominated investment funds	10% maximum	15% maximum
Foreign currency-denominated investment funds	10% maximum	10% maximum
Foreign government's bonds (Zone A)	5% maximum	5% maximum
Bonds issued by domestic companies	5% maximum	5% maximum
Bonds issued by foreign companies	5% maximum	5% maximum
Equities	15% maximum	15% maximum
Real estate in Saudi Arabia	0%	5% maximum
Loans secured by real estate mortgages	0%	5% maximum
Loans secured by policies issued by the insurer	0%	5% maximum
Other investments	15% maximum	15% maximum

The insurance company is prohibited from investing in derivatives, option contracts, hedge funds, deposits with foreign banks, private equity investments and any off-balance sheet instrument and these should not be part of the insurance company's asset allocation unless specifically approved by SAMA and must be based on efficient portfolio management justification. The insurance company can, with the approval of SAMA, invest in derivatives subject to the following conditions:

- Such derivatives: (i) must be listed on a stock exchange, (ii) are capable of being readily closed out, (iii) are based on underlying admissible asset and have a prescribed pricing basis;
- The insurance company must set aside assets that can be used to settle any obligations under these derivatives and set adequate provisions for any adverse changes on the derivatives and their coverage; and
- The counterparty must be reputable and in an acceptable financial condition.

Investment in Sukuk is allowed provided they are equivalent to bonds and the percentage allocation in them does not conflict with Table 1. The maximum limit of allocating Sukuk that are issued by local companies in which the government has a significant ownership is 20% and the solvency margin is equivalent to the government's participation in the capital.

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The shifting fortunes of the Islamic finance industry in India

INDIA

By H Jayesh

Recent media reports on the Reserve Bank of India (RBI)'s decision to finally allow a Shariah-based investment company to operate as a non-banking financial company (NBFC) have garnered tremendous attention worldwide. While no official confirmation has been received so far, either from the RBI or the company itself, there are several reasons to suggest that the tide may be finally turning in favor of Islamic finance in India.

Impact of the Kerala High Court judgment – key issues unanswered

The judgement of the High Court of Kerala in the case of Dr Subrahmaniam Swamy (the petitioner) v. State of Kerala (represented by the principal secretary to government and Kerala State Industrial Development Corporation (KSIDC) (the respondents), was a watershed for Islamic finance in India, inasmuch it upheld the constitutional validity of KSIDC (a state-sponsored financing entity) to invest in a private company set up to undertake Islamic financing.

Some of the key events leading up to the litigation were as follows:

- With a view to attracting investments in Kerala KSIDC, vide an order from the Kerala Government dated the 14th October 2009, received approvals to invest up to 11% in an investment company set up by Al Barakah Financial Services in Kerala, to undertake various Islamic financing activities (Kerala Government Sanction).

- Against this Kerala Government Sanction, a writ petition was filed on the 7th December 2009 by Dr Swamy in the High Court of Kerala, challenging the constitutionality of the Kerala Government Sanction on the grounds that a state government investing funds in such a venture constituted promotion of a particular religion, which is in violation of the Constitution of India. The petition was admitted and the RBI inter alia was impleaded.

- The final decision of the Kerala High Court dismissed the writ petition and upheld the Kerala Government Sanction. The High Court made it clear that it has not opined on the legality of NBFCs to operate as per Shariah (i.e., carry out Islamic finance activities) and the examination of the same was left to the RBI. More pertinently, the court observed that the respondents have the right to challenge the constitutionality of any law (assuming there is any) which prohibits the respondents from carrying on the impugned activities.

Fallout of the litigation on Shariah-based NBFCs

It is interesting to note that the RBI in its affidavit (filed with the Kerala High Court) did not state that NBFCs cannot operate out the principles of Shariah. Secondly, it also mentioned that it had no knowledge of NBFCs carrying out Islamic finance activities. It subsequently cancelled the license of All India Credit (AICL, a Kochi-based Shariah compliant NBFC) on the grounds that interest-free financing violates RBI guidelines on fair practice, as the code requires NBFCs to adopt an interest-based model and disclose rates of interest charged on the loans. RBI's cancellation has been challenged by AICL and the matter is pending in the High Court of Mumbai.

Conclusion

There is however still cause for optimism. Firstly, the Securities and Exchange Board of India has permitted Shariah-based alternative investment funds to operate in the country and expectation is that Shariah-based funding will grow through this route.

Also there appears to be a growing interest in Sukuk with various market participants interested in funding projects through these instruments. Lastly, with the appointment of Raghuram Rajan as RBI's new governor, we expect renewed interest in Islamic banking and finance at the central bank.

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Evolution in Sukuk issuances

DEBT CAPITAL MARKET

By Muhammad Shoaib Ibrahim

Although at the end of August 2013, global Sukuk sales were a little behind as compared to total issuance in the corresponding period of last year, in the third quarter of 2013 a few good moves have been observed. For example the International Islamic Liquidity Management Corporation (IILM), which aims to introduce and facilitate effective cross-border Shariah compliant liquidity management, successfully conducted the auction of its inaugural US dollar-denominated short-term Sukuk of US$490 million.

The short-term issuance of Sukuk by the IILM is an important stage in the evolution of Islamic bond products. The issue enjoyed the privilege of being short-term, with a good rating and handsome return. The Sukuk were auctioned to seven primary dealer banks, as the IILM aims to address a shortage of financial instruments for Islamic banks to manage their short-term funding needs.

The IILM is backed by nine central banks and monetary agencies as well as the IDB, and has a network of dealer banks that will ensure a secondary market for Sukuk. The IILM is also expanding its distribution networks so that it can shift its focus to establishing regular issuances. This is a major breakthrough for Islamic finance because it will assist in facilitating liquidity management for Islamic financial institutions globally.

Sukuk for Tier I capital are also gaining popularity within the banking sector. The new compliance requirements of Basel III have created a golden opportunity for the growth of Sukuk globally, with new and innovative structures that help banks to capitalize in a Shariah compliant way. Sukuk for Tier I capital in the form of Additional Tier 1 (AT1) have a layer of additional going-concern capital which is perpetual in nature as per compliance with Basel III. In the last two weeks a number of banks have shown their intention to issue. The banks, spread over various markets including Turkey, Europe and the Middle East, are continuing a trend from last year which saw significant issuances from Abu Dhabi Islamic Bank, Dubai Islamic bank, Qatar Islamic bank and others.

Basel III has introduced new considerations for managing Tier 1 capital adequacy ratios of Islamic banks and has created a market for the supply of Sukuk which can be filled by issuers. Such issuances would help in boosting the growth rates of the Islamic bond industry while further reinforcing the role of Islamic finance in the global financial industry.

The Indonesian government recently returned to the international financial market by issuing Sukuk amounting to US$1.5 billion. The transaction was in line with the government's 2013 financing plan. Indonesia is a vast and diverse nation with a rapidly growing economy, large Muslim population, extensive natural resources and a range of sectors ripe for investment which are strengthening Indonesia's position in the global Shariah market and enhancing the development of Shariah compliant finance in Asia.

While we have undeniably seen a good expansion of the global Sukuk market in recent years, there are still many as yet relatively unexploited openings which should be explored to accelerate growth in new and innovative ways. Sovereign issuances continue to dominate the Sukuk market, followed by issuances from corporates and sub-sovereigns globally, particularly in Asia and GCC countries.

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Egypt's leasing industry: At the crossroads

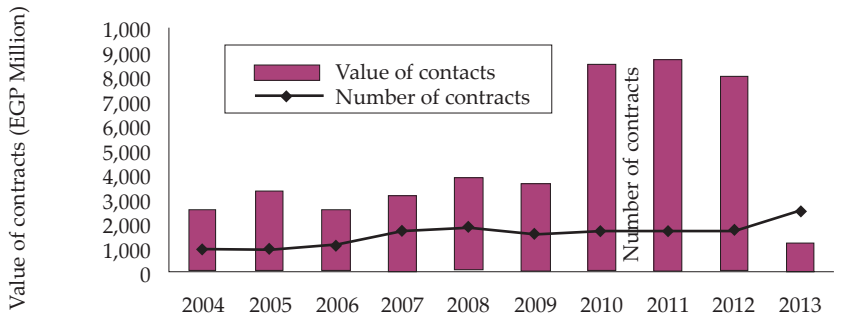
LEASING

By Professor Dr Shahinaz Rashad

The leasing industry has existed in Egypt since the mid 1990s. However, despite its long presence and prominence as a non-banking industry, the leasing industry remains generally under-developed with an average penetration rate below 5% of GDP, but there is a lot of potential for further growth. Members of the Egyptian Leasing Association (ELA) represent the 10 most active players in the market and account for 90% of newly-generated contracts. According to the Egyptian Financial Supervisory Authority (EFSA), there are currently 212 companies registered as of July 2013. However, most of these companies are inactive and only 20 are operating.

In aggregate, the leasing industry's contract value (1997-2013) exceeds EGP50 billion (US$7.19 billion). In 2012, growth resumed and newly generated contacts grew by 3% year-on-year in terms of the number of contracts. However, the same period witnessed a drop in the volume of contract value from EGP8 million (US$1.15 million) in 2012 compared to EGP8.7 million (US$1.25 millon) in 2011. In addition the trend resumed in June 2013 reaching a total contract value of almost EGP2.5 billion (US$359.5 millon), as shown in Figure 1.

Figure 1: Trend analysis for the leasing market (2004 – Q2 2013)



Source: Egyptian Financial Supervisory Authority (EFSA)

The market is mostly at the simply finance lease life cycle stage, with the exception of the aviation and vehicle market, which allows for operating lease transactions as well as the existence of few structured hybrid and leveraged leases among bank-related lessors with huge potential for Shariah compliant leasing.

A significant development in the market was the formal establishment and the activation of the ELA, a non-profit trade association created in 2011 primarily to promote the leasing/Ijarah business in Egypt to benefit both lessors and lessees. It encompasses the majority of conventional and Islamic independent, bank-related and captive leasing companies. The ELA is considered the chief promoter of leasing business in Egypt through its functional lease research, networking and liaising to address the obstacles that face the leasing industry and the amendments on the lease law with both local regulators and international bodies.

Professor Dr Shahinaz Rashad is the chairperson & CEO of Egyptian Leasing Association and president of Metropolitan Training Academy. She can be contacted at s.rashad@mta-egypt.com .

Islamic finance in Morocco: The birth of a regional hub

Morocco sits at geographic and cultural conjunction: with an eminent Islamic tradition and a position as gateway to North Africa as well as a close relationship with Europe and the accolade of being one of the most advanced economies in the region. However over the last few years the country has suffered from a liquidity crunch which has hindered its progress. AHMED TAHIRI JOUTI looks at how Islamic finance could help it move forward.

Morocco occupies a strategic location at the crossroads of two continents (Africa and Europe) and two seas (the Mediterranean Sea and the Atlantic Ocean) playing an important role in the cultural, political and economic exchanges of the region.

In Africa, Morocco is considered as a lighthouse of Islam with Karawyine University (the world's first university) and its eminent Sufis who have contributed to the expansion of the Muslim faith. Historically, Morocco has always maintained political and commercial relations with many African countries; and this position was further strengthened with the introduction of several Moroccan companies in various economic sectors such as telecommunications, real estate, banking and pharmaceutical in Africa, hence contributing to the development of the continent.

On the other side, Morocco has strong links with Europe. Being a privileged partner of the European Union, it hosts a large number of investors and companies from its northern neighbors and is considered as one of the most attractive tourist destination in the world. Moreover, Moroccans are among the most important communities living in Europe.

Those elements should enable Morocco to play a more important role in the economic side: especially as it has one of, if not the, most advanced financial systems in the North African region, according to the Africa Report 2012. Indeed, the Moroccan government is aware of this opportunity and has started to prepare the tools and instruments that should hopefully lead to common prosperity.

For this purpose, Morocco has decided to create the Casablanca Finance City, which will help to establish Casablanca's position and credibility as a leading international hub and its offering as a gateway for business in the North and West Africa. Indeed, the Casablanca Finance City will play the role of the region's financial agent by mobilizing financial resources at an international level and allocating them to development projects in North and West Africa.

However, during the last few years, the Moroccan financial system has suffered from a liquidity crunch that may constitute a serious hurdle for achieving the goals and ambitions of the kingdom to become an international financial center.

In this context, Islamic finance is seen as a solution to the liquidity problems, a means to diversify the financial instruments and an efficient strategy to reinforce the attractiveness of the Moroccan financial system. Indeed, the introduction of Islamic financial institutions will enhance a banking penetration rate that is still low (55% in 2012 according to the president of the GPBM, the professional association of banks in Morocco). In fact, many Moroccans prefer not deal with conventional banks because of their religious convictions. If Islamic banks were to be created, more people would have greater access to financial services in line with their beliefs.

Moreover, many Islamic banking groups are interested in launching subsidiaries in Morocco; as well as investors in the Gulf region who are keen to invest in the Islamic capital market, which would reinforce the liquidity of the financial system.

Adopting this approach, the Moroccan government has prepared three bills to implement and promote Islamic finance:

- The New Banking Law Project (No. 34-03): A single law for conventional and Islamic banks (called participation banks). The text allows conventional banks to set up windows and defines the different products authorized. It also requires banks to have an audit committee that oversees Shariah compliance. The banking law project was ready at the end of 2012 but has still not been voted in by the parliament. This delay is due to political instability in the governmental coalition.

- The Insurance Law project: A single text that regulates conventional insurance and Islamic Takaful activities. This law forbids conventional insurance companies from creating windows and broadens the scope of intervention of the control system and internal audit to cover the Shariah compliance risk. The new insurance law is not ready yet. Indeed, the Takaful industry cannot be developed unless and until Islamic banks are created.

- The securitization law (No. 33-06): An amendment to introduce Sukuk as a securitization instrument in Morocco. Thus, the government will be allowed to issue sovereign Sukuk. According to some officials, the government is preparing a Sukuk issuance.

For the Islamic financial system's Shariah governance, the government is expected to create a central board whose members are appointed by the king, who is the commander of the believers (Amir al Mu'minin). This central board will issue Fatwas for the whole Islamic financial industry in Morocco.

The regulatory framework for the Islamic finance industry is, in fact, part of a very ambitious project to make Morocco a regional hub and an international financial center. However, the implementation process is still very slow and needs a strong political will in order to succeed.

Ahmed Tahiri Jouti is an Islamic finance expert attached to Al Maali Islamic Finance Advisory and Consultancy. He can be contacted at ahmedtahiri001@gmail.com.

Operating assets: A new class of assets for Islamic financial offerings

Operating assets, otherwise known as long-term assets used in normal business operations, constitute an asset class that possesses many desirable characteristics that are compatible with Islamic financing structures. IBRAHIM MARDAM-BEY, ALI GERAMIAN and NATASHA-CHRISTINA AKDA guide us through the birth of a new asset class for Islamic finance.

Following the recent global economic crisis, tightening credit conditions and decreased bank liquidity have set the stage for companies to seek financing through previously untapped markets and innovative financing mechanisms. In particular Islamic finance, with its unique structures and access to substantial pools of capital, has proven itself to be a worthwhile alternative to conventional financing. With the flexibility to meet the needs of a variety of projects on economically viable terms, and with the support of solid legal frameworks, Islamic financing has expanded its potential for application to a broad spectrum of assets.

In particular, the use of operating assetsbacked by equipment such as railcars, airplanes, auto fleets, shipping containers, and other similar equipment has enhanced the ability of Islamic financing to meet the needs of a large and diverse group of companies.

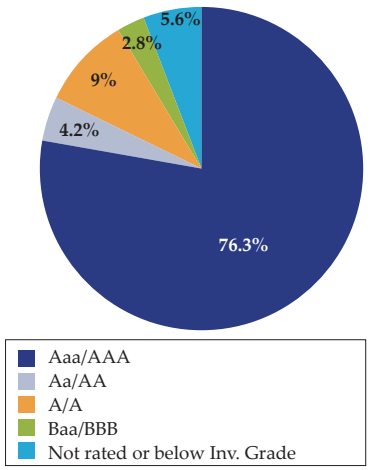
Operating assets are associated with a predictable and consistent stream of revenue that serves as the basis for future income projections. The financial credibility of these assets is also buttressed by a pre-determined rate of depreciation and active secondary markets that extend the utility of these assets well beyond their original scope. The inherent mobility of these assets creates further value, as they may be transported as needed for maximum utility or as market demand dictates. As a result of these characteristics, operating assets are particularly well suited to a number of Islamic financing mechanisms, such as the basic Murabahah or Ijarah transactions.

Additionally, these assets are a suitable option to back Sukuk issuances, much in the same way that they have been used in conventional financing to support asset-backed securities. An asset-backed security is a financial instrument based not only on a fixed asset but also the collateralized income stream from that asset. This security interest effectively gives lenders/investors direct recourse to the asset in the event of a default or bankruptcy of the borrower/company. For the lender/investor, this structure is ideal because it provides them with a legally-backed status of seniority against other potential creditors and ensures the return of an amount equal to the value of the collateral in the event of financial distress. In a similar fashion, Sukuk issuances give security to investors by providing direct recourse to the underlying asset through the creation of an ownership interest in that asset. Both financial structures provide investors with a substantial level of protection. Sukuk have grown rapidly in recent years, fed by pools of capital and willing investors from the Middle East and Asia who seek secure and stable investments.

The global use of asset-backed securitization as a financing tool has grown rapidly in the last 40 years. In the US alone, total new issuance of asset-backed securities from 2008-12 grew by 43%. In general, asset-backed securitization offers lessors a diversified funding source and a number of advantages not available with traditional debt instruments. Companies that report financial earnings find that securitizing assets may be a particularly fruitful strategy as the structure allows firms to free up capital from their balance sheets. This accounting flexibility improves return on capital and accelerates earnings for financial reporting purposes. If the company is a regulated entity, securitizing an asset to raise debt can also achieve relief from capital requirements. Additionally, securitizations have often been regarded as a cheaper way of raising debt compared to traditional sources, such as bank loans and corporate bonds, making it an appealing alternative to smaller companies and start-ups.

A lower cost of financing is possible because of the emphasis on the quality of the collateral's cash flows and the underlying obligors, instead of the credit rating of the sponsor. The market for securitizations therefore enables corporations with weak or no credit ratings to access capital markets otherwise unavailable to them, while simultaneously mitigating investor risk. Additionally, asset-backed securities secured by cash flows from equipment leases are typically considered to be of high credit quality.

Figure 1: US Issued Equipment Lease ABS Credit Ratings



Source: Securities Industry and Financial Markets Association

Of the over US$20.7 billion in securitizations backed by equipment leases currently outstanding in the US, 92% are classified as investment grade with 76% of the aggregate amount rated at 'Aaa/AAA' (Figure 1). Indeed, operating assets have been successfully used in recent years to support securitizations, in the form of both conventional asset-backed securities and Sukuk transactions, so that fixed income investors may diversify their portfolios and gain access to high quality debt. Securities collateralized by equipment leases saw the most rapid growth across US asset-backed issuances, growing at a compound annual growth rate of 44.5% since 2008 (Figure 2). As more investors

continued...

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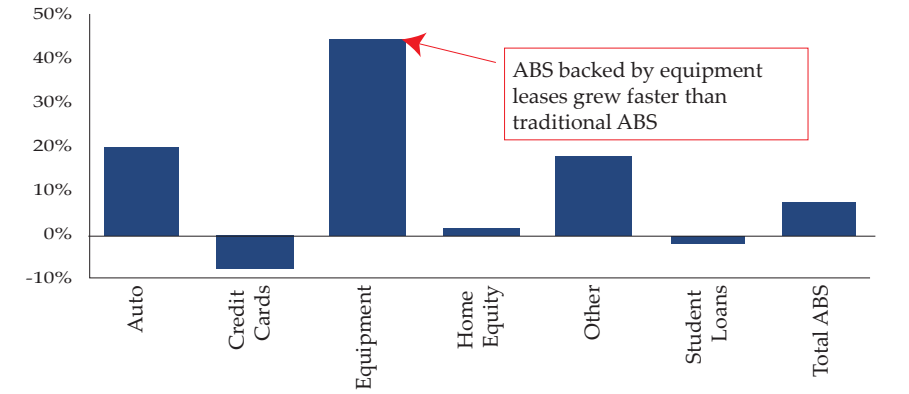
Figure 2: CAGR for asset-backed securities issued in the US (2008-12)



Source: Securities Industry and Financial Markets Association

become comfortable with this asset class, diversity in equipment securitization types should continue.

The Caravan I Sukuk issuance is an example of how Islamic finance instruments can be used to securitize a pool of assets. In 2004, Taylor-DeJongh (TDJ) group president Ibrahim Mardam-Bey and Shariah scholar Sheikh Yusuf Delorenzo structured the first securitization ever to be issued in Saudi Arabia on behalf of Hanco Rent-A-Car. The Caravan I Sukuk issue utilized Hanco's automobile fleet of 2,344 vehicles (comprised of 2,036 cars, 271 trucks and vans, and 37 buses) to serve as collateral for the financing of US$27.5 million. It was structured in two tiers and was repayable monthly over a period of 35 months. The Sukuk yielded an average annual profit of 6% to investors and was fully redeemed at maturity. The vehicles provided the perfect support for such an issuance, as they generated a consistent stream of income that was supported through their well-documented history of financial cash flows and were subject to a predictable rate of depreciation.

Such advantages are not unique to only automobile fleets. Other operating assets, such as railcars, provide the same benefits and are equally well-suited for such Islamic finance securitizations. The railroad industry, for example, has long been a staple for debt investors looking to achieve reliable utility-like returns. In recent years, freight car ownership has shifted from major rail carriers to private operators, such as leasing companies, which have leveraged their operational expertise to improve profitability and returns for investors. Historically, Class I railroads (railroads with operating revenue of US$250 million or more) owned close to 80% of all freight cars in active service, but that percentage is estimated to have dropped to less than 38% by 2012. The remainder of railcars are now owned by regional (Class II) and short-line (Class III) railroads. Regional and short-line railroads have subsequently begun to lease their rail cars to satisfy market demand, resulting in a business model that has generated consistent cash flows. As a result of these operations, railcars have become a highly desirable asset for use in securitization financings.

Investors can feel confident about the projected outlook in the US for rail equipment, as demand and rental rates continue to improve. The cash flows generated by railcar leases are stable, backed by years of documented history, and supported by an established market that is finding continued growth. Additionally, the economic utility of railcars spans a period of 30-40 years or longer and has a conventional depreciation schedule. Indeed, in 2005 the RS Railcar Market Value Index and the Railcar Rental Rate Index were developed to track new and used railcar fair market values and market net rental rates from the last 20 years and provide future projections based on this data. Furthermore, railcars have a mature secondary market where sales of pre-owned railcars create additional value and utility for these assets, as do the salvage and scrap-metal sub-markets, which find great use for railcars that are past their prime. In 2011 alone, the Heavy Melt Scrap Steel price increased from US$200 per ton to approximately US$420 per ton. These factors have all helped to drive investor appetite for securities backed by railroad assets.

As with any security, investors should be cognizant of potential downside risks that may arise. The main credit risk of equipment lease securitizations are obligor delinquencies and defaults, which can cause disruptions in projected cash flows. Credit enhancements, however, such as excess spreads, over-collaterization and the establishment of multiple reserve accounts can help mitigate these risks. Operating assets, such as railcars, also face potential regulatory risks that may have an effect on market conditions as a whole,thereby affecting the financial performance of the underlying assets in a securitization.

While not entirely immune to risk, operating assets are a well-suited base upon which Islamic financing structures such as Sukuk may be issued. Global investors primed to take advantage of the multitude of investment opportunities available in the US may find Islamic finance instruments as an advantageous alternative to traditional fixed income securities.

Moreover, US companies in search of financing may be able to satisfy their capital needs by obtaining liquidity from the global pool of Shariah compliant investors. These investors simultaneously enjoy the security and stability inherent in the nature of the assets and the growth potential exhibited by the US market. Furthermore, the legal structures and doctrines that support asset-backed securities in the US are equally applicable to Sukuk issuances. Global investors and companies may enjoy the added benefit of a healthy and well-developed legal environment that enhances the credibility of a transaction, mitigates risk, and eliminates confusion.

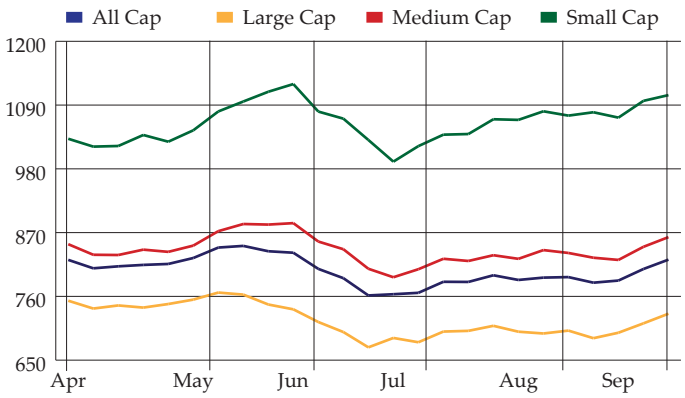
TDJ's newly-established Sukuk finance practice encompasses financial, industry, and asset expertise and is uniquely positioned to help link high quality North American operating assets with capital in the Middle East and Asia.

Ali Geramian and Natasha-Christina Akda are analysts at Taylor-DeJongh who contributed in writing this article.

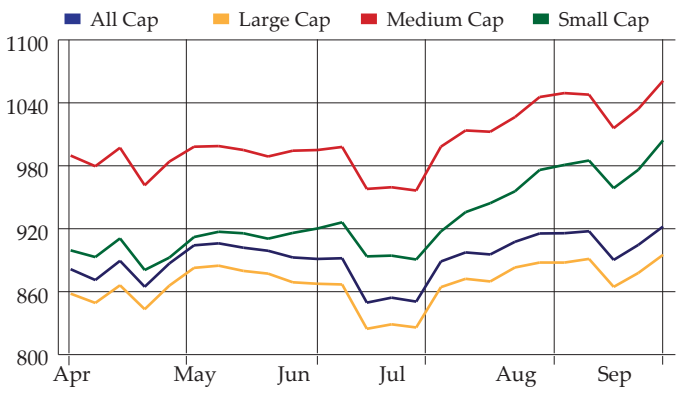
Ibrahim Mardam-Bey is the group president of Taylor-DeJongh. He can be contacted at imardam-bey@taylor-dejongh.com.

ISSUER	SIZE	DATE ANNOUNCED
State of Osun	NGN10 billion	11th September 2013
Al Hilal Bank	US$500 million	10th September 2013
TH Heavy Engineering	RM51.54 million	6th September 2013
Almarai Company	SAR1.7 billion	5th September 2013
Bank Asya	TRY125 million	4th September 2013
Albaraka Turk Katilim Bankasi	US$200 million	4th September 2013
Kumpulan Wang Persaraan	US$100 million	2nd September 2013
Malaysian Treasury	RM2.5 billion	30th August 2013
Emirates Airline	US$4.5 billion	29th August 2013
Societe Generale	RM1 billion	26th August 2013
Malaysia Airports Holdings	RM2.5 billion	16th August 2013
Dar Al Arkan	US$450 million	14th August 2013
OCK Group	RM150 million	12th August 2013
Genting Plantations	RM1.5 billion	26th July 2013
Republic of Senegal	US$200 million	25th July 2013
Masraf Al Rayan	US$1 billion	25th July 2013
Tamweel	US$235 million	25th July 2013
Bank Asya	TRY1 billion	23rd July 2013
Osun State	NGN10 billion	22nd July 2013
Syarikat Prasarana Negara	RM4 billion	18th July 2013
Dubai Investments	AED1.1 billion	16th July 2013
Tenaga Nasional	RM2 billion	3rd July 2013
Sumatec	US$100 million	24th June 2013
Al Baraka Bank Turkey	US$450 million	21st June 2013
Al Baraka Bank Turkey	US$200 million	21st June 2013
Perusahaan Listrik Negara	IDR2.5 trillion	18th June 2013
General Authority for Civil Aviation	US$4 billion	12th June 2013
Qatar Islamic Bank	US$100 million	10th June 2013
Zain Saudi	SAR2.25 billion	7th June 2013
VTB Bank	US$1 billion	3rd June 2013
EXIM Bank	US$1 billion	3rd June 2013
Al Baraka Islamic Bank	US$200 million	20th May 2013
MMC Corporation	RM470 million	15th May 2013
Egypt Government	US$10–15 billion	14th May 2013
Puncak Niaga Holdings	RM165 million	14th May 2013
Dubai Investments Company	US$300 million	13th May 2013
Almarai	US$500 million	9th May 2013
Saudi Basic Industries Cooperation (SABIC)	SAR40 billion	8th May 2013
Batu Kawan	TBA	7th May 2013
BNM Sukuk	RM1 billion	7th May 2013
Tilal Development Company	OMR50 million	6th May 2013
Khazanah Nasional	US$1 billion	25th April 2013
Dana Gas	TBA	24th April 2013
Egyptian government	EGP4.5 billion	24th April 2013
Transnet	TBA	22nd April 2013
Petronas Dagangan	RM2 billion	22nd April 2013
1MDB Global Investments	US$3 billion	19th April
Al Baraka Turk	US$200 million	17th April 2013
Barwa Bank	TBA	16th April 2013

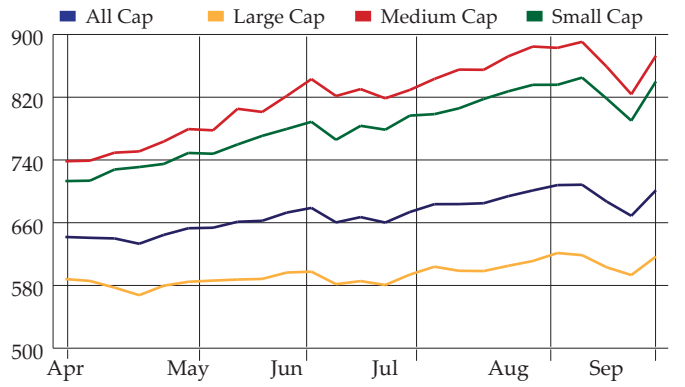
REDmoney Asia ex. Japan *6 Months*



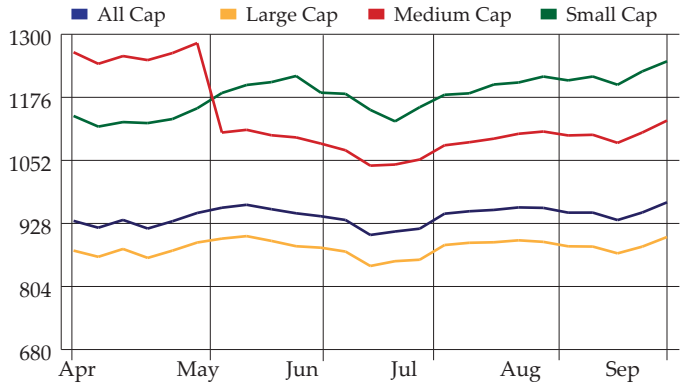
REDmoney Europe *6 Months*



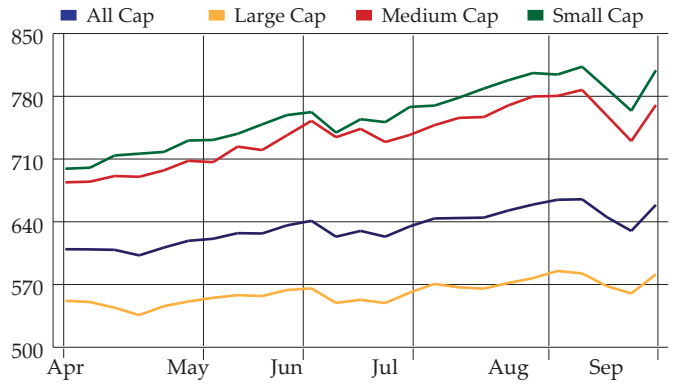
REDmoney GCC *6 Months*



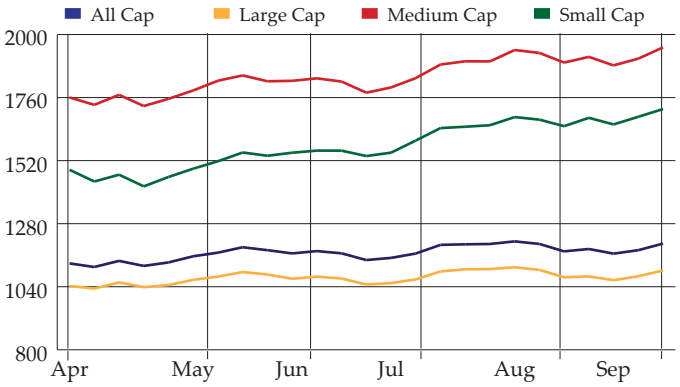
REDmoney Global *6 Months*



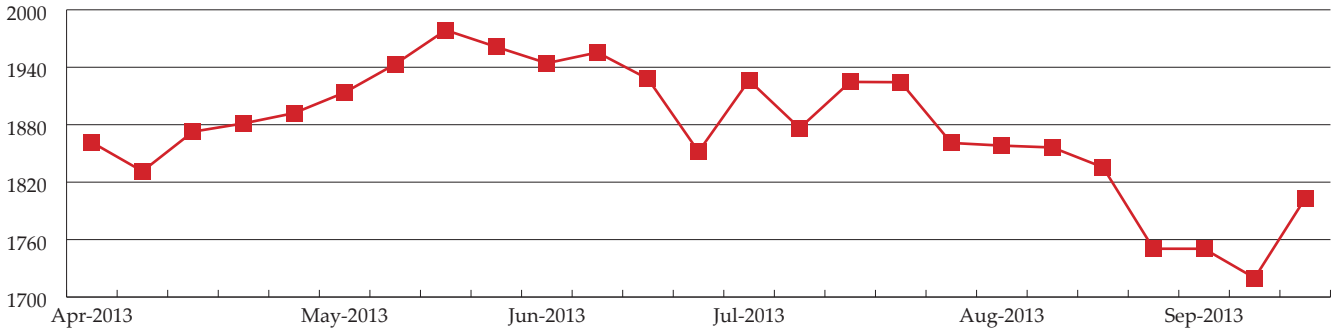
REDmoney MENA *6 Months*



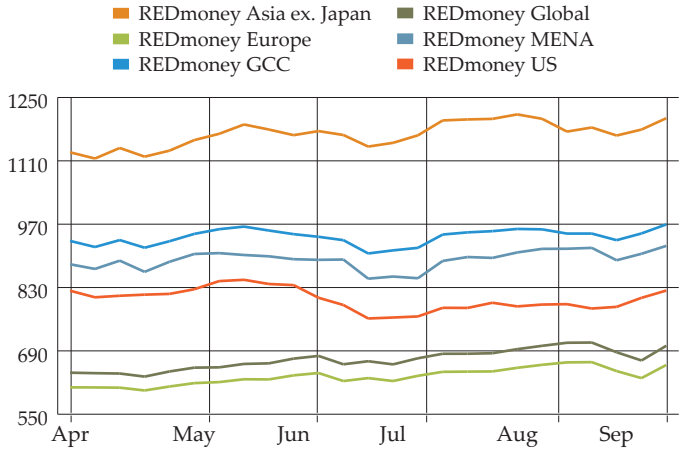
REDmoney US *6 Months*



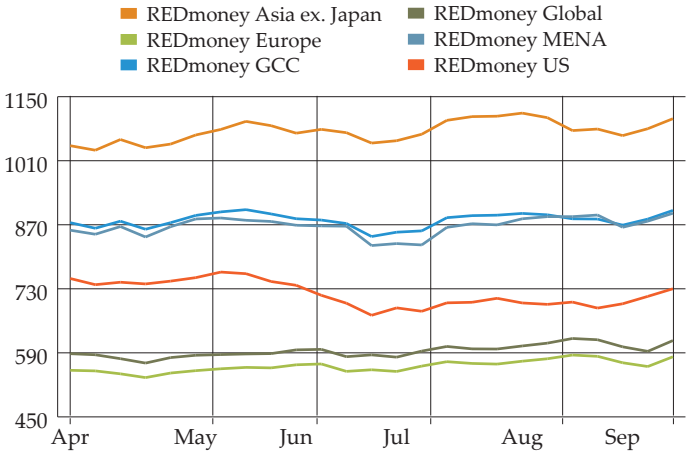
SAMI Halal Food Participation (All Cap) *6 months*



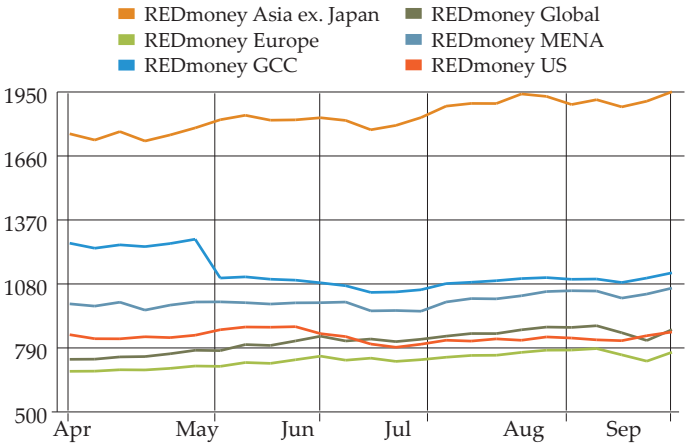
REDmoney Global Shariah Index Series (All Cap) *6 Months*



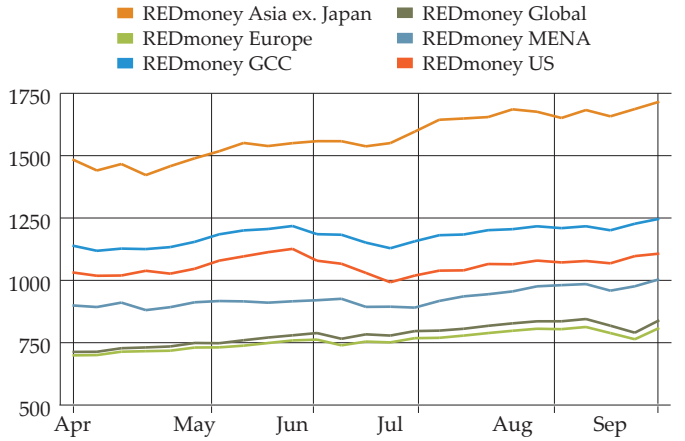
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



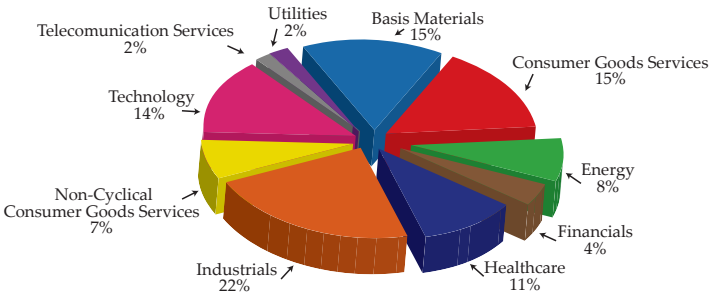
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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.

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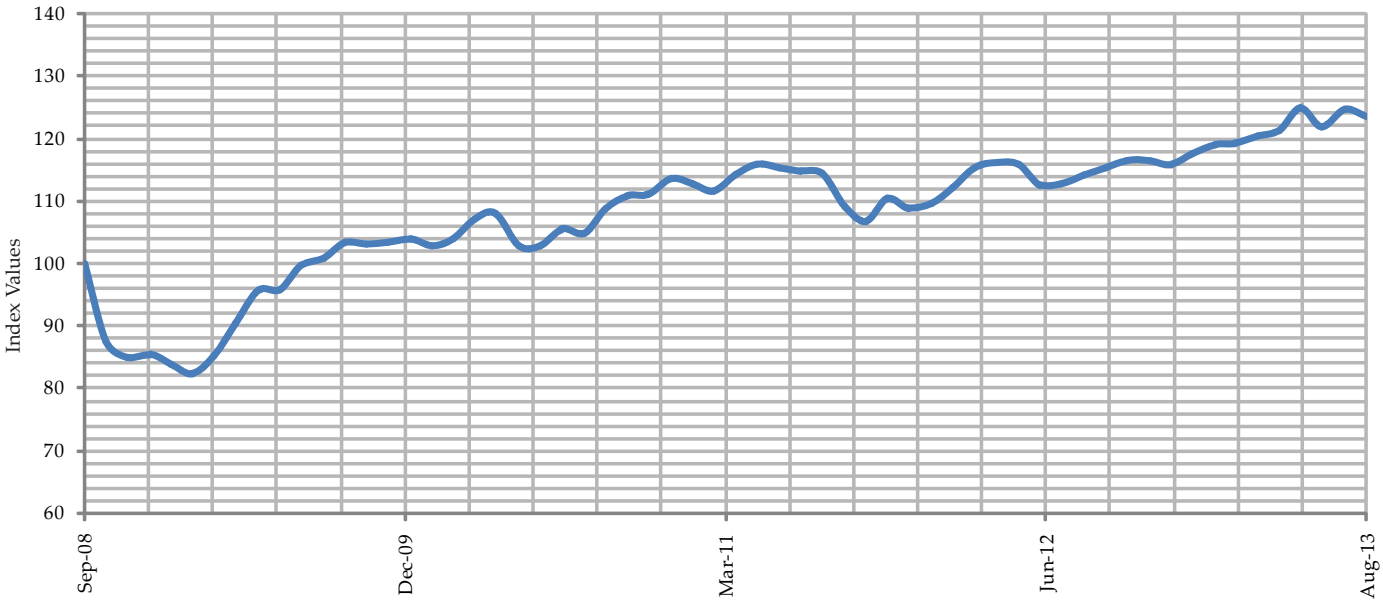
Tel +603 2162 7800

Eurekahedge Islamic Fund Index



Top 10 Annualized Returns for ALL Funds since Inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	23.06	Pakistan
2	AlAhli GCC Growth and Income	NCB Capital Company	16.35	Saudi Arabia
3	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	15.95	Pakistan
4	Public Islamic Select Enterprises	Public Mutual	15.19	Malaysia
5	Jadwa Saudi Equity	Jadwa Investment	14.89	Saudi Arabia
6	AlAhli Saudi Trading Equity	The National Commercial Bank	14.74	Saudi Arabia
7	Public Islamic Opportunites	Public Mutual	13.60	Malaysia
8	Riyad Equity 2	Riyad Bank	12.64	Saudi Arabia
9	Jadwa GCC Equity	Jadwa Investment	12.06	Saudi Arabia
10	Public Islamic Dividend	Public Mutual	11.57	Malaysia
	Eurekahedge Islamic Fund Index		**2.94**	

Based on 60.31% of funds which have reported August 2013 returns as at the 17th September 2013

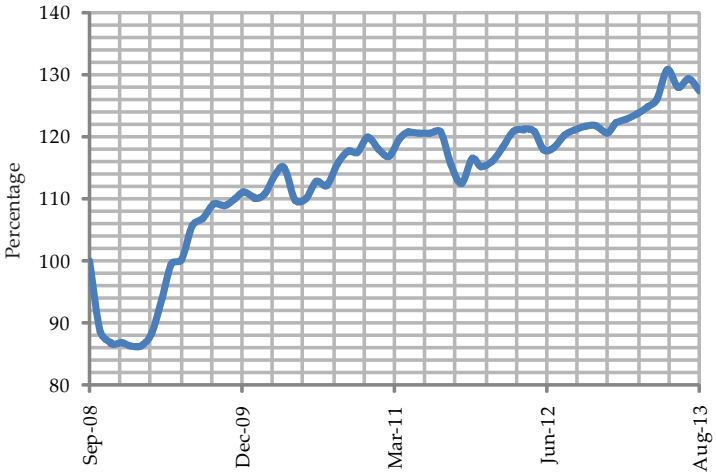
Top 10 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	27.08	Saudi Arabia
2	Al-Hadharah Boustead REIT	MIMB Investment Bank	10.93	Malaysia
3	Markaz Real Estate	Kuwait Financial Center	6.17	Kuwait
4	Al Dar Real Estate	ADAM	4.24	Kuwait
5	Al-'Aqar KPJ REIT	AmMerchant Bank	3.10	Malaysia
	Eurekahedge Islamic Fund Index		**3.22**	

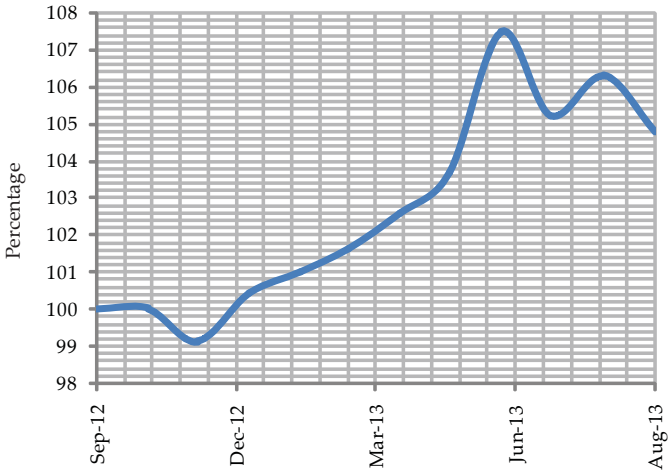
Based on 100% of funds which have reported July 2013 returns as at the 17th September 2013

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

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Annualized Returns for ALL Funds since Inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	RHB Islamic Cash Management	RHB Investment Management	0.01	Malaysia
2	RHB Islamic Income Plus 1	RHB Investment Management	0.07	Malaysia
3	Public Islamic Money Market	Public Mutual	0.13	Malaysia
4	PB Islamic Cash Management	Public Mutual	0.14	Malaysia
5	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.19	Malaysia
6	CIMB Islamic Deposit	CIMB-Principal Asset Management	0.20	Malaysia
7	PB Islamic Cash Plus	Public Mutual	0.23	Malaysia
8	Emirates Islamic Money Market Limited Institutional Share Class I USD	Emirates NBD Asset Management	0.26	Jersey
9	AlAhli Euro Murabahat	The National Commercial Bank	0.33	Saudi Arabia
10	Watani USD Money Market	National Bank of Kuwait	0.35	Cayman Islands
	Eurekahedge Islamic Fund Index		**8.65**	

Based on 60.31% of funds which have reported August 2013 returns as at the 17th September 2013.
Taking into account funds that have at least 12 months of returns as at the 31st July 2013

Top 10 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	2.41	Saudi Arabia
2	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	1.15	Saudi Arabia
3	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	0.65	Saudi Arabia
4	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	0.43	Saudi Arabia
5	Al Rajhi Multi Asset Growth	Al Rajhi Bank	0.40	Saudi Arabia
	Eurekahedge Islamic Fund Index		**(5.13)**	

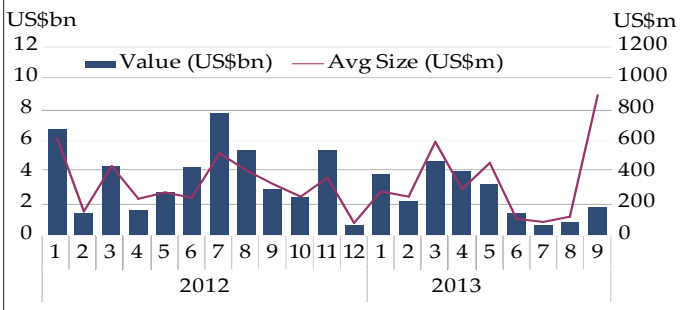
Based on 40.9% of funds which have reported August 2013 returns as at the 17th September 2013

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

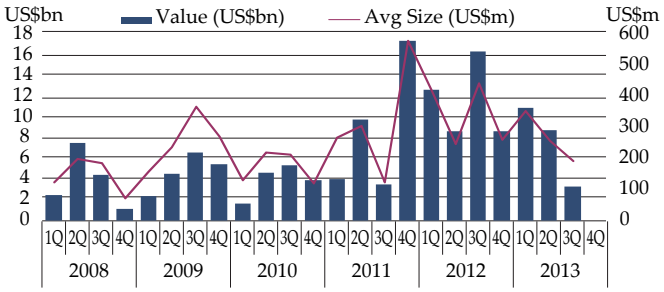
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
12th Sep 2013	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	245	CIMB Group, AmInvestment Bank, Maybank Investment Bank
10th Sep 2013	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	1,500	Standard Chartered Bank, Deutsche Bank, Citigroup
26th Aug 2013	Malaysia Airports Holdings	Malaysia	Sukuk Murabahah	Domestic market public issue	151	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
20th Aug 2013	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	305	HSBC, RHB Capital, CIMB Group, AmInvestment Bank
5th Aug 2013	Sarawak Hidro	Malaysia	Sukuk Ijarah	Domestic market public issue	154	CIMB Group, Maybank Investment Bank
29th Jul 2013	Swiber Capital	Singapore	Sukuk Wakalah	Domestic market public issue	119	DBS, Maybank Investment Bank
26th Jul 2013	Golden Assets International Finance	Singapore	Sukuk Murabahah	Domestic market public issue	156	RHB Capital
15th Jul 2013	National Higher Education Fund	Malaysia	Sukuk Murabahah	Domestic market public issue	189	RHB Capital, AmInvestment Bank
28th Jun 2013	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	628	AmInvestment Bank
25th Jun 2013	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	109	CIMB Group
21st Jun 2013	Tanjung Bin O&M	Malaysia	Sukuk	Domestic market private placement	147	CIMB Group, Maybank Investment Bank
3rd Jun 2013	Pelabuhan Tanjung Pelepas	Malaysia	Sukuk	Domestic market public issue	129	RHB Capital, Maybank Investment Bank
30th May 2013	Batu Kawan	Malaysia	Sukuk Musharakah	Domestic market private placement	163	CIMB Group, Maybank Investment Bank
29th May 2013	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,000	Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank
28th May 2013	Power & Water Utility Co for Jubail & Yabbu - Marafiq	Saudi Arabia	Sukuk	Domestic market private placement	667	HSBC
23rd May 2013	First Resources (Indonesia)	Indonesia	Sukuk	Domestic market public issue	199	RHB Capital
22nd May 2013	Cagamas	Malaysia	Sukuk Murabahah.	Domestic market public issue	166	RHB Capital, CIMB Group
21st May 2013	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	450	Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, QInvest, Bank Alkhair
14th May 2013	TNB Northern Energy	Malaysia	Sukuk Ijarah and Sukuk Wakalah	Domestic market public issue	543	HSBC, KAF Investment Bank
29th Apr 2013	Albaraka Turk Katilim Bankasi	Turkey	Sukuk Murabahah	Euro market public issue	200	BNP Paribas, Nomura, Emirates NBD, Al Hilal Bank, Barwa 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	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk Ijarah	Euro market public issue	2,500	7.6	Standard Chartered Bank, Deutsche Bank, HSBC, Citigroup
2	Saudi Electricity Global SUKUK Company 2	Saudi Arabia	Sukuk	Euro market public issue	2,000	6.1	Deutsche Bank, HSBC
3	Sadara Chemical Company	Saudi Arabia	Sukuk Musharakah	Domestic market public issue	2,000	6.1	Deutsche Bank, Riyad Bank, Al-Bilad Bank, Alinma Bank
4	Turus Pesawat	Malaysia	Sukuk Murabahah	Domestic market public issue	1,734	5.3	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,500	4.6	HSBC, Kuwait Finance House, Citigroup
6	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,000	3.1	Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank
6	Dubai Electricity & Water Authority	UAE	Sukuk Ijarah	Euro market public issue	1,000	3.1	Standard Chartered Bank, RBS, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
6	DIB Tier 1 Sukuk	UAE	Sukuk	Euro market public issue	1,000	3.1	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
6	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	1,000	3.1	Standard Chartered Bank, Morgan Stanley, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank
10	Medjool	UAE	Sukuk Wakalah	Euro market public issue	993	3.0	Standard Chartered Bank, Abu Dhabi Commercial Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
11	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	806	2.5	RHB Capital, AmInvestment Bank
12	Sime Darby Global	Malaysia	Sukuk Ijarah	Euro market public issue	800	2.4	Standard Chartered Bank, HSBC, Citigroup, Maybank Investment Bank
13	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	2.3	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest
13	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	750	2.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
15	Golden Assets International Finance	Singapore	Sukuk	Domestic market public issue	727	2.2	RHB Capital
16	Qatar International Islamic Bank	Qatar	Sukuk	Euro market public issue	700	2.1	Standard Chartered Bank, HSBC, Qatar National Bank
17	Khazanah Nasional	Malaysia	Sukuk Musyarakah	Domestic market private placement	687	2.1	CIMB Group, AmInvestment Bank
18	Power & Water Utility Co for Jubail & Yabbu - Marafiq	Saudi Arabia	Sukuk	Domestic market private placement	667	2.0	HSBC
19	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	581	1.8	AmInvestment Bank
20	TNB Northern Energy	Malaysia	Sukuk Ijarah and Sukuk Wakalah	Domestic market public issue	543	1.7	HSBC, KAF Investment Bank
21	Putrajaya Holdings	Malaysia	Sukuk	Domestic market private placement	507	1.6	CIMB Group, AmInvestment Bank, Maybank Investment Bank
22	Turkiye Finans Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.5	Saudi National Commercial Bank, HSBC, Citigroup, Noor Islamic Bank
22	SIB Sukuk Co III	UAE	Sukuk	Euro market public issue	500	1.5	Standard Chartered Bank, HSBC, Kuwait Fianance House, Al Hilal Bank
24	DanaInfra Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	490	1.5	RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank, Hong Leong Financial Group
25	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	448	1.4	Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, QInvest, Bank Alkhair
26	Savola Group	Saudi Arabia	Sukuk	Domestic market private placement	400	1.2	HSBC
27	Saudi Hollandi Bank	Saudi Arabia	Sukuk	Domestic market private placement	373	1.1	HSBC, Saudi Hollandi Bank
28	First Resources (Indonesia)	Indonesia	Sukuk	Foreign market public issue	330	1.0	RHB Capital
29	Imtiaz Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	327	1.0	CIMB Group, Maybank Investment Bank
30	Telekom Malaysia	Malaysia	Sukuk	Domestic market private placement	309	0.9	CIMB Group, Maybank Investment Bank, AmInvestment Bank, RHB Capital
					32,793	**100**	

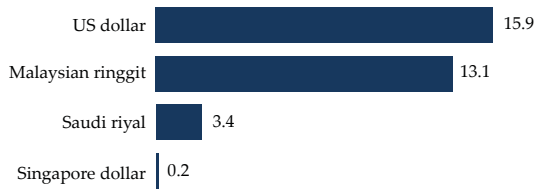
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	5,435	29	16.6
2	CIMB Group	3,276	37	10.0
3	Standard Chartered Bank	2,988	21	9.1
4	AmInvestment Bank	2,776	28	8.5
5	Deutsche Bank	2,595	6	7.9
6	RHB Capital	2,417	35	7.4
7	Maybank Investment Bank	2,295	32	7.0
8	Citigroup	1,695	7	5.2
9	Emirates NBD	859	7	2.6
10	National Bank of Abu Dhabi	797	7	2.4
11	Dubai Islamic Bank	682	4	2.1
12	Kuwait Finance House	681	4	2.1
13	Abu Dhabi Islamic Bank	532	3	1.6
14	Riyad Bank	500	1	1.5
14	Alinma Bank	500	1	1.5
14	Al-Bilad Bank	500	1	1.5
17	Hong Leong Financial Group	364	8	1.1
18	RBS	292	2	0.9
19	Lembaga Tabung Haji	284	4	0.9
20	KAF Investment Bank	271	1	0.8
21	QInvest	262	2	0.8
22	Qatar National Bank	233	1	0.7
23	Morgan Stanley	200	1	0.6
24	Saudi Hollandi Bank	187	1	0.6
25	Affin Investment Bank	186	4	0.6
26	Al Hilal Bank	181	3	0.6
27	Abu Dhabi Commercial Bank	166	1	0.5
28	Barwa Bank	165	2	0.5
29	OCBC	158	4	0.5
30	Noor Islamic Bank	125	1	0.4
30	National Consumer Cooperative Bank	125	1	0.4
30	Saudi National Commercial Bank	125	1	0.4
30	Natixis	125	1	0.4
30	Credit Agricole	125	1	0.4
	Total	**32,793**	**121**	**100**

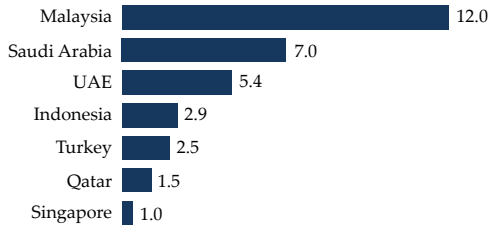
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	National Bank of Abu Dhabi	483	3	8.1
2	HSBC Holdings	483	3	8.1
3	Public Investment Fund	391	2	6.5
4	Arab Petroleum Investments	363	3	6.1
5	Samba Financial Group	352	2	5.9
6	Riyad Bank	291	2	4.9
7	Sumitomo Mitsui Financial Group	283	2	4.7
8	Mitsubishi UFJ Financial Group	272	2	4.5
8	Standard Chartered	272	2	4.5
10	Gulf International Bank	211	1	3.5

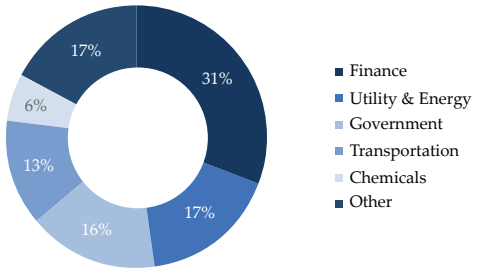
Sukuk Volume by Currency US$ (billion) *12 Months*



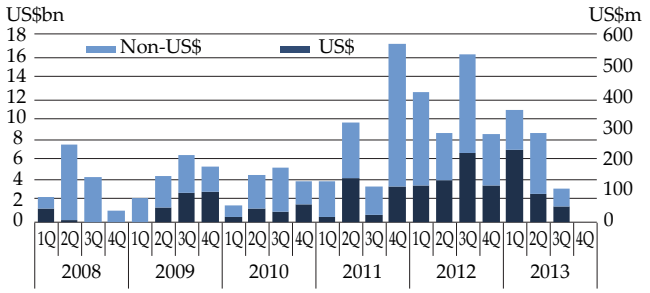
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



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

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	2,300	2	25.3
1	Clifford Chance	2,300	2	25.3
3	Sullivan & Cromwell	2,241	1	24.7
3	White & Case	2,241	1	24.7

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking

12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	Abu Dhabi Islamic Bank	682	7	5.9
2	Abu Dhabi Commercial Bank	482	3	4.1
3	Samba Capital	454	3	3.9
4	Standard Chartered Bank	406	3	3.5
4	Emirates NBD	406	3	3.5
6	SABB	384	2	3.3
6	Riyad Bank	384	2	3.3
6	Banque Saudi Fransi	384	2	3.3
9	First Gulf Bank	384	5	3.3
10	HSBC	368	2	3.2
10	Citigroup	368	2	3.2
12	Noor Islamic Bank	343	3	3.0
13	Mashreqbank	332	3	2.9
14	Dubai Islamic Bank	305	2	2.6
15	National Bank of Abu Dhabi	232	3	2.0
16	Saudi National Commercial Bank	218	1	1.9
16	Saudi Investment Bank	218	1	1.9
16	JPMorgan	218	1	1.9
16	Bank Al-Jazira	218	1	1.9
16	Arab National Bank	218	1	1.9
16	Al-Rajhi Banking & Investment	218	1	1.9
16	Al-Bilad Bank	218	1	1.9
23	Islamic Development Bank	197	2	1.7
24	Industrial & Commercial Bank of China	196	1	1.7
24	Deutsche Bank	196	1	1.7
24	Commercial Bank of Kuwait	196	1	1.7
24	Commercial Bank of Dubai	196	1	1.7
28	Al Hilal Bank	186	2	1.6
29	Union National Bank	172	1	1.5
29	Sumitomo Mitsui Financial Group	172	1	1.5
29	SG Corporate & Investment Banking	172	1	1.5
29	Mitsubishi UFJ Financial Group	172	1	1.5
29	Export Development Canada	172	1	1.5
29	Credit Agricole	172	1	1.5
29	BNP Paribas	172	1	1.5
29	Arab Petroleum Investments	172	1	1.5
29	Al Khaliji Commercial Bank	172	1	1.5

Top Islamic Finance Related Loans Mandated Lead Arrangers

12 Months

	Bookrunner	US$ (mln)	No	%
1	Abu Dhabi Islamic Bank	224	2	24.8
2	Samba Capital	191	1	21.1
3	QInvest	107	1	11.8
4	Standard Chartered Bank	64	1	7.1
4	Noor Islamic Bank	64	1	7.1
4	National Bank of Abu Dhabi	64	1	7.1
4	Emirates NBD	64	1	7.1
4	Barwa Bank	64	1	7.1
4	Arab Banking Corporation	64	1	7.1

Top Islamic Finance Related Loans Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
28th Mar 2013	Emirates Aluminium	UAE	3,400
10th Jun 2013	ICD	UAE	2,550
18th Dec 2012	Ma'aden	Saudi Arabia	2,400
9th Oct 2012	Turus Pesawat	Malaysia	816
26th Mar 2013	GEMS Education	UAE	545
28th Nov 2012	Sahara & Ma'aden Petrochemical Company	Saudi Arabia	498
2nd May 2013	Bank Asya	Turkey	383
5th Jun 2013	Gulf Marine Services	UAE	340
30th Sep 2012	Fawaz Abdulaziz Alhokair	Saudi Arabia	191
29th May 2013	Etihad Airways	UAE	168

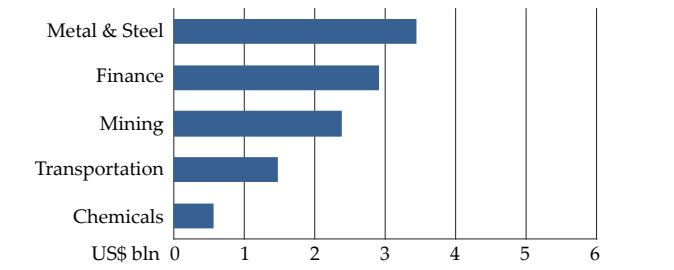
Top Islamic Finance Related Loans by Country

12 Months

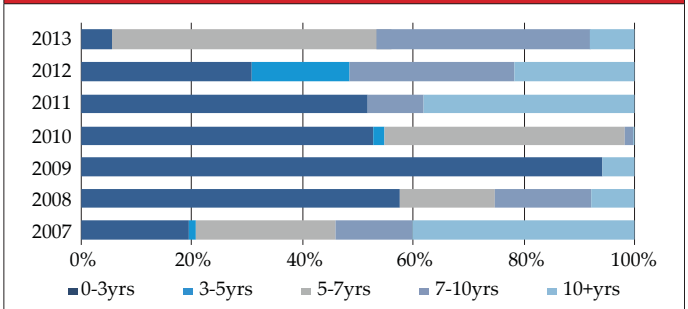
	Nationality	US$ (mln)	No	%
1	UAE	7,226	7	62.2
2	Saudi Arabia	3,089	3	26.6
3	Malaysia	816	1	7.0
4	Turkey	383	1	3.3
5	Qatar	107	1	0.9

Top Islamic Finance Related Loans by Sector

12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?

If you feel that the information within these tables is inaccurate, you may contact the following directly: Mandy Leung (Media Relations)
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SEPTEMBER 2013			
27th — 29th	1st Annual International Islamic Banking & Development Conference	Maputo, Mozambique	*Consultants International*
OCTOBER 2013			
2nd — 3rd	Kazan Summit 2013	Kazan, Russia	*IBFD Foundation*
6th	3rd Global Islamic Microfinance Forum	Dubai, UAE	*Al Huda CIBE*
21st — 22nd	**IFN Asia Forum**	**Kuala Lumpur, Malaysia**	***REDmoney Events***
22nd - 23rd	The 4th International Cyber Economic Crimes Conference	Kuala Lumpur, Malaysia	*Certified System Investigators*
NOVEMBER 2013			
4th	Islamic Finance: An Undiscovered Market in the United States	Washington DC, US	*Malaysia U.S. Chamber of Commerce*
7th	**IFN Hong Kong Roadshow**	**Hong Kong**	***REDmoney Events***
18th — 19th	**IFN Saudi Arabia Forum**	**Saudi Arabia**	***REDmoney Events***
20th — 21st	IREF Summit	London, UK	*ICG-Events*
25th	**IFN Africa Forum**	**Cairo, Egypt**	***REDmoney Events***
28th	**IFN Brunei Roadshow**	**Brunei**	***REDmoney Events***
DECEMBER 2013			
12th	**IFN Thailand Roadshow**	**Bangkok, Thailand**	***REDmoney Events***
16th — 18th	Halal Middle East	Sharjah, UAE	*Expo Centre Sharjah*

Islamic Finance *news*

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