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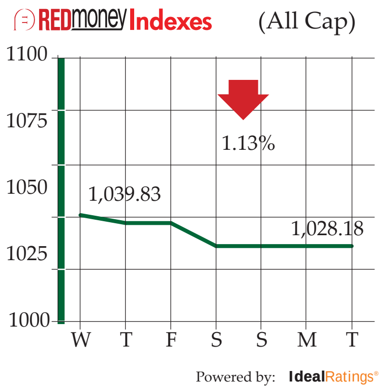

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Global food security: A ticking timebomb for the Islamic world

According to the United Nations Food and Agricultural Organization, global food production will need to double by 2050 in order to feed to projected population of over 9 billion. The chasm between global supply and demand has made securing a sustainable food supply a pressing issue for any country but for the Muslim world the situation is especially pertinent given the inverted geographic relationship between wealth and production capability. This week, we take a look at the pressing issue of global food security and how Islamic finance can assist in meeting this growing crisis.

Sub-Saharan Africa has the highest prevalence of hunger in the world (32%) while Asia Pacific is home to the highest number of malnourished people. Over 60% of the world's undernourished people live in Asia, mostly in Muslim majority countries; while the Middle East has a well-documented urgency to establish secure and sustainable food supplies for its growing population.

While the locus of Islamic wealth is centered around the GCC, these states overall suffer from a severely limited production capability and import up to 90% of their requirements. In comparison the most agriculturally fertile countries are often to be found in Asia and Africa, where despite large Muslim populations the economies are often less developed and less sophisticated, opening them up to exploitation from richer nations desperate to secure their future supplies.

Hdeel Abdelhady, founder of US law firm Masspoint and author of 'Islamic Finance as a mechanism for bolstering food security in the Middle East,' explains that: "The GCC states, while comparatively cash rich, desperately lack the arable land, water resources, human resources, and depth of agricultural experience necessary to produce food sustainably and at appreciable levels. By comparison, the relatively cash poor countries of the region, including Egypt, the Sudan, Algeria, Morocco, and the countries of the Levant, individually and together possess the agricultural land, climate conditions, human resources, and agricultural experience to produce food in appreciable quantities."

However, even in resource-rich and agriculturally fertile regions, challenges ranging from poor agricultural practices to water pollution, inefficient land planning, inaccessibility of finance for farmers, a lack of public investment, a lack of research and development, limited technological innovation and often high levels of corruption have exacerbated an already urgent situation and pushed regional food security to the top of the priority list.

Cause for concern

Every major Muslim market has cause for concern on this front. Malaysia has seen its food trade deficit rise steadily from RM1.1 billion (US$336.7 million) in 1990 to RM12 billion (US$3.67 billion) in 2012 despite being self-sufficient in many food commodities including eggs, fish and poultry, and the country experienced a worrying food crisis in 2008. As of 2014 it ranked 36th out of 107 on the Global Food Security Index; while Indonesia is in an even more serious position at 66. In South Asia Muslim nations are also struggling, with Bangladesh, Pakistan and Sri Lanka coming in at 76, 80 and 60. Africa fares even worse, with even relatively developed

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DEALS

Bank Negara Malaysia plans to launch six Islamic issuances in the first half of May

Property developer **Hua Yang** to issue Sukuk Murabahah worth up to US$76.63 million in nominal value for Shariah compliant land acquisition

Pelaburan Mara considering US$306.51 million Sukuk as a means to diversify funding sources

Finance minister confirms Pakistan's US dollar-denominated Sukuk issuance

Khazanah Nasional contemplating issuance of Sukuk worth US$1 billion according to reports

Dubai Financial Market announces the listing of US$750 million Sukuk by the Dubai government

Autoriti Monetari Brunei Darussalam successfully prices government short-term Sukuk Ijarah

Meethaq plans Oman's debut international dual currency Sukuk worth US$300 million

Tunisia to plug budget deficit by raising at least US$100 million through Sukuk in July

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DAMAC inaugurates Shariah-certified serviced apartments in Dubai

Meezan Bank's Shariah board approves general guidelines for conversion of conventional banking operations to Shariah compliant

The **IDB** seeking to address lack of trading in Islamic investment instruments through recently established office in Kuala Lumpur

Kyrgyz government hopes to rake in foreign investments following introduction of Sukuk and Takaful laws

State Bank of Pakistan to roll out new Islamic bank capital adequacy rules and Islamic liquidity framework within the next six months

Malaysian Islamic capital market now worth US$459.63 billion following 8.8% growth last year, according to **Securities Commission** deputy CEO

Meezan Bank begins due diligence on acquisition of **HSBC**'s Pakistani operations

Shariah Advisory Council of **Bank Negara Malaysia** reviews Shariah standards on Tawarruq, Musharakah and Mudarabah

Dubai FDI collaborates with **IHI Alliance** as an initiative towards an Islamic economy

Islami Bank Bangladesh to provide US$127.21 million for the Padma bridge project

ICD assumes control over one-third of **PMB Tijari**'s equities following signing of agreement

Bank Muamalat Malaysia eyes partnership with ASEAN Islamic banks while its majority shareholder looks to divesting 30% of its stake

GreenTech working with **Malaysia International Islamic Financial Center** to promote Shariah compliant financing for green development projects outside Malaysia

Saudi Institute of Banking partners with **Bahrain Institute of Banking and Finance** to jointly develop banking and finance in the region

ICD signs MoU with the **European Bank for Reconstruction and Development** to support SMEs in North African countries

I-Deal debuts region's first Islamic managed commodity account

Dubai Islamic Bank hopes to conclude 40% stake acquisition in Indonesian Islamic bank and begin Kenyan expansion plans before the end of 2014, reveals CEO

Islamic finance assets worldwide to hit US$2 trillion mark in 2014 as international community rally their efforts and global trade flows in MENA and OIC grow, according to **KFH Research**

Market optimistic for a record year as April sees surge in global Sukuk sales to US$6.1 billion, highest since September

IDB financing crosses US$100 billion mark

Bahrain Bourse links with **Kuwait Clearing Company** to facilitate transfer of shares between Bahrain and Kuwait

Islamic Finance *news* launches inaugural roundtable series in Dubai

National Bank of Abu Dhabi predicts decrease in the profitability of lending for UAE banks

Emirates Islamic targets Abu Dhabi to increase brand awareness

Omani bank loans comprising both conventional and Shariah compliant see 10% increase with total lending reaching US$35.13 billion

High standards in Islamic arbitration a target for the UAE, according to minster of justice

TAKAFUL

Syarikat Takaful Malaysia maintains **RHB Research** buy recommendation

Interest from US insurer in Malaysian Takaful company to strengthen economic ties

Takaful Oman Insurance to finally open its doors for business after multiple delays

Pakistani operators agree to formal information-sharing mechanism for **Family Takaful** and life insurance players

Malaysian Takaful market set to grow at an annual growth rate of 19.14% over 2013-18, according to research report

RATINGS

Fitch extends 'A' long-term issuer default ratings to **Qatar Islamic Bank** and **Qatar International Islamic Bank**

Etiqa Takaful receives 'A' rating from **Fitch** based on its strong liquidity and operating profitability

Positive growth trajectory for Dubai property market leads **S&P** to afford 'BB' rating to **DAMAC**'s Sukuk

Moody's upgrades outlook on **International Bank of Azerbaijan**'s global scale ratings to positive

MOVES

Two senior bankers leave **National Bank of Abu Dhabi** for new opportunities, according to sources

National Bank of Abu Dhabi appoints new group chief financial officer

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Muslim-majority nations such as Egypt (57), Nigeria (85) and Morocco (59) coming in at the lower end of the scale.

Despite its position as one of the fastest-growing regional economies and a nexus of Islamic wealth, the Middle East is also in a very serious position. The Arab world has struggled with extremely poor domestic arable conditions combined with poor infrastructure, political instability and a lack of investment and research in many parts of the region. According to the World Trade Organization, between 1990 and 2012 the Middle East agriculture trade deficit increased from US$6 billion to US$79 billion. Of the MENA area Saudi Arabia comes highest on the global index at 31, as the largest food exporter in the Arab world (US$2 billion a year) yet still reportedly only uses around 15-20% of potential capacity. The index does not rate the rest of the GCC nations including Bahrain, Kuwait, Oman, Qatar or the UAE.

Calls for change

However, the GCC has been one of the most vocal and most active areas in calling for action due to its major issues of water scarcity, limited arable land and history of inadequate investment. By 2030 the Middle East is expected to see its combined Muslim population increase by 36% to around 440 million. The UAE minister for water and environment, Dr Rashid Ahmed Mohammed bin Fahad, in February 2014 commented that: "The region is entering a new period of economic growth underpinned by a burgeoning population with a high dependence on imported food from around the world. Food security is an immediate priority. Development and execution of a core food security platform is essential to provide a sustainable growth platform."

Imports account for 80-90% of the GCC's current consumption, and with food prices set to increase by up to 50% over the next few years combined with concerns over the volatile price of oil, the issue is becoming ever more challenging. The UAE minister of finance last year called on the Arab world to invest over US$80 billion in agriculture to help tackle the widening food gap, which could more than double from US$41 billion to an estimated US$89 billion by 2020.

Agricultural investment

While strategies such as subsidies, bilateral treaties, export bans, price ceilings and other public policy measures are used, investment in agriculture is an increasingly significant trend, both domestically and internationally, although it throws up its own problems.

The Gulf states began investing heavily in overseas land after a food crisis in 2008 sent food commodity prices up while the price of oil at the same time briefly tumbled. Although expensive programs to increase domestic food production programs have been initated, such as Saudi Arabia's domestic wheat-growing program, these have struggled due to the climate and water shortages of the region, thus turning Gulf companies towards international arable investments instead.

In April 2013 the Arab Authority for Agriculture Investment and Development (an organization of 20 Arab and African states seeking food security for their population) agreed to double its capital following the annual meeting of Arab Financial Institutions, at which food security was a priority issue. Of the 49 agricultural land deals between 2006-09 a reported 21 of these involved Arab countries (Saudi Arabia with five, UAE four, Qatar and Bahrain three, Kuwait and Libya two and Jordon and Egypt one each). With the majority of these investments in Africa and Asia and 11 of them made in Muslim-majority countries, they represent just a fraction of the investment interest out there. Saudi Arabia and the UAE already hold an estimated 2.8 million hectares of land overseas in regions such as the Philippines, North Africa and South Asia.

Egypt recently offered 25,000 hectares up for lease to Arab investors, hoping to attract funds to develop its under-used arable land which due to water shortages and under-investment so far forces the country to import 40% of its domestic requirements. Abu Dhabi investment firm Jenaan has already accumulated about 67,000 hectares of arable land in Egypt, although the firm's investment has been hit by high export taxes, labor strikes and fuel shortages making the profitability of the investment doubtful. Originally planning to use the land for livestock feed, the firm has since turned to wheat production. "We were incurring loss after loss," explained chairman Mohammad al Otaiba. "So now in Egypt we will only grow grains and we will also work in the dairy business — but all for local consumption."

New colonization

Yet as nations scramble to secure their supply chains, questions are being raised not only about their methods, but about their sustainability. The legal and political risk of these 'land grabs' of cheap fertile land in poor economies by rich nations has been likened to a new version of 19th century colonization, and these purchases inevitably remain vulnerable to political capture or influence (such as export bans, taxes, land appropriation etc) should the host country experience its own food shortages. Several organizations have already called for the regulation of overseas investment in agricultural land, and the International Food Policy Research Institute has recommended that investors refrain from exporting crops if the producing country is experiencing its own food shortages.

Looking west

These concerns have led Muslim nations to look west, turning to Europe the US and Australasia for new opportunities and looking at private sector activity as well as straightforward land purchases. UAE agricultural firm Al Dahra recently bought eight agricultural firms in Serbia for US$400 million, on the grounds that Serbia as a major net food exporter would be less sensitive to foreign-owned farming and the investments would thus be less volatile. The Abu Dhabi Fund for Development has also provided a US$400 million loan to Serbia's agricultural sector, while UAE firms such as Al Dahra and Jenaan have also invested in the US and Spain; and Hassad Food, the agricultural arm of Qatar's sovereign wealth fund, has reportedly set up an Australian subsidiary to produce wheat, barly and livestock. In June this year Saudi-based United Farms Holding Co (which is owned by the Saudi Agriculture and Livestock Investment Co, the Saudi Grain and Fodder Holding and Saudi's largest food producer, Almarai) acquired Continental Farmers Group, which has operations across eastern Europe.

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"Often you have companies that have reached a certain level and they need investments to move to the next level themselves, so it makes a good partnership for us," said Brian Barriskill, supply chain director at Al Dahra.

Strategic partnerships

Khalifa Ahmed Al Ali, the managing director of the UAE Food Security Center, highlights the importance of public and private sector partnerships. "Empowering the private sector is at the core of our long-term strategy to achieve food security. For example, when we decided to import forage instead of growing it locally, we sought not just to import but also to create long-term trade partners. Accordingly, the government signed long-term contracts with some private companies that then invested in land abroad and sold their product to the government."

The Abu Dhabi government subcontracts the delivery of food to private companies, and buys the products from them at market rates but passes them onto consumers at subsidized rates: a model which to some extend protects it against price volatility. "For example, due to the drought conditions in the US this year, the price of forage has risen significantly and that has affected the dairy industry," explained Khalifa to the Abu Dhabi Council for Economic Development."Our long-term contracts with private companies for forage have helped us remain more secure than others."

In March of this year at an Agribusiness forum in Dubai Syed Tariq Husain, CEO of Emirates Investment, also emphasized the importance of corporate involvement to boost investor appetite. "Both public and private sectors need to identify research policies, choose the best technologies to improve productivity in a particular location, and develop investment strategies for expanding agribusiness and infrastructure. Countries such as Saudi Arabia have made mistakes in the past by investing in projects like wheat and cattle farming, which are highly water intensive and not sustainable. We need to explore alternatives, for example investing in agricultural land abroad or leasing land to a professional who can manage it more efficiently with better practices."

A collaborative effort

One problem is that the Muslim world has so far failed to address the issue in unison, but instead each country has pursued its own goals and policies. Hdeel explains that: "Arab governments must pursue food security solutions that are economically, politically, socially, and ethically sustainable. Measures taken by Arab countries thus far fail to address food insecurity comprehensively or at its root… [while] at the regional level, Arab governments have yet to take coordinated steps to combat food insecurity; and as a region, the Middle East has not explored its potential to sustainably bolster food security by marshaling its combined monetary, natural, and human resources for the long-term benefit."

This can be achieved through cooperation, suggests Syed. "MENA countries can succeed in conducting cost effective policies to achieve sustainable agricultural growth by forming strategic partnerships with countries in the Central Asian Republic, North Africa, Pakistan and Turkey. These countries

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Multilateral agency assistance

While the private sector has a role to play, collaboration with development agencies such as the IDB and the Islamic Corporation for the Development of the Private Sector (ICD) are also vital to develop unified programs across the Muslim world. In 2008 the IDB adopted the Jeddah Declaration for Food Security in reaction to the global food crisis, which severely affected most IDB member countries. In the declaration the IDB Group committed a financing package of US$1.5 billion spanning a period of five years to assist the affected member countries in ensuring food security and revitalizing the agricultural sector. By the end of 2012, IDB approvals for food security projects stood at US$1.3 billion, representing 86.7% of the total target amount. The IDB has contributed US$988.7 million in 35 countries while the Islamic Trade Finance Corporation (ITFC) and ICD contributed US$255.4 million and US$56.5 million, respectively.

In 2012 the ICD launched a US$600 million Food & Agribusiness Fund to address food security across the Islamic world, in collaboration with asset management team Robeco, a subsidiary of Dutch Rabobank. The fund invests in a range of strategic and commercially sustainable initiatives across the whole food and agriculture value chain, making private equity investments in partnership with the private sector. Khalid Al-Aboodi, CEO of the ICD, commented that: "The fund is the first public private partnership of this nature and size to address the inefficiencies and wastage facing the food and agricultural sector throughout our member countries. Boosting regional food production, supply and trade, the fund's investments will also lead to creation of jobs, transfer of technology, promotion of sustainable practices and poverty alleviation."

In April of this year a further initiative was launched with the signing of an MoU between the ICD and Emirates Future Group, supported by the deputy prime minister of the UAE Sheikh Mansour bin Zayed Al-Nahyan. The deal aims to promote economic development and investment between OIC member countries through the creation and expansion of institutions and private sector firms in order to strengthen Islamic food security and develop the Halal food industry. A join cooperation plan has been agreed in order to enter new markets, insure investments and build alliances between member companies. The MoU also agrees to support the ICD Food & Agribusiness Fund launched in 2012. "The cooperation between ICD and EF will make their activities more effective and useful for the sectors of food security and Halal food all over the world," said Khaled. Humaid Al-Neyadi, the chairman of Emirates Future Group, also noted that: "The coordination between the private sector and the international development institutions has a big role in developing the food security sector in the Islamic world."

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are easily accessible and have strong transport links to ensure a constant and efficient supply of produce."

> ***"As a region, the Middle East has not explored its potential to sustainably bolster food security by marshaling its combined monetary, natural, and human resources for the long-term benefit"***

Tools for success

And the Islamic finance industry has a few more tricks up its sleeve that could assist with the situation. For example, Hdeel proposes the establishment of a multilateral food security Waqf fund as a mechanism for investment in future food security. "A food security Waqf would serve as a vehicle for allocating and organizing capital and other resources for investment in agriculture and the financing of essential activities such as research, technological innovation and transfer, agricultural production capacity building and income-generation." Importantly, this method would also "directly or indirectly facilitate much needed access to finance, including by small farmers, small and medium enterprises, and other parties across the food supply chain… based on profit and loss sharing through Islamic financing modalities". Waqf has a long tradition in Islamic finance, as well as being a comparatively safe investment vehicle and relatively well-insulated from political interference due to its charitable status.

Other experts have suggested alternative investments to encourage the private sector. Rushdi Siddiqui of DinarStandard argues that Halal needs to develop further as a real and viable asset class, in order to encourage sustainable private sector investment. "An opportunity exists to address food security issues in the growing and expanding Muslim world via a roll-up strategy of privately-held SMEs," he suggests. This could be done, for example, through a private equity Halal agro-food buyout fund which utilizes Islamic finance structures and Sukuk to converge the two markets.

An urgent need

Whatever the solution, its urgency is clear. As Muslim countries are net importers, they do not control their own supply chain, which makes them exceptionally vulnerable to price volatility. Although approaches such as the Abu Dhabi government's long-term contracts model can protect from volatility to some extent, and there are a range of Islamic finance initiatives that hold great potential to assist, it is clear that a sustainable and coordinated solution must be developed to utilize this tools — and the only way this is likely to be achieved is through collaboration rather than competition.

Perhaps it is time that Muslim nations stopped viewing themselves as individuals and started thinking of the OIC as a team. — *LM*

DEALS

BNM issuance plan

MALAYSIA: Bank Negara Malaysia is planning six Islamic issuances for the first half of May with amounts ranging between RM200 million (US$61.3 million) to RM3 billion (US$919.54 million).

Green light for Hua Yang

MALAYSIA: Property developer Hua Yang has been approved by the Securities Commission to set up a Sukuk Murabahah program worth up to RM250 million (US$76.63 million) in nominal value. Proceeds from the unrated, non-transferable and non-tradable Islamic debt, will be channeled to part-finance the acquisition of Shariah compliant development land/landed properties. The Sukuk will be subscribed by Public Bank in its capacity as the sole investor.

PMB eyes Sukuk

MALAYSIA: The asset management unit of Majlis Amanah Rakyat, Pelaburan Mara (PMB), is considering issuing Sukuk to raise funds for its investment activities, debt capital and to grow its asset management business, according to group CEO Nazim Rahman. The size of the potential issuance is yet to be determined, but Nazim has placed a RM1 billion (US$306.51 million) ballpark figure. No submissions have been submitted to the Securities Commission as internal discussions are still taking place.

ABHC Sukuk due

MALAYSIA: The coupon on ABHC Sukuk's RM1 billion (US$306.51 million) Sukuk Wakalah (stock code: VE130282) is due and payable on the 8th May.

Pakistani Sukuk confirmed

PAKISTAN: Ishaq Dar, the finance minister of Pakistan, has confirmed that it will be issuing a US-dollar denominated Sukuk in the near future. He also pointed out that its recent successful US$7 billion US dollar bond issuance bears testament to the confidence of the international community in the revival of Pakistan's economy.

Potential issuance for Khazanah?

MALAYSIA: Government-owned Khazanah Nasional is considering the sale of US dollar-denominated Sukuk worth up to US$1 billion which would be exchangeable into shares of companies controlled by Khazanah, according to local reports. Sources claim that the company is in the process of choosing banks for the Sukuk and that a decision has yet to be made on which equities would be included in this offering.

Dubai listing

UAE: Dubai Financial Market has announced the listing of the US$750 million Sukuk for the government of Dubai, which has been issued with a 15-year tenor.

Brunei prices 103rd and 104th Sukuk

BRUNEI: Autoriti Monetari Brunei Darussalam, the central bank of Brunei, has successfully issued two Sukuk Ijarah securities worth a total of BHD200 million (US$157.40 million). The issuances form the 103rd and 104th of the government short-term Sukuk Ijarah program and were issued at a rental rate of 20bps and 16bps respectively. The first issue, made on the 20th March, will mature on the 18th December as it carries a 273-day maturity period while the latter, a 91-day facility issued on the 17th April 2014, will mature on the 17th July.

Special resolutions approved

MALAYSIA: Approval has been passed on the Special Circular Resolutions of the Al-'Aqar Capital RM1 billion (US$307.73 million) Sukuk Ijarah program, following agreement by all classes of Sukukholders. The resolutions passed include the approval to waive the required notice period for special resolutions, approval of an extension of six months for the partial early redemption of class C Sukuk Ijarah and approval for Maybank Investment Bank to implement the special resolutions without further reference to the Sukukholders.

Top performance for Dana Gas Sukuk

UAE: The Dana Gas convertible Sukuk was the best-performing dollar Sukuk in the world in April, according to data from Bloomberg making 3.46% return last month, compared to the average 41bps return for all US dollar-denominated Sukuk. The rise is attributed to investors converting

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their Sukuk into shares, with Dana Gas receiving US$51 million of conversion notices this year as of the 15th March. The company has yet to issue first quarter results.

Meethaq plans Sukuk

OMAN: Meethaq, the Islamic arm of Bank Muscat, is planning a dual currency Sukuk issuance under its OMR500 million (US$1.3 billion) Islamic debt program, pending regulatory approval. Expected to carry tenors of between three and five years, the facility could debut at around US$300 million and will be used to fund Meethaq's expansion, according to Sulaiman Al Harthy, the group general manager of Meethaq. The program is said to be the first international Sukuk issuance from Oman.

Nu Sentral issues

MALAYSIA: Retail mall operator Nu Sentral has announced the issuance of a RM25 million (US$7.65 million) Islamic facility under an Islamic medium-term note program of up to RM600 million (US$183.68 million). Privately-placed, proceeds raised will be utilized to part finance the advance lease payment for the lease of the retail mall, pre-operating expenses and to fund the minimum balance requirement in the Finance Service Reserve Account. The issuance carries a tenor of 50 months and a profit rate of 5%. RHB Investment Bank acts as the principal adviser to the deal.

Tunisia plans Sukuk

TUNISIA: Tunisia will continue with its debut Sukuk plan after months of delay with a sale expected to be executed in July after the Supplementary Finance Law is ready (end of June), according to finance minister Hakim Ben Hammouda. Proceeds from the TND180 million (US$111.93 million) sale will be used to mobilize the country's budgetary resources this year. Tunisia is hit with a worsening trade deficit and according to prime minister Mehdi Jomaa, external borrowing needs have doubled initial estimates to US$8 billion.

Jimah Sukuk due and payable

MALAYSIA: The principal and profit payment of Jimah Energy Venture's RM4.85 billion (US$1.49 billion) Istisnah medium-term notes issuance are due and payable on the 12th May.

DEAL TRACKER Full Deal Tracker on page 35

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Meethaq	OMR	1.3 billion	5th May 2014
Khazanah Nasional	TBA	Up to 1 billion	2nd May 2014
Government of Pakistan	TBA	TBA	2nd May 2014
Pelaburan Mara	RM	306.51 million	30th April 2014
Hua Yang	RM	RM250 million	30th April 2014
Bank Negara Malaysia	RM	61.3 - 919.54 million	30th April 2014

DAMAC inaugurates Shariah-certified serviced apartments in Dubai

UAE: DAMAC Hotels, the hospitality arm of DAMAC Properties, has officially launched Constella, the first fully-certified Shariah compliant serviced hotel apartments. Situated in Jumeirah Village, Dubai, the design and specifications of the project have been certified to be Shariah compliant by Dar Al Sharia.

Expected to be completed in the year 2017, prices for Constella units start at AED702,000 (US$191,200). All funds for the project are managed by an undisclosed Islamic bank. DAMAC has recently issued US$650 million in Sukuk for capital-raising purposes. According to a source working on the Sukuk deal, proceeds from the issuance will be channelled towards general corporate purposes, potentially to include the acquisition of additional land bank. The full management of the project will be carried out according to Shariah principles and result in the issuing of a Shariah certification by Dar Al Sharia.

Commenting on the new project, Ziad El Chaar, the managing director of DAMAC Properties, explained that the company has been keen in bringing a fully-certified Shariah compliant product to the market for quite some time. "Constella presents a unique opportunity to invest in the Dubai real estate market, in line with the principles and beliefs of many of our customers, particularly those from the kingdom of Saudi Arabia and here in the UAE," said Ziad.

Apart from being an alcohol-free establishment, Constella will also have separate swimming pools for men and women as well as separate gymnasiums and saunas. The restaurant will similarly have a single section for men and a separate family section. There will also be dedicated floors provided for ladies that will only be served by female staff. Each Constella unit comes complete with a fully-fitted kitchen and daily housekeeping services, with access to a restaurant, kids club and swimming pool.

On the back of positive growth prospects for Dubai's property sector, S&P has assigned a 'BB' long-term corporate credit rating to DAMAC, which also extends to its five-year Sukuk issuance. The rating agency does not foresee an oversupply of residential properties over the next 12-18 months.

ASIA

Meezan approves conversion guidelines

PAKISTAN: The Shariah Supervisory Board (SSB) of Meezan Bank has approved general guidelines for the conversion of conventional banking operations to Shariah compliant operations, following the growing interest in the conversion by conventional banks in Pakistan. The SSB also approved three product structures with the use of Sukuk and mutual funds specifically made for banks undergoing the conversion from conventional to Shariah compliant operations.

IDB opens office in KL

MALAYSIA: The IDB, which received a license in February to open an office in Malaysia, has hired two traders and will act as an intermediary for business between Asia and the Middle East. In its effort to encourage trading in Islamic products, the multilateral financier will begin offering Shariah compliant investment products in Kuala Lumpur, with a particular focus on money market instruments, foreign exchange and Sukuk, reported Bloomberg.

Kyrgyzstan develops Sukuk rules

KYRGYZSTAN: Following the announcement to develop Sukuk and Takaful laws for the country, Tayirbek Sarpashev, the first vice-prime minister of the Kyrgyz Republic, looks to expand Islamic finance to attract more foreign investments into the republic.

The government has engaged international legal firm Simmons & Simmons to assist in developing regulations for Sukuk and Islamic insurance. No time frame on the release of the regulation has been given.

SBP to implement new rules

PAKISTAN: As part of its five-year strategic plan to promote Islamic finance, the State Bank of Pakistan is looking to develop a roadmap within the next six months which will see the gradual change of minimum capital requirements (MCR) for Islamic branches and subsidiaries over a period of five years, Reuters reported Saleem Ullah, the director of the central bank's Islamic banking department, as saying. The amendment includes lowering MCR for Islamic subsidiaries while Islamic branches operated by conventional banks will see an increase in MCR.

An Islamic interbank money market is also in the works as the SBP is in the process of finalizing details on a Shariah compliant liquidity framework, which is to be available in the next three to six months, according to Ullah.

Industry figures for Malaysia

MALAYSIA: The Malaysian Islamic capital market is worth RM1.5 trillion (US$459.63 billion), following an 8.8% growth from 2013, according to Nik Ramlah Mahmood, the deputy CEO of Securities Commission Malaysia. Nik also said that 71% of companies listed on Bursa Malaysia are considered Shariah compliant.

With regards to the country's RM97.5 billion (US$29.88 billion) Islamic fund management industry, RM42 billion (US$12.87 billion) is accounted for by Shariah compliant unit trust funds which registered a 21% growth last year.

Meezan performs due diligence on HSBC purchase

PAKISTAN: Islamic financier Meezan Bank has begun due diligence on its proposed acquisition of HSBC's businesses in Pakistan, which is subject to regulatory approval by the State Bank of Pakistan. HSBC, which has been trying to offload its Pakistani operations for the past two years, has 10 branches in the republic.

SAC reviews Shariah standards

MALAYSIA: The Shariah Advisory Council of Bank Negara Malaysia (SAC), during its 146th meeting on the 29th April, discussed on issues relating to the Shariah Standard on Tawarruq, and concluded that the arrangement of 'dual agency' in Tawarruq must be supported by proper evidence of Murabahah transaction between the principal and the agent. According to the view of the SAC, Hiwalah Al Dayn (transfer of debt to third party) releases the buyer's obligation to settle the debt arising from Murabahah under the Tawarruq arrangement. The SAC also endorsed the Shariah Standard on Musharakah and revised certain provisions of the Shariah Standard on Mudarabah.

Dubai FDI collaborates with IHI Alliance

UAE: Dubai Investment Development Agency (Dubai FDI), an agency of the Department of Economic Development (DED), has joined forces with the International Halal Integrity Alliance (IHI Alliance) to support the growth of the local and regional Halal industry in line with the evolution of Dubai into a hub and resource center for Islamic economy.

Dubai FDI will assist IHI Alliance to set up its regional office in Dubai, in a move called the 'IHI Alliance Middle East' chapter. IHI Alliance Middle East will provide Halal industry training for businesses, government agencies, Halal auditors and Halal certification companies with emphasis on professional and Islamic integrity. The global Halal industry is thought to account for approximately US$632 billion annually with an estimated growth rate of 29% per year. The Halal food industry currently represents almost 17% of the world's total food industry; with key Halal markets being the GCC countries (see IFN Vol.10 Iss. 48).

Fahad Al Gergawi, CEO of Dubai FDI, conveyed that the arrival of IHI Alliance has great significance as the local Halal sector is set to see unprecedented demand and supply following the Islamic economy initiative. "The Islamic economy initiative calls for the best standards and practices, which would reflect Dubai's focus on being the best. The IHI Alliance Middle East will promote knowledge exchange and transfer of skills required for all Halal industry stakeholders to achieve global recognition through leadership in quality, safety and sustainability," explained Fahad.

IHI Alliance is an international non-profit organization created to uphold the integrity of the Halal market concept in global trade through recognition, collaboration and membership with the Islamic Chamber of Commerce and Industry.

For an in-depth analysis of the Halal financing sector refer to our most recent IFN cover story of the 30th April (IFN Vol.11 Iss.17) — 'Does Halal financing have a limited shelf-life?'. For further information, watch out for the next in our Halal series, with a cover story on Islamic global food security released on the 7th May.

Padma bridge financing

BANGLADESH: AHM Mustafa Kamal, Bangladesh's minister of planning, has affirmed that Islami Bank Bangladesh, a partner organization of the IDB, will provide BDT10 billion (US$127.21 million) for the construction of the Padma bridge project.

ICD signs agreement

MALAYSIA: The Islamic Corporation for the Development of the Private Sector (ICD) has signed an agreement with Malaysia's PMB Tijari, a new subsidiary of Pelaburan MARA. Through the accord, ICD now controls about one-third of PMB Tijari's equities. PMB Tijari's primary focus is in the commercial sector of the Islamic financial services.

Bank Muamalat's 2014 plans

MALAYSIA: Bank Muamalat Malaysia is looking to diversify its depositor base in a bid to grow its total deposits by up to 20% this year, up from the present RM15 billion (US$4.6 billion), according to CEO Mohd Redza Shah Abdul Wahid.

The Islamic bank, which is targeting to expand its domestic branch network by another four to five branches, is also exploring the possibilities for partnerships with other Shariah compliant banks in the ASEAN region, expected to take place within the next year. DRB-Hicom, Bank Muamalat's majority stakeholder (70%), is also planning to divest 30% of its stake in the bank. Chief operating officer Asri Awang projected that 60% of the bank's anticipated 15% financing growth this year will be attributed to its consumer banking operations with the rest from SMEs, corporate and investment activities.

Green bank coming soon?

MALAYSIA: Despite being perceived as a natural fit with Shariah finance, raising funds for green projects through Sukuk has not generated interest from Malaysian companies, according to Malaysian Green Technology Corp (GreenTech) CEO Ahmad Hadri Haris. GreenTech, who is studying a proposal to set up a dedicated green financial institution to finance clean and low-carbon projects, is working with the central bank's Malaysia International Islamic Financial Center to promote Shariah compliant financing for green development projects outside Malaysia.

Until October 2013, a total of financing worth RM300 million (US$92.08 million) was afforded to 17 green technology projects by six Islamic banks as compared to 109 projects receiving RM1.5 billion (US$460.38 million) from 22 conventional banks.

GLOBAL

OIC Ombudsmen convene

GLOBAL: Iran has highlighted the need for effective joint networking of Ombudsmen of OIC member states and the need for eliminating corruption from social institutions at the two-day conference of the OIC Ombudsmen being held in Islamabad. The conference is being attended by delegates from 24 OIC countries, as well representatives from the OIC and the IDB.

Collaboration between banking institutes

GLOBAL: The Saudi Institute of Banking has signed an MoU with Bahrain Institute of Banking and Finance to strengthen ties between the two organizations, with the aim of developing joint initiatives to advance the banking and finance sector in the region. The institutes plan to develop training schemes and launch globally accredited professional certifications.

GFH turns a profit on Leeds United

GLOBAL: The annual report for Gulf Finance House (GFH) has confirmed that the investment bank made a net profit of US$6.46 million from its time as majority owner of Leeds United Football Club. Following a protracted sale process, the club was sold to new majority owner Eleonora Sport, although GFH maintains a 10% stake.

ICD to support European SMEs

GLOBAL: The ICD, the private sector arm of the IDB, has signed an MoU with the European Bank for Reconstruction and Development (EBRD) marking a collaboration between the two entities to support SMEs in Egypt, Jordan, Morocco and Tunisia. The terms of the MoU include the establishment of a US$120 million investment to support SMEs across the southern and eastern Mediterranean region through innovative transaction structures.

I-Deal debuts region's first Islamic managed commodity account

UAE: I-Deal Commercial Broker, a Dubai-based commodity trading firm, has introduced MAWTHOOQ, a Shariah compliant managed commodity account. Touted as the first to be introduced in the region, the account provides an avenue for investors to invest in precious metals using Dubai Gold and Commodities Exchange (DGCX)'s gold and silver markets in a Shariah compliant manner.

At a minimum investment margin of US$200,000, MAWTHOOQ facilitates investments in the precious metals market making it simple, easy and cost-effective for Shariah compliant investors. Although the account uses DGCX contracts, client investment activities are strictly Islamic. All trading transactions including payments and deliveries are conducted in a Shariah compliant manner.The account is approved by the Shariah Supervisory Board of Amanie Advisors, who will continuously monitor the product across the transaction cycle to ensure its compliance with Shariah principles.

According to Gary Anderson, CEO of DGCX, the account fills a key gap in the market for Shariah compliant investments in the precious metals asset class. "By making investments in this market more convenient and accessible for Shariah compliant investors, MAWTHOOQ is a valuable addition to the pool of Islamic investment products available in the region," he explained.

Sufian Ali Saeed Bin Suloom, the chairman of I-Deal, shared similar views and pointed out that MAWTHOOQ was well received by Shariah compliant investors in the UAE and GCC markets. "Our managed commodity account, MAWTHOOQ, allows Shariah compliant investors to pursue potentially high returns in the gold and silver markets. Our robust risk management system supports our strategic and business planning to trade efficiently for clients."

The development of the account is said to be an innovation in the industry. It provides Shariah compliant investors access to a wider selection of investments and to different assets classes.

DIB expands global footprint

GLOBAL: Dubai Islamic Bank (DIB) has begun talks with a publicly-listed Shariah compliant bank in Indonesia for a possible 40% stake acquisition which is hoped to be executed before the end of the year using the DIB's cash reserve, said CEO Adnan Chilwan. The Indonesian bank of interest however, has not been revealed.

DIB is also looking to expand into Kenya by means of establishing a new bank to be funded from its balance sheet and in-house resources. This project is also hoped to be begun before the year ends.

Hitting US$2 trillion this year

GLOBAL: KFH Research anticipates for global Islamic finance assets to exceed the US$2 trillion mark this year boosted by aggressive spending on infrastructure projects by governments, stronger participation by governments, regulatory bodies and the international financial community as well as growing interest in Shariah compliant finance and increasing global trade flows in MENA and OIC countries. Islamic finance assets reached approximately US$1.8 trillion at the end of 2013, growing from the US$150 billion figure in the mid-1990s.

Sukuk sales surge in April

GLOBAL: Global Sukuk sales in April almost doubled from the previous month to reach US$6.1 billion, the most since September, according to Bloomberg data.

The surge is said to set the precedence for a record year as Middle East issuers look to finance infrastructure project and Malaysian firms capitalize on falling borrowing costs to restructure debt.

Angus Salim Amran, the head of financial markets of RHB Investment Bank, predicts that issuances from Malaysia and the GCC will increase to US$66 billion this year. The bank apparently has received strong interest from potential North Asian issuers in tapping the market very soon.

Sukuk offerings have reached US$17.2 billion so far this year, a 12% year-on-year improvement.

IDB reaches funding milestone

GLOBAL: IDB's funding for member and non-member countries through the private and public sector has exceeded US$100 billion, according to IDB president Ahmad Mohammad Ali.

Speaking at a joint news conference with Waleed Al Wohaib, the director of the International Islamic Trade Finance Corporation in Kuwait, Ali said that the bank is the largest Islamic bank in terms of capital, and made profits last year of around US$200 million.

FGB launches new service in Singapore

GLOBAL: FGB, which operates Siraj Islamic Banking, has launched its consumer banking group services globally, marked by the offering of its global wealth management service in Singapore.

Bahrain-Kuwait systems linked

GLOBAL: An agreement implementing an electronic mechanism to promptly transfer shares of Bahraini companies listed on Kuwait Stock Exchange as well as shares of Kuwaiti companies on Bahrain Bourse (BHB) has been signed between BB and Kuwait Clearing Company. According to BHB's deputy CEO and chief operating officer, Shaikh Khalifa Ibrahim Al Khalifa, the accord is in line with the joint efforts to strengthen the link between systems and institution in the GCC financial sector.

IFN launches inaugural roundtable series in Dubai

UAE: Islamic Finance *news* (IFN) last week held the first two events in its seminal Dubai Islamic Economic Roundtable series, in partnership with the Government of Dubai and the Dubai International Financial Center (DIFC).

Held on location at the DIFC, the inaugural event on the 30th April focused on: 'Dubai as the world's capital of Islamic economy: The roadmap ahead'. The panel conducted a critical dialogue focusing on key issues including regulation, competition, standardization and integration; and exploring Dubai's position both regionally and in the wider global arena. Participants included Abdulla Mohammad Al Awar, CEO of the Dubai Islamic Economy Development Center and former CEO of the DIFC; Prasanna Seshachellam, the director and head of Islamic finance at the Dubai Financial Services Authority; Bashir Ahmad, a partner at Afridi & Angell; and Dr Amat Taap Manshor, CEO of the Financial Accreditation Agency.

On the 1st May this was followed by the highly successful 'Dubai as a hub for global Sukuk' roundtable, which saw an animated and in-depth debate from industry leaders including Salah Jaidah, chair of Islamic finance at Deutsche Bank; Jawad Ali and Rizwan Kanji of King & Spalding; Hitesh Asarpota of Emirates NBD; Khalid Howladar of Moody's Investor Services; and Basheer Ahmed of the Dubai Financial Services Authority. Themes were broad and the discussion was ground-breaking; bringing together a range of diverse perspectives for a truly invaluable exploration.

The events were chaired by IFN editor-in-chief Lauren McAughtry, and represent the first in a series of 10 roundtables to be conducted over the coming months. Detailed reports summarizing and evaluating their findings will be released to subscribers by the 22nd June.

MIDDLE EAST

Adjustments ahead of market upgrade

UAE: MSCI will reduce the weightings of four Qatar and four UAE stocks by an adjustment factor of 0.5 when the upgrade to emerging market status for the countries takes place next month. MSCI has said that the weightings will be cut as they may pose accessibility issues to international institutional investors due to low foreign investor ceilings.

The stocks affected are Industries Qatar, Qatar National Bank (QNB), Commercial Bank of Qatar and Doha Bank in Qatar and Arabtec, Dana Gas, Dubai Islamic Bank and Emaar Properties in the UAE. MSCI has said it may reconsider its decision to apply the adjustment factor to the eight stocks if those companies raised their foreign ownership ceilings before mid-May.

NBAD highlights falling margins as a concern

UAE: National Bank of Abu Dhabi (NBAD) has warned that falling margins are beginning to affect UAE banks, with strong competition and the global interest rate pressure beginning to impact the profitability of lending. This comes as NBAD reported no increase in year-on-year earnings for the first quarter of 2014.

Islamic banking moving towards ethical banking

UAE: Islamic banking is only a part of a larger move towards ethical banking, Tirad Mahmoud, CEO of Abu Dhabi Islamic Bank (ADIB), has said in an interview with CNBC. Tirad believes that the banking industry will see a convergence between conventional and ethical banking driven by the needs of the consumer and the regulators.

EI branches out

UAE: Emirates Islamic (EI) recently participated in the Banking and Financing Expo in Abu Dhabi as part of the bank's bid to increase awareness of the bank's services among customers in the emirate. EI has also announced the launch of an Abu Dhabi-based campaign running until the 10th May offering customers in the emirate rewards and benefits when they sign up for the bank's services.

Growth in lending

OMAN: Bank lending in Oman has grown by 10% in the first quarter of the year, rising to OMR13.56 billion (US$35.13 billion) from OMR12.33 billion (US$31.94 billion) for the same period in 2013, with banks offering Shariah compliant services also seeing the increase. Ahlibank registered the growth in financing of 20% followed by Bank Dhofar at 17.3% and Bank Sohar at 16.8%. Bank Muscat and National Bank of Oman also posted growth in loans of 8.8% and 6.1% respectively.

Focus on Islamic arbitration

UAE: The UAE aims to employ the highest standards in Islamic arbitration, according to Dr Hadef Jowan Al Dhahiri, the UAE's minister of justice, in his opening speech at the International Conference of Arbitrators and Experts in the Islamic Economy. The conference, co-organized by the International Islamic Center for Reconciliation and Arbitration (IICRA), the Zayed Charitable and Humanitarian Foundation and the Institute of Judicial Training and Studies, was held last week and attended by 105 legal experts.

Further potential for Islamic finance in Oman

OMAN: Islamic finance will need to play a significant part in project financing in Oman, given the country's increased funding requirements, according to Yahya Al Jabri, the chairman of the Special Economic Zone Authority at Duqm (SEZAD).

The transition between conventional financing and Islamic financing is a barrier to be overcome, leading to huge potential for Shariah compliant project financing in the future according to the SEZAD chairman, with investment diversification an area for development, as well as Islamic finance education, training and research expertise.

UAE banks face submission deadline

UAE: Despite the previous announcement by Al Etihad Credit Bureau that it is ready to begin operations, local reports have stated that only one of the 46 banks in the UAE has submitted the required two years-worth of credit history for its customers. The country's banks have a submission deadline of the 7th May for the necessary information and the UAE Banks Federation will convene an exceptional meeting of its consumer committee to discuss the matter.

Alkhair Capital in DIFC

UAE: Following an official approval and granting of license from the Dubai Financial Services Authority, Islamic financier Bank Alkhair's Alkhair Capital has inaugurated its first branch at the Dubai International Financial Center (DIFC).

Definite margin compression for retail banking

UAE: The retail banking sector of the UAE, which is projected to experience an annual 10% average in asset growth, is reportedly expected to face increasing margin compression due to potential rise in cost of funds and increasing market competition.

Fastest remittance service

UAE: Emirates NBD, the parent company of Emirates Islamic, has launched a remittance service allowing non-resident Indian customers to remit money to any HDFC Bank account in India in 60 seconds, for free. Said to be the first of its kind and the fastest in the UAE, 'DirectRemit' also enables customers to transfer money to other banks in India within an hour for a fee of AED10 (US$2.72).

IDC sells plots on Dilmunia

BAHRAIN: Ithmaar Development Company (IDC) has signed a sale agreement with Bin Faqeeh Real Estate Investment Company, effectively selling key plots on Dilmunia at Bahrain Island to the latter. IDC, a wholly-owned subsidiary of Islamic financier Ithmaar Bank, is the master developer for the Dilmunia project.

DIB's new balance sheet strategy

UAE: Dubai Islamic Bank has put in place a new plan for balance sheet growth in the 2014-16 period, according to CEO Adnan Chilwan. The bank's strategy includes focusing on growing its consumer and wholesale banking business achieving approximately 1.7% return on assets with a 15-17% return on equity. The bank plans to improve its profitability by expanding its financing

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book and redeploying liquidity from low earning assets to higher earning assets.

The bank also aims to create a sustainable pipeline of leaders for the bank, according to Obaid Al Shamsi, its chief of human resources and admin, and has reaffirmed its commitment to the UAE'S Emiratization program, by taking part in the recent careers fair, Careers UAE 2014. DIB has an Emiratization ratio of 46%, with UAE nationals making up 100% of managers at branch level at the bank ahead of the industry average.

Khaleeji expands Islamic financing options

BAHRAIN: Shariah compliant Khaleeji Commercial Bank, has signed an MoU with Dadabhai Development and Properties Company, forming an agreement to provide finance to both Bahrainis and expatriate customers for the purchase of properties at residential project, Juffair Heights. Construction of the development is due to be completed in 2016. Customers will receive up to 80% financing options for property purchase for a period of up to 20 years and apartments start at BHD50,000 (US$130,398) for a one-bedroom unit to BHD65,000 (US$169,518) for a two-bedroom unit.

Jabal Omar receives funding

SAUDI ARABIA: Jabal Omar Development has procured a six-month Islamic financing facility worth SAR464 million (US$389.98 million) from Saudi British Bank, which will be utilized as an advance payment for the execution of the fourth phase in the Jabal Omar project.

ATM expansion for Al Baraka

BAHRAIN: Al Baraka Islamic Bank has launched a new ATM at Saar Mall, bringing the total number of machines in the bank's ATM network to 20. Four new devices are planned for launch over the remainder of the year.

CMA takes action

SAUDI ARABIA: Arabia Insurance Cooperative Company has been imposed a penalty of SAR30,000 (US$7,991.31) by the Capital Market Authority as it was late to inform the public of its ordinary general assembly results held on the 19th December 2013. Separately, the CMA also imposed a SAR10,000 (US$2,663.77) penalty on Almarai Company (who issued a perpetual Sukuk last September) for not making a public disclosure on its annual consolidated financial results for the year ending the 31st December 2013 on time.

Credimax launches Shariah cards

BAHRAIN: Credit card company Credimax has launched a Shariah compliant credit card known as Tayseer. The product has been approved by the Shariah Review Bureau.

Steady pace of growth for Dubai

UAE: Dubai's economy is predicted to grow approximately 5% in 2014, close to the growth rate of the previous year, according to Arif Obaid Al Muhairi, the executive director of the Dubai Statistics Center. The Dubai economy grew around 4.5% in the first nine months of 2013.

International Islamic finance links

UAE: The finance element of the Al-Kindi program run by the British University in Dubai as part of a visit by 18 postgraduate students from Sri Dharmasthala Manjunatheshwara Institute for Management Development in Mysore, India, was praised for its clear introduction to the tenets of Islamic finance. The academic program ran from the 29th March to the 7th April and included talks from Islamic finance professionals and a visit to the Dubai International Financial Center.

RESULTS

RAKBANK

UAE: National Bank of Ras Al Khaimah (RAKBANK), which operates an Islamic window, reported net profit of AED334.6 million (US$91.09 million) for the first quarter of 2014; an increase of AED44 million (US$11.98) on the final quarter of 2013, but a 9% decrease in net profit reported for the same period in 2013.

Ooredoo

QATAR: Qatar telecommunications company, Ooredoo, which issued a five-year US$1.25 billion Sukuk last year, announced a net profit of QAR887 million (US$241.12million) for the first quarter of the year, a 9.7% increase from last year's figures of QAR808 million (US$219.64 million) for the same period.

Dubai Islamic Bank

UAE: Dubai Islamic Bank announced a net profit of AED636.6 million (US$173.31 million) for the first three months of 2014, a leap of 111% from AED301.7 million (US$82.13 million) for the same period last year, attributed to continued increase in net operating income and improved asset quality with lower impairment charges.

The bank's total revenue increased to AED1.49 billion (US$405.58 million), a growth of 7.4% from the first quarter of 2013 and a 33% increase in fee and commission income to AED293 million (US$79.75 million) was reported due to a rise in client-related activities in all customer segments and products.

Mashreq

UAE: Dubai-based Mashreq, which operates an Islamic banking arm, reported net profit of AED575 million (US$156.54 million) for the first quarter of 2014 — a 35% increase in net profit compared to the same period in 2013.

Barwa Real Estate Company

QATAR: Barwa Real Estate Company recorded a 67% accretion in its profits to QAR265.15 million (US$72.78 million) for the first quarter of 2014. Total revenue and gains were down 6% to QAR589.04 million (US$161.78 million) and operating expenses shot up 33% to QAR129.76 million (US$35.61 million), with total assets accounting at QAR46.05 billion (US$12.64 billion).

Ahli United Bank

KUWAIT: Ahli United Bank, which offers Islamic financial services through Al Hilal Islamic Banking, registered a 10.9% increase in net profit for the first quarter to KWD12.1 million (US$42.97 million), from the same period last year. Total assets as at the end of the first quarter rose to KWD3.37 billion (US$11.97 billion), an increase from the KWD3.17 billion (US$11.26 billion) recorded on the 31st December 2013.

Qatar Exchange-listed companies

QATAR: Excluding Vodafone Qatar and Qatari German Company, the combined

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net profit of the 41 (out of 43) companies listed on the Qatar Exchange for the first quarter rose 8.6% to QAR11.1 billion (US$3.05 billion), as compared to the corresponding period last year. The companies include: Islamic Holding, Al Khalij Commercial Bank, Al Khaleej Takaful, Barwa Bank, Qatar International Islamic Bank, Islamic Insurance, Masraf Al Rayan and Qatar Islamic Bank.

Ahli United Bank

BAHRAIN: Ahli United Bank Bahrain announced a 56% drop in profit for the first quarter of 2014, with net profit reported at US$136.6 million compared to US$309.9 million for the same period in 2013. The drop has been attributed to the proceeds of the bank's sale of a 29.4% stake in Qatar-based Ahli Bank to Qatar Foundation in the first quarter of 2013. Excluding the results from the sale, Ahli United Bank has said that there has been a 41% increase in first quarter profits for 2014.

Dubai Investments

UAE: Government-owned Dubai Investments, whose wholly-owned subsidiary Dubai Investments Park Development Company, issued a US$300 million Sukuk in February, announced first quarter profit of AED265 million (US$72.14 million), a 26% increase compared to the AED211 million (US$57.44 million) reported for the same period in 2013.

Noble Group

HONG KONG: The Noble Group, which issued a RM3 billion (US$923.19 million) Sukuk Murabahah program, released its audited financial statement for the year ended 31st December 2013. The company has reported profit of US$238.47 million after tax, a 49% decrease from the figure of US$464.81 million recorded for 2013. Total revenue was reported at US$98 billion, a 4% increase on the figure for the previous year.

TAQA

UAE: Abu Dhabi National Energy Company (TAQA), which issued a RM3.5 billion (US$1.07 billion) Sukuk Murabahah program, released its 2013 annual audited statement, reporting a net loss of AED2.5 billion (US$680.62 million) attributed to equity holders, compared to AED649 million (US$176.69 million) in profit for 2012.

TAKAFUL

Positive predictions for Takaful Malaysia

MALAYSIA: RHB Research is maintaining its buy recommendation on Syarikat Takaful Malaysia stock, with a higher fair value of RM15 (US$4.61). RHB Research predicts the operator to see better growth going forward as it leverages on its market position and the fact that competitors are facing consolidation and capital constraints.

Significant Takaful signing

MALAYSIA: The signing of a partnership between Ambank and US insurer Metlife was witnessed by US president Barack Obama on his recent visit to Malaysia. Metlife has purchased shares in AmLife and AmTakaful, with its investment of almost US$250 million, the first by a US company in the Malaysian Takaful market.

Temporary location for MetLife AIG ANB

SAUDI ARABIA: MetLife AIG ANB Cooperative Insurance Company has temporary relocated its head office to Twin Tower North Tower behind Saad Center in Olaya Riyadh as the company's head office building is undergoing major maintenance work and rehabilitation.

Second Takaful operation for Oman

OMAN: Takaful Oman Insurance reportedly started business on the 5th May, taking its place as Oman's second Takaful firm, following a number of delays in obtaining regulatory approval.

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RATINGS

Fitch rates Qatari banks

QATAR: Qatar International Islamic Bank's issuer default ratings (IDR) have been upgraded to 'A' from 'A-', by Fitch. The ratings agency also afforded Qatar Islamic Bank an 'A' IDR rating. The long-term ratings carry a stable outlook.

Etiqa gets an 'A'

MALAYSIA: Etiqa Takaful's insurer financial strength rating has been affirmed at 'A' by Fitch, with a stable outlook, reflecting its capitalization improvement, favorable operating profitability and sound liquidity.

S&P rates DAMAC

UAE: The positive growth prospects for Dubai's property sector has led S&P to afford developer DAMAC a 'BB' long-term corporate credit rating which also extends to its recently-issued five-year Sukuk. The rating agency does not foresee an oversupply of residential properties over the next 12-18 months.

Outlook upgrade for IBA

AZERBAIJAN: International Bank of Azerbaijan (IBA), which offers Islamic financial products, have had the outlook on its global scale ratings upgraded to positive from stable by Moody's.

The ratings include: long-term local and foreign currency deposit ratings of 'Ba3', long-term foreign currency senior unsecured debt rating of 'Ba3', and long-term foreign currency subordinated debt rating of 'B1'. All existing ratings have also been affirmed while the bank's standalone 'E+' bank financial strength rating (mapping to a 'B3' baseline credit assessment) remains on a stable outlook.

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A formal launch is planned for mid-May and the company has already started underwriting following receipt of its licence in April, offering both General and Family Takaful.

CISSII signed

PAKISTAN: Life insurance and Family Takaful operators have signed an agreement with the Central Depository Company of Pakistan which saw the launching of a centralized information sharing solution for the life insurance industry (CISSII) of Pakistan.

Facilitated by the Securities and Exchange Commission of Pakistan, the CISSII participation agreement was signed by the following operators: Dawood Family Takaful, Pak-Qatar Family Takaful, Adamjee Life Insurance Company, EFU Life Assurance, Jubilee Life Insurance Company, MetLife Alico Pakistan, and East West Life Insurance Company. Once a chairman has been appointed by the federal government, State Life Insurance Corporation will also sign the agreement. The accord aims to promote a formal information-sharing mechanism for Family Takaful and life insurance firms.

Malaysian Takaful scene set to grow

MALAYSIA: The Malaysian Takaful market is projected to grow at a cumulative annual growth rate of 19.14% over the 2013-18 period, according to a report recently released by Research and Markets. Despite increasing geographic expansion of Takaful providers in the country, the market research firm opined that the low awareness of Islamic banking in the public could potentially challenge the growth of this segment.

MOVES

National Bank of Abu Dhabi

UAE: Two senior bankers are leaving the National Bank of Abu Dhabi to pursue other opportunities, according to a report by Reuters. Sources at the bank have said that **Michael Aissaoui**, the executive director for corporate finance advisory, and **Nicholas Gilani**, the head of merchant banking for MENA, have resigned. The bank declined to comment.

Separately, the bank has announced the appointment of **James Burdett** as the bank's new group chief financial officer (CFO). Burdett joins NBAD from Australia and New Zealand Banking Group, where he served as CFO of international and institutional banking, following a previous role as group head of management information, planning and analysis for HSBC.

SHARIAH PRONOUNCEMENT

DAR AL SHARIA
A subsidiary of Dubai Islamic Bank
www.daralsharia.com

Query:

A general trading company had availed a Mudarabah facility for a Mudarabah term period of three years from an Islamic bank. The purpose of the facility was to finance the expansion plan of the company. As per the terms of the Mudarabah agreement, executed between the company (as Mudarib) and the Islamic bank (as Rab-ul-Maal), the company was required to liquidate the Mudarabah at the end of the Mudarabah term period and return the Mudarabah capital (then intact) and the pre-agreed percentage of the Mudarabah profit (if any) to the Islamic bank.

However, the company approached the Islamic bank in the middle of the agreed Mudarabah term period seeking possibility to return part of the Mudarabah capital invested by the Islamic bank under the Mudarabah agreement. From a commercial perspective the Islamic bank has no objection in accepting the company's request provided there are no Shariah issues.

Shariah guidance is sought in this regard.

Pronouncement:

In principal, it is permissible for an Islamic bank (as Rab-ul-Maal) that has invested the Mudarabah capital in a business project under a Mudarabah agreement to allow for partial return (to the extent intact) of the Mudarabah capital during the Mudarabah term period.

The parties to the Mudarabah agreement may agree on the basis of the partial return (to the extent intact) of the Mudarabah capital either in the Mudarabah agreement or may mutually agree on the same at any time during the Mudarabah term period if such arrangement has not been covered in the relevant Mudarabah agreement. However, before return of the Mudarabah capital it is necessary to determine whether or not the Mudarabah capital is still intact. This step is required from a Shariah perspective since the Mudarabah capital invested by the Islamic bank through Mudarabah is not in the nature of a fixed receivable loan. The nature of the Mudarabah capital is that of an investment, which is subject to increase in case of profitability or decrease in case of loss.

The determination of the Mudarabah capital either with respect to the partial return (to the extent intact) during the Mudarabah term period or the total return (to the extent intact) at the end of the Mudarabah term period is achieved through liquidation of the entire subject project either on a constructive or actual basis.

In case of partial return during the Mudarabah term period, if upon the determination (for example by constructive liquidation) the Mudarabah capital is still intact then the company may be required to return part of the agreed Mudarabah capital along with the entire profit entitlement of the Islamic bank on the date of such determination. The balance of the Mudarabah capital may then be re-invested by the company on Mudarabah basis for the rest of the Mudarabah term period.

If upon the determination (for example by constructive liquidation) the Mudarabah capital has occasioned a loss due to market considerations without the negligence or misconduct of the company then the extent of the loss is to be borne by the Islamic bank and the Mudarabah capital will decrease accordingly. In such a situation, the basis for determination either for partial return (during the Mudarabah term period) or the total return (at the end of the Mudarabah term period) will be the actual remaining Mudarabah capital and not the original Mudarabah capital, which was invested at the time of creating the Mudarabah partial liquidation will be applied on the current Mudarabah capital amount and not the original Mudarabah capital amount.

Approved By Dr. Hussain Hamed Hassan
Dar Al Sharia Legal & Financial Consultancy LLC

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

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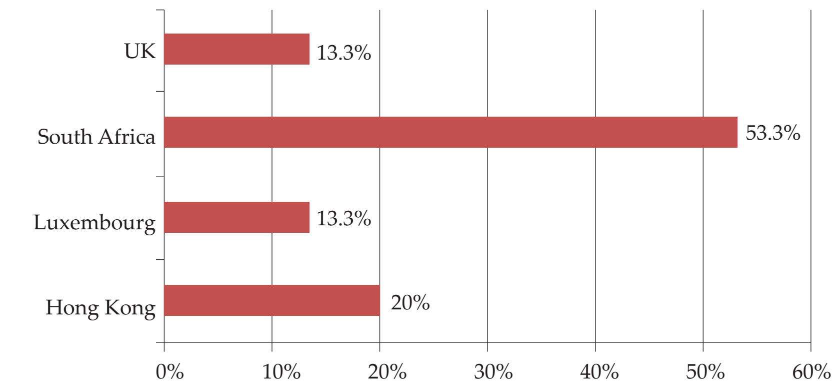
Race update: South Africa surges ahead

The results of our first straw poll are in and in an exciting turn of events, South Africa has overtaken Hong Kong (Islamic Finance *news*' favorite contender) in the Sukuk race, running ahead at pole position to capture over half (53.3%) the votes of our readers as the likely winner of this sovereign Sukuk competition. Hong Kong trails behind with 20% of the votes and while both the UK and Luxembourg tie-in at third place.

Speaking to industry observers, the general sentiment on the ground is one of positivity for the South African powerhouse mainly due to one differentiating factor which places it above the rest of the challengers — the republic is driven by urgent funding needs while the rest are sitting comfortably in a sound economic position with Sukuk merely another name to add to their game.

Figure 1: IFN sovereign Sukuk race poll results



Results taken on the 6th May 2014

Yet, for all our predictions, they remain nothing but conjectures as there are no official words from any of the sovereigns with regards to their Islamic debt — casting a possible wet blanket over observers' enthusiasm. Nonetheless we remain optimistic that an update will be delivered in the coming weeks from our contenders which could potentially be a game changer as anticipated issue dates draw nearer. In the meantime, keep your votes coming in as we continue to deliver reports on the race. — *VT*

Egypt turns towards Shariah financing

The past few decades have seen a rocky road for Islamic finance in Egypt, which has struggled to gain a firm economic foothold in the 95% Muslim country. Yet recent evidence suggests that Shariah compliant instruments may finally be gaining ground despite the turbulent political relationship with Islam, as increasing numbers of firms turn to the Islamic markets to raise funding.

Although the ousting of the Muslim Brotherhood and its president Mohammed Morsi last year halted the development of Egypt's formal introduction of an Islamic finance framework and threw off plans for a sovereign Sukuk issuance, it seems as if despite the state disarray, the corporate sector is taking matters into its own hands.

Al Nouran Multitrading, a private sugar trading house, last month confirmed a senior financing facility of EGP1.5 billion (US$213.5 million) of which EGP240 million (US$34 million) or 16% was denominated in US dollars. The deal was arranged by 13 banks including Banque Misr, Bank Audi and Abu Dhabi Islamic Bank. The funding will go towards the building of a new EGP3.5 billion (US$498 million) sugar production facility, expected to begin operations in 2016. Additional funding has also been provided by the Islamic Corporation for the Development of the Private Sector (ICD) which in April extended a US$46 million Shariah compliant financing facility to Al Nouran including equity investment, mezzanine investing and standby guarantees.

It is notable that the ICD deal was driven by strong economic fundamentals rather than by a commitment to Islamic finance itself. "We saw that ICD is a 'AAA'-rated institution with a firm commitment to invest in Egypt," said the CEO of Al Nouran, Ashraf Mahmoud, in a recent interview. "They were the first on board and we had no problem with Islamic financing so it made sense to accommodate them."

Nevertheless, it is to be hoped that the deal could represent a benchmark in corporate financing that will encourage other firms to participate. This is especially true given the declining political risk in Egpyt over recent months, which has improved attitudes towards its financial market and reopened avenues for international investment. Egypt is building increasingly strong ties with the GCC and Saudi Arabia, the UAE and Kuwait have been its major backers since the former government lost power, with around US$12 billion in aid pledged since July. Saudi Arabia currently has around US$27 billion invested in Egypt.

These strong ties could assist in encouraging Egypt to move forwards with its inaugural Sukuk issuance, which could be of significant assistance in helping the country rebuild its foreign exchange reserves and plug its growing budget deficit. And although overall Islamic banking still holds only around 7% of the total market, the sector continues to grow across the board. Recent figures from Faisal Islamic Bank released in February suggest that Egyptian Islamic banking assets could hit US$18.4 billion in 2014, an average growth of 10-12%. Abu Dhabi Islamic Bank-Egypt, one of the country's 14 Shariah compliant institutions, in April this year announced an increase in annual revenues of 49% for 2013 over the previous year, with total assets growing by 12%.

On the 1st May, the ICD in collaboration with the European Bank for Reconstruction and Development (EBRD) also announced the launch of a US$120 million investment fund to support SMEs throughout North Africa including Egypt, Jordan, Morocco and Tunisia. — *LM*

Bursa Malaysia broadens horizons

The Malaysian stock exchange, Bursa Malaysia, aims to engage a new class of investors, particularly those ranging from 25-35 years of age. In furtherance of its goals, the exchange recently launched 'BURSAMKTPLC', also known as Bursa Marketplace, an easily accessible virtual platform which provides a comprehensive view with extensive information and insights into the Malaysian market. The information provided covers trading and investment aspects relating to both Shariah compliant as well as conventional stocks.

Touted as the first of its kind, the virtual market place engages investors, especially new investors, to access market knowledge, market insights and trading ideas while assisting to increase financial literacy among users. Another first in history, retail investors as well as traders are now capable of accessing big market data and analytical tools such as the Alpha Factor, a quantative tool from S&P Capital IQ, which was previously limited to institutional and expert investors. The online virtual platform also features the 'Shariah mode' which acts as a Shariah compliant filter for the entire site.

According to Tajuddin Atan, CEO of Bursa Malaysia, BURSAMKTPLC could be a game-changer for the industry. "For the first time an exchange is bringing together in one place all market participants — brokers, analysts, opinion leaders — in a collaborative partnership to share research, market insights and trading ideas to empower Malaysians to invest and trade confidently. With BURSAMKTPLC we are putting the market 'in the pocket' of all Malaysians by providing online access to comprehensive, objective and accurate information about our marketplace," he explained.

The new platform is expected to play a major role towards creating an investment and trading culture in Malaysia. In spite of the external factors such as market volatility affecting the Islamic and conventional markets in Malaysia, capital flows to the country have reportedly been orderly and without undue adverse effects on the capital market. As evidenced from the liquidity levels in the Malaysian banking system, the retail sector is believed to have substantial access to capital. Hence domestic resilience should be fostered by encouraging more savings into the Malaysia capital markets. — *NA*

SCA's new rules: In line with Dubai's Islamic economy ambition

The impending MSCI upgrade of Qatar and the UAE to emerging market status from frontier market this month have set in motion a series of progressive actions as both UAE and Qatari firms seek to capitalize on the increasing flow of foreign money into their respective economies. Most apparent are firms raising the limit on foreign ownership to attract international investors. Riding on this wave, the UAE has decided to take one step further in propelling its economic position on the global stage as it aims to elevate itself to developed market status within five years — an ambitious time frame that could be something of a tall order.

In line with its goal, the emirates' Securities and Commodities Authority (SCA) has made a conscious decision to issue a minimum of two new rules concerning stock exchanges every year and the financial regulator has sustained this momentum by releasing a set of rules for both Sukuk and corporate bonds as well as introducing amendments on securities lending and borrowing.

This set of new rules also coincides with the emirate's aspiration to become the leading Islamic economic hub as the Regulation for Sukuk provides more clarification on the issuance and listing process as well as recognizes the sophistication of Sukuk as a liquidity/investment tool. With the passing of the new regulation, the SCA has made it mandatory that for an Islamic debt facility to be sold and listed, the Sukuk must be approved by the Shariah committee of the applicant or by an accredited Shariah board — thereby ensuring that Shariah quality of the facility is not compromised. Another significant update is the new (lower) minimum nominal value of Sukuk required for listing: AED10 million (US$2.72 million) instead of AED50 million (US$13.61 million).

"The regulator is definitely making an effort to increase market transparency and encourage Sukuk trading without compromising quality of the securities"

Guidelines for Sukuk trading, clearance and settlement have also been announced, stipulating the need for conformity to market procedures regardless of whether these activities are carried inside or outside the market. The new framework demands higher transparency and accountability in terms of Sukuk trading.

"The regulator is definitely making an effort to increase market transparency and encourage Sukuk trading without compromising quality of the securities," said a Dubai-based investment banker to Islamic Finance *news*."We can expect more players to list Sukuk with the new rules in place."

So it seems that the UAE is carefully and effectively treading the line between imposing tighter rules and providing a conducive environment for the Islamic capital markets — a move much needed for it to grasp the dual title of the world's leading Islamic economic hub and developed market in the coming years. — *VT*

Sukuk trends: First quarter of 2014

Recognized as one of the fastest growing areas of Islamic finance, the global Sukuk pipeline has demonstrated steady growth in the first quarter of 2014. According to statistics compiled by the Malaysian International Islamic Financial Center (MIFC), the global Sukuk market recorded a total volume of US$31.14 billion in new issuances for the first quarter of 2014. The amount managed to exceed the average quarterly new Sukuk issuances of US$31 billion since the first quarter of 2012. Large issuances from multilateral organizations such as the IDB (US$1.5 billion) and the IILM (current outstanding portfolio of US$1.35 billion) acted as the main drivers for the outstanding performance.

According to the MIFC, sovereign and quasi-sovereign issuers remain the key drivers of the global Sukuk market, accounting for US$25.43 billion — more than 81% of total issuance in the first quarter. Due to the commencement of the tapering exercise by the US Federal Reserve since January, funding costs for issuers, especially in emerging markets, have increased. This is one of the contributory factors which resulted in a decline in Sukuk volumes from the corporate sector. Corporate Sukuk issuances dropped to US$5.72 billion, a 57.1% decrease from US$13.29 billion recorded in the last quarter of 2013.

With a 63.05% share of total new issuances in the first quarter, Malaysia secured its position as the main market driver for the global Sukuk market, at US$19.63 billion in new issuances. Based on MIFC's evaluations, the significant jurisdictions which recorded a substantial year-on-year growth in volumes for the first quarter include Qatar, Gambia, Brunei and Bahrain — all of which were led by an increased supply of Shariah compliant papers by their respective central banks. Local currency issuances also remain to be the preferred choice for issuers over the first quarter.

It is foreseeable that Malaysia will continue to dominate the global Sukuk market on the back of infrastructure developments required under the government's economic transformation program. Apart from this, the GCC region is also expected to be another driver for the Sukuk market due to its 10-year infrastructure and capital expenditure plans. The Sukuk pipeline for 2014 is expected to be vibrant with new market entrants such as UK, Luxembourg, Hong Kong, Tunisia, South Africa, Senegal, Egypt as well as the Asian Development Bank. Based on industry estimates, total new Sukuk issuance is expected to exceed US$100 billion this year. — *NA*

A first for Sri Lanka's Shariah compliant financial sector

The development of Islamic finance in Sri Lanka continues at its own pace, but one of the milestones along the way for the country's Islamic finance sector, subject to regulator approval, is the pending issuance of an Islamic debenture and it subsequent public listing — Sri Lanka's first. Shariah compliant Amana Capital, a subsidiary of Amana Investments, is working with the issuer and the appointed bank for the debenture — People's Bank — to structure the facility. Amana Capital's managing director, Naveen Gunawardane, spoke exclusively to Islamic Finance *news* regarding the impending issuance.

In Sri Lanka, the word debenture is used by the stock market to cover both secured and unsecured debt instruments, and in this case, the debenture currently awaiting approval by the regulators is secured and structured Islamically using a Wakalah structure. Gunawardane highlights the fact that whilst there has been much interest in the Shariah compliant equity market in Sri Lanka, the debt market has remained relatively untapped. The country's banking laws, amended in 2005 to allow for Islamic financing, have yet to address the issue of taxation regarding Sukuk and so the issuance of a debenture is the preferred way forward, despite the prolonged approval period as the country's financial regulators assess the structure and issues such as secondary markets.

"The issuance will be listed as a debenture, but the underlying structure will be the Wakalah structure; hopefully once we have the approval, what will happen is the investors will apply to it as a conventional debenture, but in addition to the normal paperwork they will also sign a Wakalah agreement with the issuer," said Gunawardane.

Whilst he was unable to name the issuer, Gunawardane was able to reveal that it was in this instance a plantation company, and that Amana Capital is also working on the structure of another Islamic debenture for a manufacturing company. Amana Capital has been aiding the process for both issuances in composition of the structure for the instruments and both local and international scholars have been involved in the construction and approval of the structures for both deals. The impending debenture from the plantation owner is a rupee issuance worth roughly US$5 million, with the issuer choosing a Shariah compliant structure as an alternative and better source of finance, alongside a conventional issuance that will also be made. This encourages Gunawardane, as Sri Lanka's Islamic market is being approached by more conventional businesses, making it wider for all. "From the issuers' point of view, the Islamic market is still an untapped market. They are used to going to the conventional market, so what we're saying is here's an alternative and if we have the right structures, for some issuances we might be able to get you a better, slightly lower cost of funding, so that is an advantage."

Once approval is granted by the regulators, the debenture will be publicly listed on the Colombo Stock Exchange. The country's debt market is still primarily made up of local investors, however Gunawardane hopes that the interest shown in government issues by investors from frontier and emerging markets will continue to be piqued by the latest innovation in Sri Lanka's Islamic capital market. — *RS*

Islamic finance in Pakistan: A growing opportunity

The Islamic Republic of Pakistan hosts a population of almost 180 million people, the world's second-largest Muslim population after Indonesia. In December 2013 the market share of Islamic banking assets in the overall banking industry reached 11.2%. Last year also saw the opening of 207 new Islamic branches, 143 of those in the final quarter of the year alone. As the interest in Pakistan's Islamic banking sector increases, REBECCA SIMMONDS assesses the growth of the market.

Legal and regulatory

Steps were taken to introduce Islamic banking in Pakistan as early as 1977 with laws amended in the 1980s to accommodate the facilitation of interest-free banking. In 1985 all commercial rupee savings accounts in Pakistan were declared to be interest-free, although this ruling did not apply to foreign currency deposits or loans. This step was however declared un-Islamic by the Federal Shariah Council in 1990 and despite appeals by banks, the country's existing laws regarding interest-free banking were repealed.

In 2001, the State Bank of Pakistan (SBP) established criteria for Islamic banking with the aim of reintroducing the concept in a systematic way, parallel to the country's conventional banking provision and international practices.

In 2005, the Securities and Exchange Commission of Pakistan (SECP), which regulates the country's capital market and supervises and regulates Pakistan's insurance sector as part of its remit, introduced the country's initial Takaful Rules. These were revised and reissued in 2012 to allow the establishment of a Central Shariah Board at the SECP, to introduce more formal risk management and rating procedures for Takaful operators, and separate solvency requirements for each participant Takaful fund.

An amendment that was found to be controversial with the existing industry was the move to allow conventional Takaful windows. In April 2014, following a two-year dispute including the filing of a constitution petition against the SECP, the country's Takaful providers agreed on an out-of-court settlement with the government regarding the implementation of the Takaful Rules 2012. The SBP has in the last six months implemented a concerted drive to expand and promote the bounds of the Islamic finance sector in Pakistan and in April issued a Shariah compliance framework for the country's Islamic banking system, which will come into effect in October 2014, as well as rules for Shariah compliant foreign bill discounting.

Business environment

The SBP has launched a marketing campaign for the Pakistani Islamic banking sector, providing a roadmap for the future development of the industry, with an emphasis on improving the perception and awareness of the sector, the products available and standardization and harmonization across the industry. The development of the legal and regulatory framework is also a priority, to ensure that the industry has a suitably solid basis to aid in enabling its progress.

Banking and finance

According to SBP figures, the Islamic banking sector has seen a growth rate of over 30% annually in terms of assets, since its reboot in 2001, with assets reaching PKR1.01 trillion (US$9.98 billion) at the end of 2013. There are currently five licensed fully-fledged Islamic banks and 14 conventional banks with standalone Islamic banking branches operating in the country making up 12% of Pakistan's banking system. The newly implemented growth campaign by the SBP aims to increase the markets share of Islamic finance from 12% to 15% (if not 20%) in the next four years, with the industry's branch network growing from 1,200 branches to 2,000 branches over the next five years.

Whilst the growth of fully fledged Islamic banks, such as Meezan Bank, the country's first, established in 1997, continues with the announcement that the bank has just begun due diligence on the proposed acquisition HSBC's business in Pakistan, a number of the country's conventional banks are considering converting to Shariah compliant operations. Banks including Sindh Bank, Summit Bank and Faysal Bank have all announced plans to convert their banking operations to Shariah compliant methods in the next three to five years.

Challenges and opportunities

The size of the banking sector in general and the Islamic banking sector in particular is a concern with regard to overbanking, given that an estimated 87% of the population does not hold a bank account. However, industry players believe that the push to promote Islamic banking will encourage a move towards the banks for those currently not using commercial banking services.

The SBP has recently announced that it is seeking to develop a roadmap to chart the gradual change of minimum capital requirements for Islamic branches and subsidiaries over a period of five years. The development of the country's Islamic interbank money market is also pending as the SBP is in the process of finalizing details on a Shariah compliant liquidity framework, ahead of the issuance of a US dollar-denominated Sukuk, which has been confirmed by the country's finance minister Ishaq Dar.

Outlook

The current shortage of sovereign Shariah compliant debt instruments has been highlighted as one of the industry's most pressing problems by industry participants, along with a lack of public awareness regarding the sector and the quality of regulatory support — all issues that the Pakistan regulators are taking steps to address, providing a positive outlook for the country's Islamic banking sector.

Islamic private wealth management: A look to the future?

An Islamic wealth manager seeks to aid investors in increasing the yield on their investment whilst maintaining an acceptable level of risk and ensuring at the same time that all investments meet the relevant standards regarding Shariah compliance. The amount of managed assets owned by Muslims globally is estimated to be in the region of US$2.5 trillion and Muslims currently have a 7.7% share of global GDP which is expected to grow to 8.7% by the end of 2016. REBECCA SIMMONDS investigates the development in Islamic private wealth management.

Increase in Muslim wealth

The number of high net worth individuals in traditionally Muslim regions has increased along with the Muslim population and the growth of the Islamic finance sector. The number of ultra-high net worth individuals (UHNWIs) globally, identified as those with US$30 million or more in net assets, has grown by 59% since 2003 according to figures in the Knight Frank Wealth Report 2013. According to the PwC Private Wealth Management Survey 2013, newly emerging markets are showing the highest results of net new money growth as a percentage of assets under management, at 16% for 2013, compared to 8% for traditional markets such as Europe and the US.

Of the estimated US$2.5 trillion in managed assets owned by Muslims globally, a large proportion is held in the conventional financial system due to the limited number of Shariah compliant options.

Sectors for investment

According to industry experts only 31% of the Islamic finance industry is currently in managed Islamic assets inclusive of all asset types such as funds, off-balance sheet direct investments and restricted profit-sharing accounts. Islamic private wealth management is still in its very early stages and as such, there is a scarcity of viable alternatives to conventional solutions for high net worth individuals who would prefer to invest in Islamic financial alternatives.

Real estate remains a prime sector of interest for Islamic private investment, with traditional regions for investment such as the Gulf states and Asia remaining popular. A growing interest is also developing in new regions in Europe such as Germany. The development of Islamic real estate investment trusts (REITs) is also flourishing with UAE-based Emirates REIT recently listing on NASDAQ Dubai and Malaysia-based KLCC REIT attaining a 'AAA/Stable/P1' rating from RAM Ratings for its proposed RM3 billion (US$923.88 million) Sukuk program, following its restructuring to become Malaysia's first Shariah compliant stapled REIT.

The public listing of Sukuk and the opportunities for private placement have provided new Shariah compliant opportunities for investment as has the developing appetite for Islamic IPOs.

Africa

Whilst the number of UHNWIs globally has grown by 59% since 2003, in Africa specifically the growth has been an exceptional 130%, with the number of UHNWIs in Africa predicted to reach 2,858 by 2023, according to figures from Knight Frank Wealth.

Nigeria, which has emerged as the largest economy in Africa following the rebasing of its GDP earlier this year, also displays great potential for Islamic private wealth development, given its move towards Islamic finance and its emerging class of high net worth individuals. Nigerian millionaires are collectively worth US$90 billion, a figure that is predicted to rise 27% to US$123 billion by 2018. West Africa is the focus for expansion for a number of Shariah compliant banks including Standard Chartered Saadiq, Sterling Bank and Dubai Islamic Bank, all of which have the capacity to offer Shariah compliant private wealth management options.

Asia

The strongest wealth growth for 2012 was recorded in Asia-Pacific, according to the Capgemini Wealth Report 2013, at 12.2%. Singapore and Hong Kong, both of which have recently implemented regulatory changes to facilitate Islamic finance, are now closing the gap on Switzerland as international financial centers for private client assets.

Malaysia, one of the world's most successful Islamic finance markets, also has one of the most developed Islamic fund management sectors providing opportunities for private investment,with RM97.5 billion (US$30 billion) in assets under management (AUM), of which RM42 billion (US$12.92 billion) is in the form of Shariah compliant unit trust funds. According to figures from Malaysia's Securities Commission the industry also has 52 Islamic wholesale funds with almost 15 billion units in circulation with a total net asset value of RM16.43 billion (US$5.05 million). As well as onshore opportunities, Malaysia also has Shariah compliant private wealth management opportunities available offshore, offered by Labuan International Business and Financial Center (Labuan IBFC)

Middle East

The push by Dubai to become a global Islamic hub is being felt in all areas of Islamic finance including private wealth management, as wealth in the GCC grows with an estimated US$1.2 trillion in investible assets according to KFH Research. The Gulf states remain the largest market for private wealth management offered by Shariah compliant commercial banks, being the home market of many.

Outlook

The consolidation of private wealth management and asset management is a development that could provide opportunities for the growth of the Shariah compliant private investment sector. However, Shariah compliant finance operators have yet to crack the offering documentation among Shariah boards of comprehensive international private banking due to limitations of differing Shariah compliant standards.

DAMAC's US$650 million Sukuk auction

Dubai-based DAMAC Real Estate Development Company successfully launched its five-year benchmark standalone Sukuk program last month, on the 7th April 2014. At an initial amount of US$500 million, the Sukuk issuance was subsequently expanded to US$650 million on the back of robust investor demand. Orderbooks exceeded US$2.8 billion shortly before the issuance was completed.

The Regulation S unsecured Sukuk were launched at midswaps plus 310bps, at the tight end of revised guidance. Listed on NASDAQ Dubai and the Irish Stock Exchange, the debenture carries a coupon rate of 4.97% per annum with profit payments made on a semi-annual basis. Proceeds will be used for general corporate purposes, potentially to include the acquisition of additional land bank.

> *"In spite of the many hurdles, DAMAC managed to receive orders in excess of US$1 billion (four times oversubscribed), with investors from Asia, Europe and the Middle East"*

DAMAC Sukuk Issuance

US$650 million

DAMAC

7th April 2014

Issuer	Alpha Star Holding
Obligor	DAMAC Real Estate Development (Guarantor)
Issuance price	US$650 million
Purpose of issuance	Capital raising
Trustee	Deutsche Trustee Company
Tenor	Five years
Coupon rate/ return	4.97% per annum
Payment	Semi-annual profit, bullet repayment of principal
Currency	US$
Maturity date	9th April 2019
Joint lead coordinators and joint lead managers	Barclays, Citi and Deutsche Bank
Joint lead managers	Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates NBD Capital, National Bank of Abu Dhabi
Auditors to the guarantor	Deloitte & Touche (Middle East)
Governing law	English law (UAE law for certain Islamic documentation)
Legal advisers to the guarantor as to English law, DIFC law and UAE law	Dentons & Co
Legal advisers to the Issuer as to Cayman Islands law	Walkers
Legal advisers to the joint lead managers and delegate as to English law	Linklaters
Listing	Irish Stock Exchange and NASDAQ Dubai
Underlying assets	Murabahah: commodities Ijarah: real estate assets held by certain subsidiaries within the DAMAC Group
Rating	'BB' by S&P
Shariah advisor(s)	Shariah Supervisory Board of Citi Islamic Investment Bank and Dr Hussein Hamid Hassan, the Shariah advisor of Deutsche Bank
Structure	Hybrid Ijarah and Murabahah
Tradability	Euroclear and Clearstream
Investor breakdown	Europe, Middle East, Asia (Reg S)
Face value/ minimum investment	US$200,000 and integral multiples of US$1,000 in excess thereof

Speaking to Islamic Finance *news* Alex Roussos, a partner at Dentons & Co, legal advisors involved in the issuance, elaborated on the challenges encountered therein. They include: "Negotiation of an extended financial covenants package, assisting the client with regard to the inaugural debt capital markets deal and on how Islamic bonds are structured as well as how the settlement process works, structuring the deal from a Shariah perspective bearing in mind the potential asset pool and ownership rights over the assets, achieving a rating for the corporate and for the issuance," he said. Nonetheless, in spite of the many hurdles, DAMAC managed to receive orders in excess of US$1 billion (four times oversubscribed), with investors from Asia, Europe and the Middle East.

The issuance was a hybrid Sukuk structured to incorporate the principles of both Murabahah and Ijarah by using a service agent to invest proceeds into a pool of assets, and assets being held by different subsidiaries within the group. According to Roussos, the hybrid nature of the Sukuk was based on the company's asset mix and where the assets where held (which subsidiaries within the group were legal owners).

Highlighting the unique features of the deal, Roussos pointed out that the transaction was an inaugural debt issuance for DAMAC, the paper received high investor demand and that the deal has an extended covenant package. — *NA*

Presidential elections and another challenge for the Turkish economy

TURKEY

By Ali Ceylan

Turkey's AK Parti and prime minister Recep Tayyip Erdogan declared a victory at the recent local elections, which took place on the 30th March 2014. Although Erdogan was not running for office, the closely watched municipal votes could show how much recent controversies and corruption probes affected the support for him and his ruling party.

Following the victory declared by Erdogan, the financial markets should be relatively relieved for a short time. However, the tension between Erdogan and Islamic scholar Fettullah Gulen has also negatively affected the financial markets. The results of the municipal elections showed that nothing much has changed regarding public opinion and therefore no surprise is expected for the Turkish economy from the political area.

The first round of Turkey's first presidential elections will be held on the 10th August this year. This may create another challenge for the ruling party and affect the fragile economy of the country.

In the mean time, the Central Bank of Turkey (CBT) held its monetary policy meeting on the 24th April and decided to maintain three main interest rates and continue to stick to a tight monetary policy despite government pressure for a cut. The CBT stated that the Monetary Policy Committee has decided to set the short-term interest rates as follows:

a. Overnight interest rates: The marginal funding rate has been kept at 12%, the interest rate on borrowing facilities provided for primary dealers via repo transactions has been kept at 11.5%, and borrowing rate has been kept at 8%.

b. One-week repo rate has been kept at 10%.

c. Late liquidity window interest rates (between 4pm–5pm): Borrowing rate has been kept at 0%, while lending rate has been reduced from 15% to 13.5%.

> ***"Bank Asya dismissed a report that claimed the bank's Sukuk issuance had been blocked by Turkey's capital markets watchdog"***

Bank Asya, one of the participation banks of Turkey, has dismissed a report that claimed the bank's Sukuk issuance had been blocked by Turkey's capital markets watchdog. The bank said that no Sukuk issuance has been rejected by the Capital Markets Board of Turkey (CMB). Bank Asya stated it had exported TRY550 million (US$261 million) in Sukuk as part of its initial application, which is within a TRY1.25 billion (US$593.25 million) export permit received in September. It also added that Bank Asya maintains the regulatory approval process for each Sukuk issues as in its previous issues.

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RUSSIA: Roustam Vakhitov
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Conference forges path ahead for Islamic finance in the US

US

By Joshua Brockwell

More than 300 scholars, practitioners and regulators gathered on the campus of Harvard University on the 25-27th April for a dialogue on Islamic finance in America. Held at the university's law school, the 11th Forum on Islamic Finance focused on practical methods to introduce risk-sharing financial solutions, including cooperative financial services and Takaful, to the US market.

"We are pleased to be at this important gathering of thought leaders," one attendee said. "Everyone here considers themselves to be a partner in their efforts to make a meaningful impact on issues of critical importance to our industry."

The three-day event held sessions involving the development of Islamic finance, including cooperative insurance, or Takaful, risk-sharing, Shariah standards, and regulatory and governance concerns. Critical issues related to mutuality, solidarity, and socioeconomic welfare in the context of a widening gap between rich and poor in the US were among the common themes discussed at the forum.

A pre-forum event featured paper presentations on the topic of Takaful and ways to use cooperative financial models to elevate the field of Islamic finance beyond simple compliance with form and endow it with a spirit of mutual solidarity that has historically informed the application of Islamic financial models.

The Harvard University Forum on Islamic Finance was introduced in 1997 to engage scholars, practitioners and regulators in productive dialogue about the then-nascent field. Previous forums have focused on recent economic and political developments in Muslim-majority societies, innovation and authenticity, the global recession, and points of contract between Islamic finance and other types of ethical finance.

More information about the event is available at ifp.law.harvard.edu. A summary of the proceedings will be posted there in the coming weeks.

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Kovsarbank returns to Islamic banking activities

LAW

By Ayhan Baltaci

The board of the Central Bank of Azerbaijan (CBA) has renewed the license of Kovsarbank as a result of a decision from the Court of Appeals. Kovsarbank is the only bank in Azerbaijan that operates in accordance with Islamic banking principles.

On the 1st December 2010, the CBA suspended the financial service license of Kovsarbank due to non-compliance with CBA requirements on minimum total capital and violations of banking regulations regarding management activities.

Claiming that the decision of the CBA, regarding the suspension of its operating license, did not have any legal grounds, Kovsarbank took legal action and filed a lawsuit against the decision in January 2011. The Court of Appeals concluded the lawsuit in favor of Kovsarbank in 2013 and consequently, the CBA has renewed its operating license.

That is the second time that Kovsarbank has had its banking license renewed by the central bank. In 2001 its license was suspended by the CBA as Kovsarbank had not met the license requirements of CBA.

With the renewal, the total number of operating banks in Azerbaijan reaches 44.

Starting from the 1st January 2015, the minimum capital of the banks in Azerbaijan should meet a capital level of AZN50 million (US$63.711 million).

It is clear that in addition to increasing the minimum capital level, more effective changes in the enforcements laws and improvements in the regulations regarding the bonds, checks and pledges will help strengthen the banking industry in Azerbaijan.

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Venture lease and venture capital: Two complementing tools for financing start-up MSMEs

LEASING

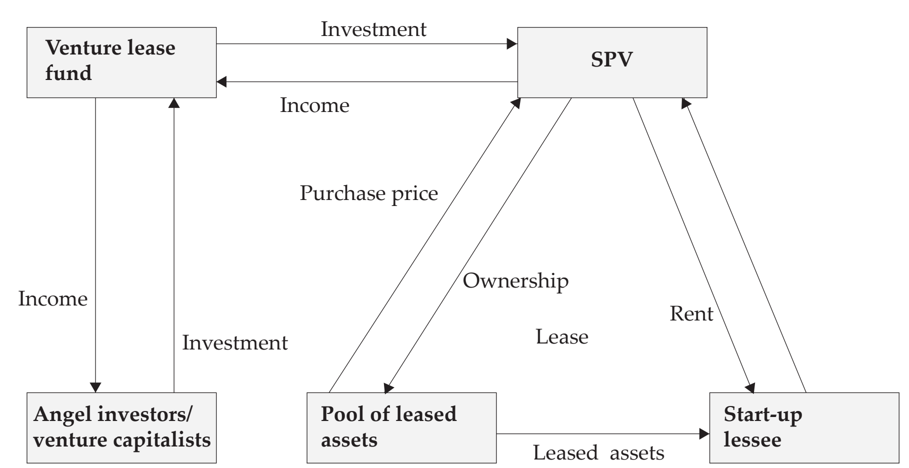
By Professor Dr Shahinaz Rashad

Venture leasing is a creative and viable financing vehicle for venture capitalists and venture leasing companies to finance business entrepreneurs or early start-up microfinance, small, and medium enterprises (MSMEs). It is a hybrid structure of traditional leasing and venture capital in which the lessor will lease assets in return for lease payments as well as seek warrants for stock to finance early start-ups. Venture leases often complement the equity venture capital required to be raised by MSMEs, thereby extending the time needed until the next round of financing.

Venture leases allow MSMEs to improve their cash flow by acquiring or using equipment with a smaller upfront investment and by paying for them over a period of time. In addition, venture leases allow MSMEs to pay for the acquisition or use of equipment with 'tomorrow's' money — i.e. money raised from future equity venture capital rounds. Angel investors could implement this using an Islamic lease fund structure that invests in Shariah compliant leased assets.

A typical structure of Islamic lease or Ijarah-based funds involves financing structures that invest in leased assets that generate a return or cash flow that meet the lease payments of lessees. Lease funds typically invest in finance leases rather than operating leases in which the assets are normally sold to the lessee or entrepreneur at the end of the lease period. Similar to leases the investor runs ownership risk in the underlying assets but try to reduce the residual value risk by transferring ownership at the end of the lease term through Ijarah Muntahia Bitamlek or Ijarah Wa Iqtina. A lease fund manager or leasing company can act as an agent on behalf of the investors and is paid a fee for his services. The fund manager usually invests in pools of Shariah compliant leased assets, which may be sold to one or more special purpose vehicles (SPV), owned by the venture fund and issue investment certificates representing a proportionate share of the underlying assets and the associated income stream. The investment exit strategy for Ijarah funds is usually underwritten by the product sponsor or leasing company, who will acquire asset holdings from the investor or arrange asset sales on a 'matched' basis with a lessee or on best efforts basis through vendor via a remarketing agreement (see Figure 1).

Figure 1: Venture lease fund structure



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GoP Sukuk Ijarah auction expected soon

It has been over a year since the State Bank of Pakistan (SBP) conducted the last auction for its highly demanded Government of Pakistan (GoP) Sukuk Ijarah. With ample liquidity in the market, especially from Islamic banks and Islamic banking windows of interest-based banks as well as income and money market funds, the long-awaited auction of the next GoP Sukuk Ijarah is just around the corner. FARAZZ YOUNUS BANDUKDA discusses.

Anticipation in the market suggests the upcoming auction will be held in two weeks' time. Highly reliable market sources have confirmed that the SBP is working on the issue and finalizing the underlying asset, which will be the M3 highway. The issue size is expected to be around PKR50 billion (US$505.25 million).

With the increasing deposit base of Islamic banks and increased fund sizes of Islamic mutual funds, especially sovereign funds, it is becoming difficult to comply with the minimum holding requirements and fund managers are widely anticipating this auction as a means of providing some relief. High prices and therefore low yields for the existing Sukuk Ijarah in the secondary market suggest that there is ample demand in the market which would help the government raise money at lower rates as compared to interest-based instruments.

With an expected interest rate cut of 50bps, it is not hard to believe that the GoP Sukuk Ijarah could be auctioned at a drastic discount to the T-Bill rate prevailing in the market. Treasuries of Islamic banks and Islamic fund managers have opined the cut-off yield to be around 100bps below the T-Bill rate. Unverified sources in the Islamic banking industry have also suggested that banks are unwilling to take up large deposits as they already have excess liquidity while they face a shortage of investment avenues in which to place their ever-increasing deposit base.

It is widely anticipated that the delay in the auction is due to some Shariah compliance issues in the upcoming tranche of the Sukuk. Shariah scholars have raised reservations on the structure and the underlying asset. The reservations are currently being rectified by the SBP. For this reason, the SBP's Shariah advisory board, Shariah scholars and Islamic finance professionals are actively working on the structure and are expected to finalize it based on M3 national highway early next week.

Recently, many Islamic bankers have criticized the SBP and GoP for not providing enough investment avenues to Islamic banks, which are receiving ample deposits on a daily basis. Although the Islamic banking industry in Pakistan is growing phenomenally with increasing awareness from the masses, the asset side of the balance sheet is a cause of concern for bankers. The opening up of new Islamic banking branches and news of the conversion of two interest-based banks to fully functional Islamic banks (Summit bank and Faysal bank) has interestingly changed the dynamics of Islamic banking in Pakistan. As the deposit base of Islamic banking increases, it is becoming difficult day by day to invest the deposits with returns competitive enough to survive in the market.

“With an expected interest rate cut of 50bps, it is not hard to believe that the GoP Sukuk Ijarah could be auctioned at a drastic discount to the T-Bill rate prevailing in the market”

In this quest, Islamic bankers are exploring new investment and advancement avenues. Recently a group of capital market professionals started working on a share financing mechanism based on Islamic financial guidelines where investors in the Karachi Stock Exchange will be able to borrow money to finance purchase of shares of listed companies. This would help Islamic banks place their excess liquidity with investors in the best-performing stock market of the world. If this product is made available then a lot of excess funds will be easily deployed and will start earning healthy returns.

In a recently concluded conference and exhibition on Islamic finance, renowned Shariah scholar Mufti Muhammad Rafi Usmani, the vice-president of the Jamia Dar ul Uloom in Karachi, suggested that it is high time that Islamic banks come out of fixed instruments such as Ijarah and Murabahah and move towards the next dimension of Musharakah and Mudarabah products. Not only this would open new investment avenues for the increasing deposit base of Islamic banks, but it would also enhance the rate of return earned by the banks and the depositors at large. The profit-sharing mechanism of the Musharakah and Mudarabah instruments on the asset side of the balance sheet would help the Islamic banks participate in the huge profitability of the private sector in an economy of 200 million individuals with a consumer-centric market and huge potential for growth. With the introduction of these instruments, Islamic banking industry could reach new heights and attract large-scale depositors. The growth rate evident in the Islamic banking industry in Pakistan needs to be sustained and for that very purpose, steps must be taken by Islamic finance professionals to promote awareness, as well as develop new products that could help grow and sustain the industry as a whole.

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Private bankers, asset managers and portfolio management: A perspective

A large part of the population is unacquainted with the world of private banking. Much like investment bankers, they are largely invisible until you are in a position to need them. ABRAR HUSSAIN discusses the limited role they currently play in the Islamic finance industry, and suggests ways in which reviewing current portfolio theory could change this.

For the uninitiated, private banks are any financial institutions (or groups within a financial institution) that focus on serving clients with at least US$1 million to invest. They offer a host of services from banking, to lending, to portfolio management and investment advisory services — all with a focus on personalized service. It is good business to be in and, before the financial crisis, was one of the better performing areas of the financial sector.

"In most cases, dealing with Muslim clients and Shariah compliant products is left to outside consultants or boutique asset managers. While this consequence may not seem like a big problem, it is"

Private banking went through a host of changes since the financial crisis of 2008. Most private banks, like the rest of the financial industry, were unprepared for systematic risk that the global credit markets faced during the crisis (for a deeper discussion of the systemic risk posed, take a look at the excellent analysis done by Jeffrey Friedman and Wladimir Kraus in their book 'Engineering the Financial Crisis Systemic Risk and the Failure of Regulation'). The failure of the credit markets to contain the systemic risk not only led to low yields for fixed income products and a spike in the volatility of capital markets but also to significant regulatory changes to these markets throughout the world. The industry is still dealing with the consequences of the crisis and private banks are no exception.

Private banks and the Islamic finance industry

One could argue that the private banking industry is wholly irrelevant to the Islamic finance industry — while almost a quarter of the world's population is Muslim, less than 1% is wealthy enough to qualify for a private bank. Hence, the percentage of private bankers that focus on Muslims clients is itself miniscule. In most cases, dealing with Muslim clients and Shariah compliant products is left to outside consultants or boutique asset managers. While this consequence may not seem like a big problem, it is.

The Islamic finance industry is one of the very few categories within the global financial industry that actually has a lack of products. While equity and real estate products are available, the fixed income products on the market lack meaningful liquidity and suffer from valuation problems and, unfortunately, this lack of diversity doesn't seem to be changing.

If we look deeper into the Shariah compliant products on the market, most take the approach that compliance is essentially prohibition driven. In other words, the Shariah compliant product copies a conventional product and seeks to create compliance through structures that, ostensibly, address Riba, Gharar and restrict investing in prohibited industries. This transformation adds economically inefficient structures that replicate debt (typically, Murabahah), scholarly review by a Shariah board and, preferably, an Arabic name. It is the lazy approach — starting with a conventional product requires less development time and allows financial institutions to reuse their products with minor modifications. This derivative approach has consequences from a portfolio perspective.

Financial advisors, using the premise that Shariah compliant products are simply copies of the conventional investment products (albeit, less economically efficient), will use these Shariah compliant products in the same basic buckets of portfolio allocation as in a conventional portfolio. But, because the pieces are less efficient, the portfolio itself will be less efficient. This is how the idea of a 'Shariah penalty' is born — either do well or do good, but you can't do both. This is a false choice.

If the Islamic banking industry is to truly succeed, it must start from the ground up to not only develop new products (fixed income and otherwise) but to carefully examine modern portfolio management theory in light of needs of a Shariah compliant investor. Modern portfolio theory has often been criticized (and modified) and we should not be averse to creating a Shariah compliant version of modern portfolio theory that attempts to take into account the intent (i.e., the Maqasid) of Riba or Gharar.

Private bankers are often responsible for some of the key inputs about the needs and desires of their clients to the financial institution's product development team. It is through their high net worth clients that new products are first tested. Crucially, private bankers could help their financial institutions focus on reformulating the nature of portfolio management to begin with the basic goals of compliance — the economic substance of a product rather than its name.

Meaningfully reviewing and revising modern portfolio theory to work within a Shariah compliant context would yield at least two laudable goals. First, it would help asset managers and the end users see that some investment products, by their very nature are Shariah compliant. Second, it would go a long way toward eradicating the notion of a Shariah penalty.

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Islamic wealth management: Are trends in global wealth management leaving Muslims behind?

As global banks cut their commercial activities and focus shifts towards asset management for both private and institutional clients, JOHN A SANDWICK takes a look at what this move represents for the Islamic finance industry — and what needs to be done to ensure the opportunities are not missed.

A decade of decline in investment banking

In the past few years some of the biggest names in banking announced a major shift in their global banking priorities. For the big Swiss universal banks it's now all about radical cutbacks in investment banking and private equity, and a shift toward wealth and asset management. For other big global banks it's almost the same, although not to the same degree of the Swiss giants. Spotting this trend is important. Just three of the biggest names in global banking — JPMorgan, UBS and Credit Suisse — alone manage around US$6 trillion in private client and institutional wealth, 7% of the US$87 trillion in professionally managed assets worldwide.

The global financial crisis taught these banks an expensive lesson: they failed to break into or expand investment banking and private equity. Competition, the high cost of pampering investment bankers and the mean streets of global capital markets led some of the most famous names in banking to suffer enormous losses from their investment banking and sister private equity business lines.

As a result, more and more banks are asking whether investment banking is worth it, especially compared to the calmer waters of wealth and asset management. While investment banking can be highly profitable, it also requires gigantic commitments of shareholder capital for volatile, unpredictable returns. In comparison wealth and asset management do not require anywhere near the capital commitments or risk taking to be competitive.

We can peek at what's going on by looking at JPMorgan annual reports, 2008 through 2013 (see Table 1). This gives us a glimpse of actual returns on shareholder capital by business line. We focus on investment banking, corporate/private equity and asset management. While this examination looks at only one bank, we know the experience at other universal banks was similar. Think of RBS, Barclays, Bank of America and other global money-center banks.

Returns on capital over the last six years indicate a clear trend. Investment banking and corporate/private equity consume massive amounts of bank capital, yet suffer highly volatile or meaningless returns for JPMorgan shareholders. Asset management consumes a paltry amount of capital, yet enjoys consistent returns above 20%.

Shareholders who care about these issues must have made their voices heard: the big banks have pulled back considerably on high-risk investment banking and private equity that produces very little in the way of consistent profits on gigantic sums of committed capital. They are all reallocating toward low-risk wealth and asset management, which by nature is based on trifling sums of capital yet produce highly reliable profits.

A cynic (or a rationalist) might conclude investment banking and private equity are a waste of shareholder capital and should be shuttered, with all bank resources instead put into wealth and asset management. No doubt the financial media has been pointing out this trend for the last few years, confirmed now by a discrete look at returns on shareholder capital by business line.

The implications for Islamic finance

The same can't be said of banks working in the Islamic finance arena. Still to date not a single bank anywhere has a dedicated Islamic wealth and asset management unit. In fact, we anecdotally confirm the majority of action in Islamic banking resolves around deals, deals and more deals. Transaction-based banking — where commissions are high and success rates are low — still consumes the large majority of time, effort and capital resources of the Islamic banking industry.

How can one quantify these conclusions? The sheer absence of an Islamic asset management industry speaks for itself. If there are no Islamic asset managers, then what exactly are all these Islamic bankers doing other than transaction-based business?

Outside retail banking, the majority of Islamic banking enterprises are focused on transaction-based banking, meaning structuring and executing deals, which

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Table 1: JPMorgan annual results 2008-13 (US dollars)

	2008			2010			2013		
Business segment	Investment Banking	Corporate & Private Equity	Asset Management	Investment Banking	Corporate & Private Equity	Asset Management	Investment Banking	Corporate & Private Equity	Asset Management
Dedicated capital (in billions)	26	53	5.6	40	58	6.5	46	77	7
Return on capital	-5%	0%	24%	17%	0%	26%	23%	0%	24%

Continued

> ***Transaction-based banking — where commissions are high and success rates are low — still consumes the large majority of time, effort and capital resources of the Islamic banking industry***

of course is the definition of investment banking and private equity. Scan the well-known brand names of the Islamic banking universe and search for a bank that has an Islamic wealth and asset management unit of substance and meaning. One would be hard-pressed to find one. Abu Dhabi Islamic Bank, Dubai Islamic Bank, Bank of London & The Middle East, Gatehouse Bank, Al Rajhi Capital, Aljazira Capital, Noor Bank, and virtually all other Shariah compliant banking institutions have no or only insignificant wealth and asset management businesses. In a few places there are units called 'wealth and asset management', but none that offer the kind of global portfolio allocation services that big conventional banks do.

There is at least one exception. Jadwa Investment Co in Riyadh has slowly but surely been building its asset management business. Today almost two thirds of its assets under management is in true liquid, managed assets (as opposed to transaction-based assets like private equity), and since 2012 its asset management unit has produced the majority of Jadwa's annual profits.

The Investor for Securities Co in Riyadh is on the path toward this exceptional status. While still much of its business is transaction-based, The Investor recently partnered with Safa Investment Services in Geneva to deliver global wealth and asset management throughout Saudi Arabia and the Arabian Gulf region.

Where is this all going? It's hard to tell. Islamic banking generally is alive and well, growing by double digits annually in terms of assets in Sukuk, bank deposits and short-term Murabahah contracts. This can't be said for Shariah compliant assets under management (AUM), a reflection of which is the global Islamic mutual funds business. That sector hasn't seen double-digit growth in quite a long time, with AUM stuck in the US$100 billion range for several years now.

It remains to be seen if the global Islamic banking community will take a cue from their conventional banking brothers and refocus resources toward wealth and asset management. One suspects this change will occur, but only with time. Let's hope we don't have to wait too long.

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Hedge funds strategies and Shariah compliant short selling

Hedge funds are a touchy subject in Islamic finance, with scholars widely disagreeing about the Shariah compliance of various strategies. IRFAN A NAHEEM talks us through the key concepts and controversies.

Hedge funds lack a definition, but the word 'hedge' usually describes a strategy used to evade the risk. The Securities and Exchange Commission (SEC) in 2003 considered 14 different definitions. A few characteristics that reflect from these definitions are:

- Funds using different investment strategies to hedge the risk and gain absolute returns independent of the market's performance;
- Limited partnership investments for accredited investors with high minimum investment usually non redeemable for initial few years;
- Regulations are not as stringent as for mutual funds; and
- The compensation for the hedge fund managers is high and linked to the performance of the fund.

According to Barker & Hui (2003) these funds are actively managed and the managers of these funds use techniques like short selling, leverage and derivatives to generate high profits for their investors. The characteristic of the hedge to generate high profit in both bull and bear markets has made these funds very attractive. However, these funds are highly risky at the same time. The first hedge fund was introduced in late 1940s by Alfred Winslow Jones and the sector has grown significantly since then. According to the Hedge Funds Review hedge fund assets under management were estimated at US$2 trillion by end of 2010 with more than US$1 trillion managed from North America.

The growth of the Islamic finance sector gained the attention of hedge fund managers, and this led to the development of Islamic hedge funds. The conventional long/short strategy, which is not permitted by Shariah, prevented Islamic investors from investing in the hedge funds. However, fund managers have developed alternative Shariah compliant strategies to create Islamic hedge funds. Salam and Arbun are the Islamic alternatives for the conventional short selling. Though these strategies are being practiced there is still a split of opinion among Islamic scholars on the use of these alternatives for short selling and also a mixed opinion on hedging risk through different derivative instruments.

Hedge fund strategies

There are several strategies used by the hedge funds. However, they are broadly classified into directional and non-directional strategies. This section will briefly discuss these strategies and will access which of these strategies can be possibly adapted by Islamic hedge funds.

> *There are challenges or limitation faced by the Islamic hedge funds with the adaptation of these strategies. However, the bigger debate is whether hedging is permissible by the Shariah?*

Relative value strategy

- Convertible arbitrage — Generate profit from mispricing of the convertible bonds and other hybrid debt/equity securities.
- Fixed-income arbitrage — Aims to profit from price anomalies between interest rate securities like mortgage-based securities, government bonds.
- Equity market-neutral strategy — In this strategy the managers tend to exploit the market inefficiency in pricing the securities. Managers long and short the securities at 50:50 ratio.

Event-driven strategy

- Merger (risk) arbitrage — Managers capitalize on the difference of pricing between the current market value of the security and the value post a merger or acquisition.
- Distressed/high-yield securities — take long and short position in debts and equities of organization is financial distress.

Opportunistic strategy

- Equity hedge (long/short) – Managers aim profit by owning better performing securities and short selling losing securities from the same sector. The winning and losing securities are not usually balanced in equal proportion.
- Global macro – Using the predictions and analysis, managers tend to exploit the fluctuation of global interest rates, currency rates and other macro-economic instruments.
- Managed futures – Aim to profit from the buying and selling of exchange traded and over-the-counter (OTC) futures, options and forwards of currencies, commodities and index based on the market trend.
- Emerging markets – Manager use long/short strategy to generate profit from debt, equity and derivative instruments in emerging markets. Usually long strategy is adapted by managers as most of the emerging economies restrict short selling.

The hedge fund sector is not limited only to the above-mentioned strategies. However, these are the dominant ones and the managers usually combine multiple strategies to device their own strategy to manage the funds. It is observed that the managers commonly use leverage, short selling and derivatives such as future and options as tools along with a single or combination of multiple strategies to hedge the risk and generate absolute returns.

Islamic hedge funds — challenges

There are challenges or limitation faced by the Islamic hedge funds with the

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adaptation of the above-mentioned strategies. The commonly used tools like short selling (one cannot sell what he/she does not own), leverage (Riba) and derivatives (uncertainty — Gharar; or gambling — Maysir) are not permissible by the Shariah. However, the bigger debate is whether hedging is permissible by the Shariah?

Mohamad & Tabatabaei (2008) have discussed that scholars generally agree that hedging is permissible in order to reduce risk in a real assets transaction. For instance, exporters and importers can hedge to protect their profits against the fluctuation of currency rate. However, the scholars do not approve of speculators who expose themselves to risk without the trading of real assets to gain profits. The speculative instruments of the derivative market are not permissible by Shariah as they involve Gharar, Maysir and often there is no real trade that occurs. The speculation in the derivative market is done with the intention of generating profit therefore, the underlying assets in the transaction is not delivered often. The problem with the derivative instruments is that due to speculation they are not tied to the real economic activity and this can imbalance the demand and supply condition of the real economy.

Short selling — Shariah issues

Though short selling is often criticized, many exchanges have legalized short selling because it provides liquidity and improves market efficiency by driving down overpriced securities. The conventional short sell has two parts to it. First, a stockbroker borrows stocks from the owner. The stock owner usually gets certain percentage of interest on the loan (stock). Second, the stockbroker sells the borrowed stocks in the market and buys them back at a lower price at a future date and returns it to the stock owner. It is because of these two reasons of Riba and selling the stock despite not owning the stock, short selling is prohibited by Shariah.

However, the first part of the short selling doesn't face major issues among jurists as it is permissible to lend provided there is no excess return expected. The disagreement among the jurists is with regards to the second part of the short selling. Kamali (2000) discusses the full version of Hadith from the work of Abu Dawud (English translation) (1984): "Ja 'far ibn Abi Wah shiyah reported from Yusuf ibn Mahil, from Hakim ibn Hizam [who said]: "I asked the prophet O Messenger of Allah! A man comes to me and asks me to sell him what is not with me, so I sell him [what he wants] and then buy the goods for him in the market [and deliver]."

> ***"The different interpretation of Fiqh is the biggest challenge faced by the industry. Islamic hedge fund managers would be able to devise new strategies if harmony existed among the scholars"***

And the prophet said: "Sell not what is not with you". It is based on this Hadith that short selling is prohibited by scholars. There are several interpretations of this Hadith. The majorly accepted interpretation is that the seller should own the product at the time of the sale otherwise the sale is invalid even if the seller acquires the ownership later. However, some scholars argue that this Hadith applies to the sale of a particular unique object but not to commonly available. Dasuki, A.W & Abozaid (2008) have cited the work of Ibn al-Qayyim, according to which Ibn Taymiyah and Ibn al-Qayyim interpret the above Hadith as: "Do not sell things you are not able to deliver" and not "do not sell things you don't own".

According to them the prophet forbids Hakim from initiating a transaction which he may not be able to conclude because when he is asked to sell a particular object not commonly available then he may not be able to deliver due to non availability of the object in the market or the owner may not be willing to sell the object. Therefore, the essence of this Hadith is to avoid Gharar. They assert that Salam sale is permissible on this interpretation that the seller may not own the commodity during the sale. However, as long as the delivery can be assured due to easy availability in the market it eliminates excessive risk and Gharar. The professionals from the industry have tried to develop Shariah compliant means to short sales securities.

Shariah compliant options — Short selling

Bai Al Arbun — Through this method the fund manager, after analyzing the market, picks a stock whose market price will fall at a future date. The fund company makes a part payment and takes the delivery of the stock however, with a promise to complete the purchase by paying the remaining amount within the stipulated time or the fund company has to return the stock and forfeit the down payment of token money.

Ibnul Qayyim (1955) cited by Ayub, Md (2007), discusses a report from Naf' I Ibnal Harith an officer at Makkah deputed by Caliph Umar (Gbpwh), that he bought a prison house from Safwan Ibn Umayyah for Caliph Umar (Gbpwh) for AED4,000 (US$1,088) on a condition that the sale would be final if the caliph approved of it, otherwise Safwan would be given AED400 (US$108). It is based on this report that Hanbali School considers Arbun as permissible. However, the other Maddhabs disapprove of the sale. Another debatable area in this sale is benefiting from the stock when the sale is not completed Kamali (2008) cites the work of Ibn Juzay according to which in an option sale the buyer may use the object for investigation and testing. However, he is not entitled to use the object for his benefit during the option period.

Bai Al Salam — Though AAOIFI has explicitly restricted the Salam sale to commodities, the Malaysian Shariah Council has extended Salam's applicability to financial securities.

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Sale and Promise — The Malaysian Shariah Council developed a method where the central exchange buys a security from seller along with a promise to purchase it back whenever the exchange sells at a future date. Similarly sells the stock to a buyer with a promise from buyer to resell the stock to the exchange whenever the exchange demands it. However, the seller's rights to recall and buyer's right to resell are embedded in the regulations and they have the right to execute it at their convenience.

Exchange of conditional promises (Wa'dan) — This method of short selling two conditional promises is an exchange between the broker and the Islamic fund. However, at a future date only one promise will be in effect due the condition.

Conclusion

Hedge funds are considered to be one of the fastest growing financial sectors, though they faced strong criticism stating that the industry operates out of speculations and takes excessive risk. It is observed that hedge funds use the best of qualitative and quantitative strategies to device their strategies. The industry despite the challenges managed to successfully create Islamic hedge funds which are Shariah compliant. However, the hedge funds have limited strategies which they can implement to create Shariah compliant hedge funds. The biggest challenge faced by not only Islamic hedge funds but by the Islamic finance industry is lack of harmony.

The different interpretation of Fiqh is the biggest challenge faced by the industry. Islamic hedge fund managers would be able to devise new strategies if harmony existed among the scholars. However, the professionals should develop the new strategies keeping in mind the Maqasid Al Shariah and avoid deviating from a foundation in the real economy, which is what the hedge fund industry is primarily accused of.

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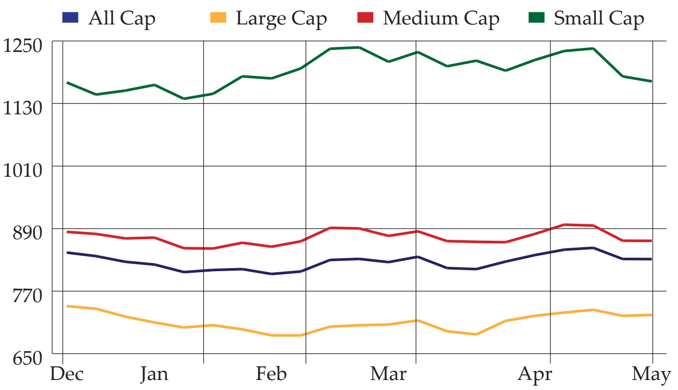
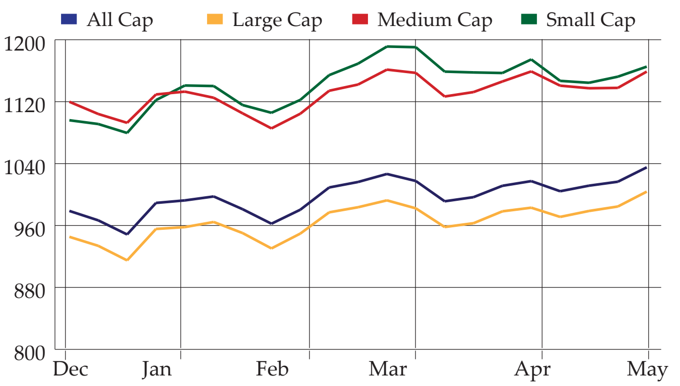
ISSUER	SIZE	DATE ANNOUNCED
Meethaq	OMR300 million	5th May 2014
Khazanah Nasional	RM1 billion	2nd May 2014
Government of Pakistan	TBA	2nd May 2014
Pelaburan Mara	RM1 billion	30th April 2014
Hua Yang	RM250 million	30th April 2014
Bank Negara Malaysia	RM200 million - RM3 billion	30th April 2014
Engro Corp	PKR4 billion	24th April 2014
Saudi Telecom	TBA	24th April 2014
Public Islamic Bank	RM5 billion	24th April 2014
Midciti Sukuk	RM3 billion	22nd April 2014
Dubai Islamic Bank	TBA	18th April 2014
Government of Pakistan	PKR542 billion	16th April 2014
IILM	US$860 million	11th April 2014
KLCC REIT	RM3 billion	11th April 2014
Emaar Misr for Development	TBA	10th April 2014
Etiqa Takaful	RM300 million	8th April 2014
Electricity Supply Board - Ireland	RM500 million	4th April 2014
Japan Bank	TBA	4th April 2014
Treedom Group	TBA	2nd April 2014
Maybank Islamic	RM10 billion	27th March 2014
Bumi Armada Capital	RM1.5 billion	27th March 2014
Saudi Investment Bank	TBA	21st March 2014
Gulf Finance House	US$500 million	20th March 2014
Bank Muscat - Saudi Arabia	SAR1 billion	20th March 2014
Bank Muscat	OMR500 million	20th March 2014
Sabana Sukuk	SG$85 million	12th March 2014
Fawas Abdulaziz Alhokair Co	TBA	11th March 2014
FGB Sukuk Company II	US$1.07 billion	7th March 2014
IDB	TBA	7th March 2014
Government of Malaysia	RM3 billion	26th February 2014
DanaInfra Nasional	RM200 million	24th February 2014
1Malaysia Development	RM2.4 billion	19th February 2014
TSH Sukuk Ijarah	RM20 million	18th February 2014
Kiler GYO	US$100 million	13th February 2014
Government of Tunisia	TND700 million	7th February 2014
Government of Indonesia	IDR1.57 trillion	6th February 2014
Flydubai	TBA	4th February 2014
BNM Sukuk	RM1 billion	28th January 2014
Citra Marga Nusaphala Persada	IDR1.75 trillion	23rd January 2014
Albaraka Turk Katilim Bankasi	US$300-400 million	10th January 2014
IJM Corp	RM3 billion	10th January 2014
Government of Saudi Arabia	TBA	8th January 2014
Government of Luxembourg	EUR200 million	7th January 2014
Government of Oman	OMR200 million	6th January 2014
Bank Asya	US$500 million	23rd December 2013
Ahmad Zaki Resources	RM1 billion	19th December 2013
Bank Rakyat	RM9 billion	10th December 2014
BIMB Holdings	RM1.7 billion	10th December 2014

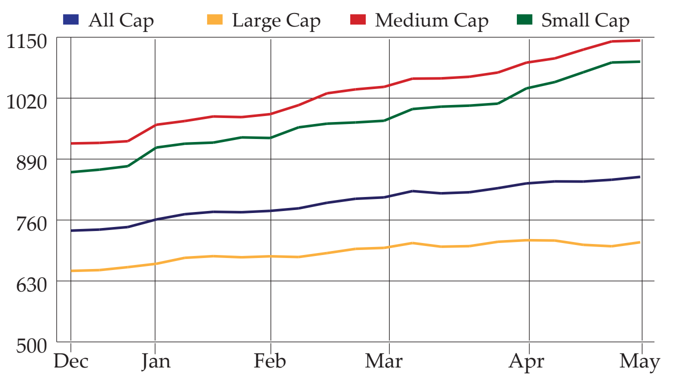
REDmoney Asia ex. Japan
6 Months



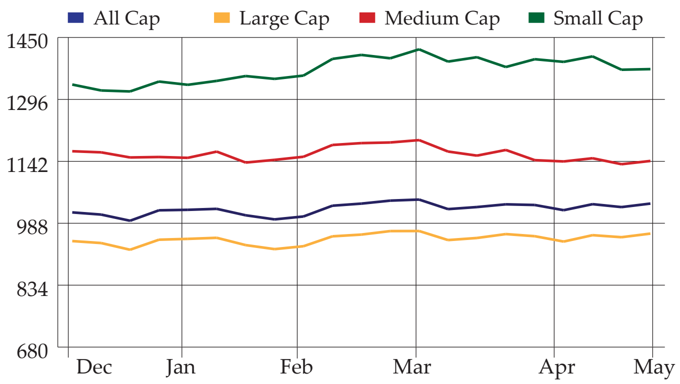
REDmoney Europe
6 Months



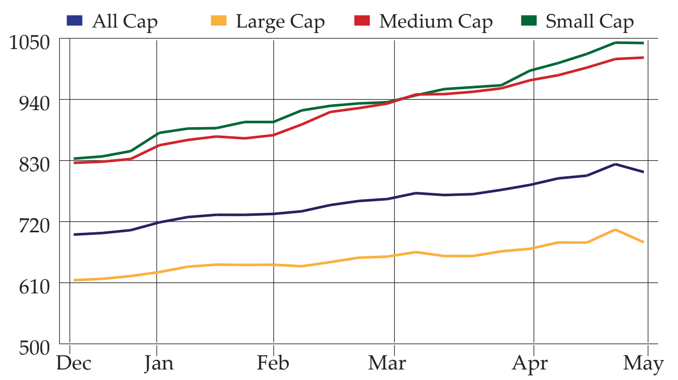
REDmoney GCC
6 Months



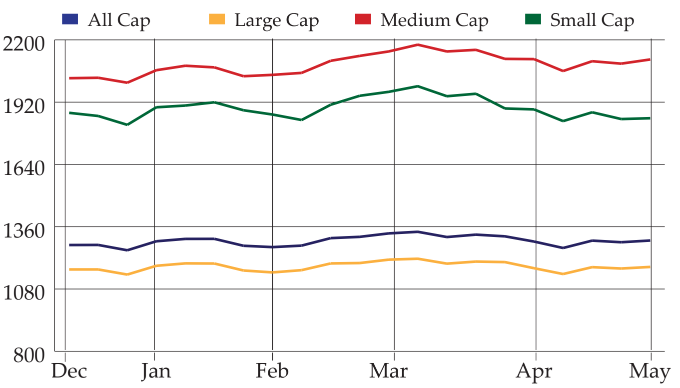
REDmoney Global
6 Months



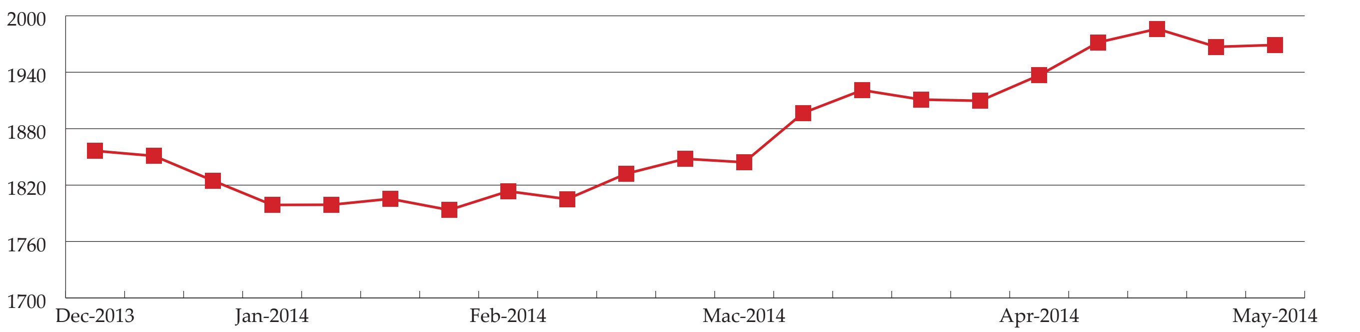
REDmoney MENA
6 Months



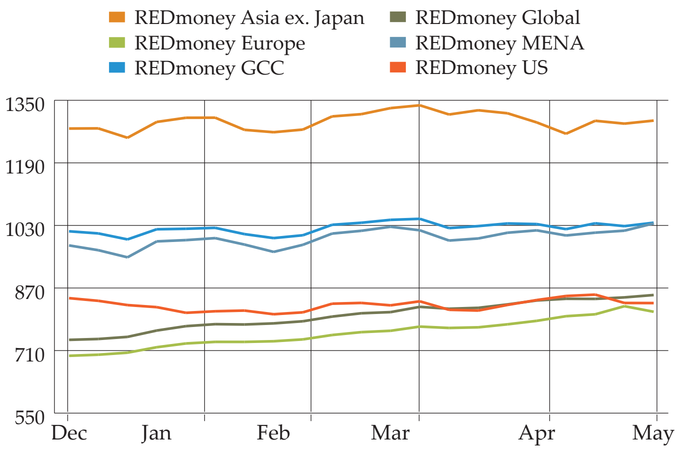
REDmoney US
6 Months



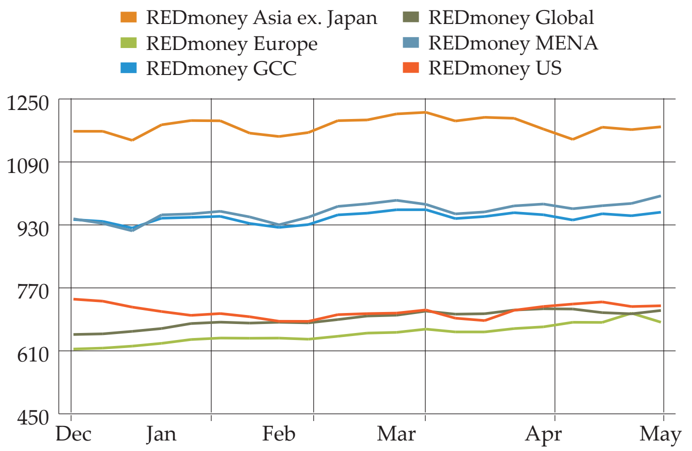
SAMI Halal Food Participation (All Cap)
6 months



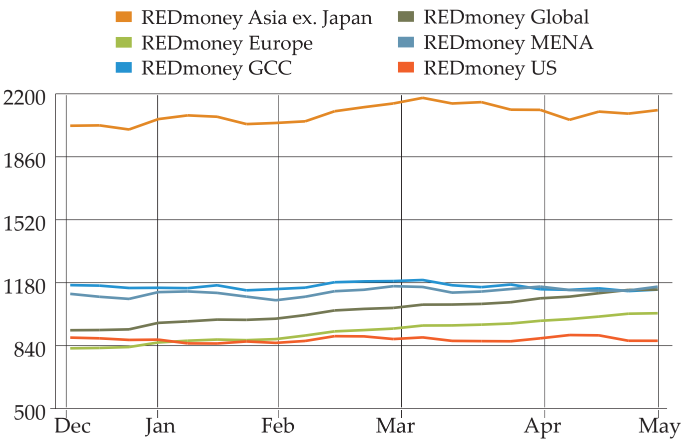
REDmoney Global Shariah Index Series (All Cap) *6 Months*



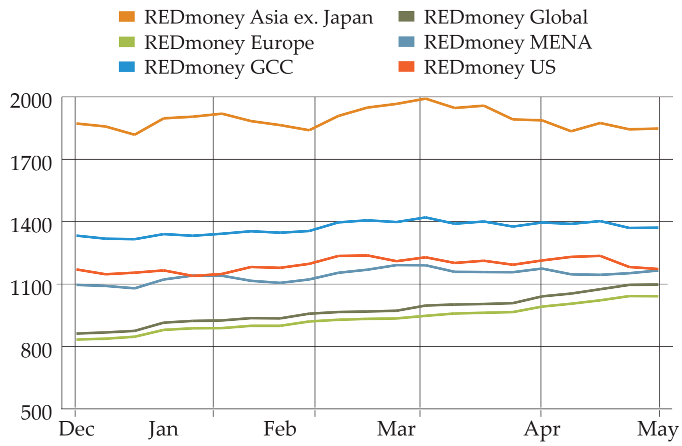
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



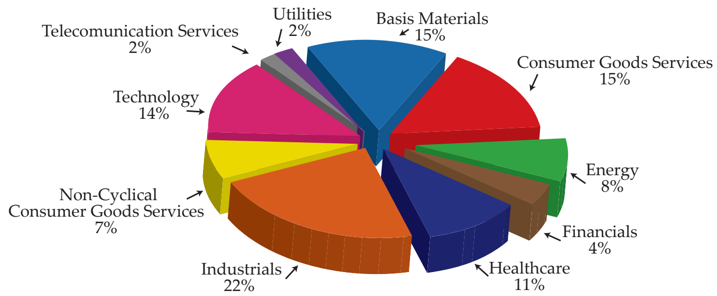
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

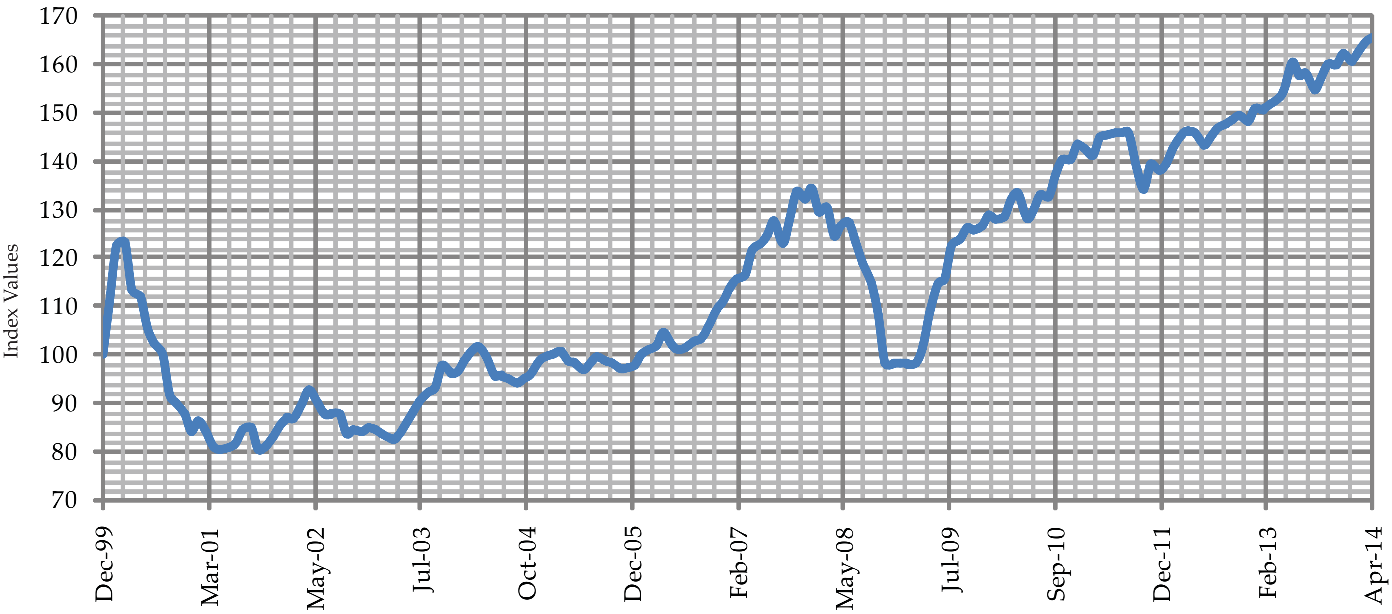
REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

Andrew Morgan
Managing Director, REDmoney Group

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

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly Returns for Developed Markets Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Palladium	ETFS Metal Securities	4.25	Jersey
2	Pacific Dana Dividen	Pacific Mutual Fund	2.44	Malaysia
3	Oasis Crescent Balanced High Equity Fund of Funds	Oasis Crescent Management Company	1.90	South Africa
4	Al Shamekh Islamic Portfolio	Riyad Bank	1.81	Saudi Arabia
5	AlAhli Global Real Estate	The National Commercial Bank	1.79	Saudi Arabia
6	Oasis Crescent Balanced Stable Fund of Funds	Oasis Crescent Management Company	1.74	South Africa
7	Oasis Crescent Global Equity	Oasis Global Management Company (Ireland)	1.73	Ireland
8	Altaira Funds - Ethical Global High Dividend (I)	Altaira Wealth Management	1.57	Luxembourg
9	iShares MSCI USA Islamic	BlackRock Advisors (UK)	1.38	Ireland
10	Al Shuja'a Islamic Portfolio	Riyad Bank	1.08	Saudi Arabia
	Eurekahedge Islamic Fund Index		**(0.51)**	

Based on funds which have reported March 2014 returns as at the 5th May 2014

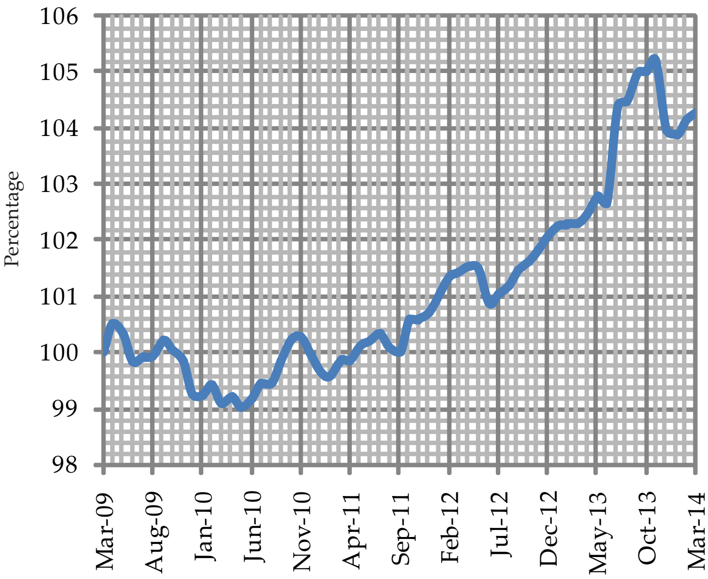
Top 10 Monthly Returns for Emerging Markets Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	CIMB Islamic Small Cap	CIMB-Principal Asset Management	8.15	Malaysia
2	JS Islamic	JS Investments	7.37	Pakistan
3	Jadwa Saudi Equity	Jadwa Investment	6.63	Saudi Arabia
4	MAAKL-CM Shariah Flexi	MAAKL Mutual	6.35	Malaysia
5	GCC Al-Raed	Samba Financial Group	6.19	Saudi Arabia
6	Eammar and Estethmar	Bayan Investment Company	6.10	Kuwait
7	Amanah GCC Equity	SABB	6.07	Saudi Arabia
8	Jadwa GCC Equity	Jadwa Investment	6.04	Saudi Arabia
9	Amanah Saudi Equity	SABB	6.04	Saudi Arabia
10	AlAhli Saudi Mid Cap Equity	NCB Capital Company	5.59	Saudi Arabia
	Eurekahedge Islamic Fund Index		**1.59**	

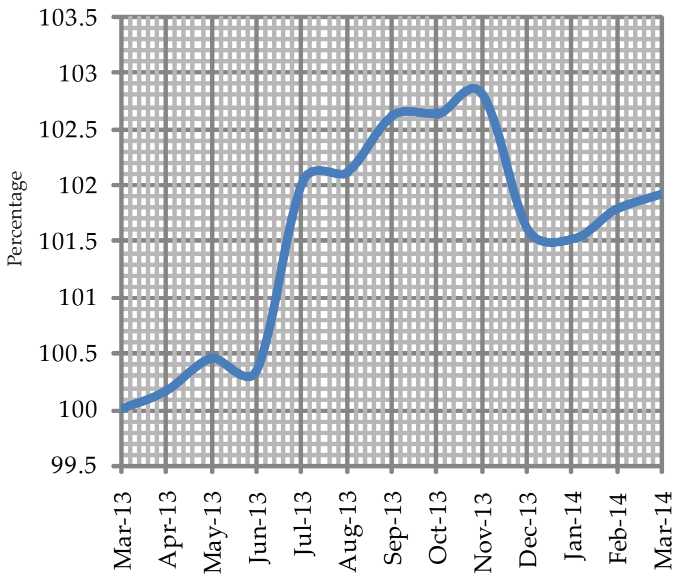
Based on funds which have reported March 2014 returns as at the 5th May 2014

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

Eurekahedge Islamic Fund Money Market Index over the last 5 years



Eurekahedge Islamic Fund Money Market over the last 1 year



Top 10 Islamic Money Market Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	PNM Amanah Syariah	PNM Investment Management	3.16	Indonesia
2	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	2.28	Pakistan
3	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	1.89	Pakistan
4	Al Dar Money Market	ADAM	1.83	Kuwait
5	MAAKL Al-Ma'mun	MAAKL Mutual	0.72	Malaysia
6	RHB-OSK Institutional Islamic Money Market	RHB Asset Management	0.66	Malaysia
7	PB Islamic Cash Plus	Public Mutual	0.64	Malaysia
8	TA Islamic CashPlus	TA Investment Management	0.64	Malaysia
9	PB Islamic Cash Management	Public Mutual	0.62	Malaysia
10	Apex Dana Al Kanz	Apex Investment Services	0.61	Malaysia
	Eurekahedge Islamic Fund Index		**0.14**	

Based on 97.22% of funds which have reported March 2014 returns as at the 5th May 2014

Top 5 Fund of Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	11.54	Ireland
2	ETFS Physical Palladium	ETFS Metal Securities	8.53	Jersey
3	ETFS Physical Gold	ETFS Metal Securities	7.14	Jersey
4	AmPrecious Metals	AmInvestment Management	7.03	Malaysia
5	ETFS Physical PM Basket	ETFS Metal Securities	5.63	Jersey
	Eurekahedge Islamic Fund Index		**6.54**	

Based on funds which have reported March 2014 returns as at the 5th May 2014

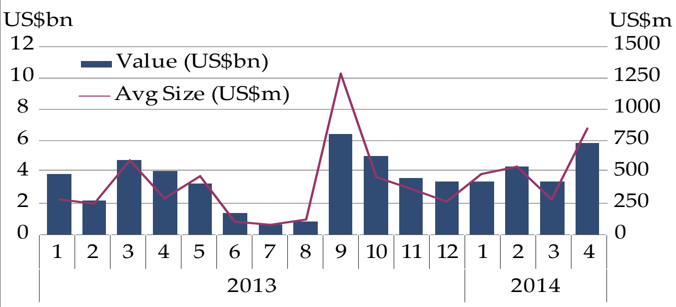
Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com Tel: +65 6212 0900

EUREKAHEDGE

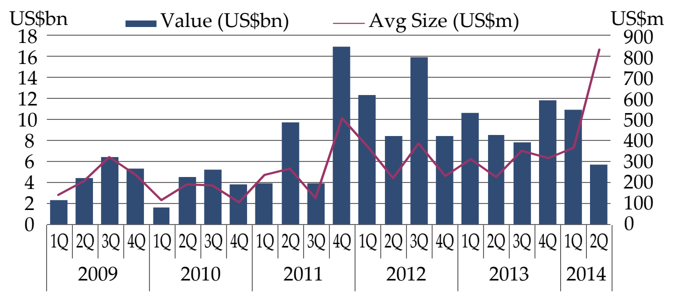
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
23rd Apr 2014	Midciti Sukuk	Malaysia	Sukuk Murabahah	Domestic market public issue	476	Maybank, CIMB Group, AmInvestment Bank
22nd Apr 2014	Government of Dubai	UAE	Sukuk Ijarah	Euro market public issue	750	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
15th Apr 2014	Turkiye Finans Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	HSBC, Citigroup, Emirates NBD, QInvest
9th Apr 2014	DanaInfra Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	801	HSBC, RHB Capital, Maybank, CIMB Group, AmInvestment Bank
2nd Apr 2014	Saudi Electricity Company	Saudi Arabia	Sukuk	Euro market public issue	2,500	JPMorgan, Deutsche Bank, HSBC
2nd Apr 2014	DAMAC Real Estate Development	UAE	Sukuk	Euro market public issue	650	Deutsche Bank, National Bank of Abu Dhabi, Barclays, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
1st Apr 2014	IJM Corporation	Malaysia	Sukuk	Domestic market public issue	153	HSBC, RHB Capital, Maybank, CIMB Group, Affin Investment Bank
27th Mar 2014	Maybank Islamic	Malaysia	Sukuk	Domestic market private placement	455	Maybank
25th Mar 2014	National Higher Education Fund	Malaysia	Sukuk Murabahah	Domestic market public issue	757	Maybank, CIMB Group
13th Mar 2014	Imtiaz Sukuk II	Malaysia	Sukuk Musharakah	Domestic market public issue	304	Maybank, CIMB Group
12th Mar 2014	Rantau Abang Capital	Malaysia	Sukuk Musharakah	Domestic market public issue	305	Standard Chartered Bank, HSBC, CIMB Group
11th Mar 2014	SME Bank	Malaysia	Sukuk Wakalah	Domestic market public issue	305	Kuwait Finance House, Maybank, AmInvestment Bank
6th Mar 2014	Bumitama Agri	Indonesia	Sukuk Musharakah	Domestic market public issue	153	UOB, Maybank
4th Mar 2014	Gamuda	Malaysia	Sukuk Murabahah	Domestic market public issue	122	HSBC, AmInvestment Bank
3rd Mar 2014	Syarikat Prasarana Negara	Malaysia	Sukuk Murabahah	Domestic market public issue	610	RHB Capital, Maybank, Kenanga Investment Bank, CIMB Group
27th Feb 2014	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,500	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, RHB Capital, Natixis, CIMB Group, Commerzbank Group
20th Feb 2014	Bandar Malaysia	Malaysia	Sukuk	Domestic market public issue	455	AmInvestment Bank
17th Feb 2014	National Commercial Bank	Saudi Arabia	Sukuk	Domestic market public issue	1,333	Saudi National Commercial Bank, JPMorgan, HSBC, Gulf International Bank
13th Feb 2014	Dubai Investments Park Development	UAE	Sukuk	Euro market public issue	300	Dubai Islamic Bank, Citigroup, Emirates NBD, Al Hilal Bank
13th Feb 2014	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	391	HSBC, Maybank, CIMB Group

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$(mln)	Iss(%)	Managers
1	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market public issue	4,056	10.0	Saudi National Commercial Bank, HSBC
2	Saudi Electricity Company	Saudi Arabia	Sukuk Istithmar	Domestic market public issue	3,700	9.1	Banque Saudi Fransi, HSBC, JPMorgan, Deutsche Bank
3	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	2,500	6.2	Standard Chartered Bank, National Consumer Cooperative Bank, RBS, National Bank of Abu Dhabi, Natixis, CIMB Group, Credit Agricole, Barwa Bank, HSBC, First Gulf Bank, RHB Capital, Commerzbank Group
4	DanaInfra Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	1,621	4.0	RHB Capital, Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank, HSBC
5	Malakoff	Malaysia	Sukuk	Domestic market public issue	1,521	3.8	Maybank, CIMB Group
6	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	1,500	3.7	Standard Chartered Bank, Deutsche Bank, Citigroup
7	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	1,396	3.4	RHB Capital, CIMB Group, Maybank, AmInvestment Bank
8	National Commercial Bank	Saudi Arabia	Sukuk	Domestic market public issue	1,333	3.3	Saudi National Commercial Bank, JPMorgan, HSBC, Gulf International Bank
9	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,250	3.1	Standard Chartered Bank, HSBC, QInvest
9	Ooredoo	Qatar	Sukuk	Euro market public issue	1,250	3.1	Deutsche Bank, HSBC, DBS, Qatar National Bank, QInvest
11	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	1,233	3.0	HSBC, RHB Capital, CIMB Group, AmInvestment Bank, Kenanga Investment Bank
12	TNB Western Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	1,109	2.7	RHB Capital, AmInvestment Bank, Maybank, CIMB Group
13	National Higher Education Fund	Malaysia	Sukuk Murabahah	Domestic market public issue	946	2.3	RHB Capital, AmInvestment Bank, Maybank, CIMB Group
14	Sukuk Funding (No 3)	UAE	Sukuk Musatahah	Euro market public issue	750	1.9	Saudi National Commercial Bank, HSBC, Citigroup, Noor Bank, Emirates NBD, QInvest
14	Government of Dubai	UAE	Sukuk Ijarah	Euro market public issue	750	1.9	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
16	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	746	1.8	Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, QInvest, Bank Alkhair, Bank of America Merrill Lynch
17	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	718	1.8	CIMB Group
18	Power & Water Utility for Jubail & Yabbu - Marafiq	Saudi Arabia	Sukuk	Domestic market private placement	667	1.6	HSBC
19	DAMAC Real Estate Development	UAE	Sukuk	Euro market public issue	650	1.6	Deutsche Bank, National Bank of Abu Dhabi, Barclays, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
20	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	581	1.4	AmInvestment Bank
21	TNB Northern Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	543	1.3	HSBC, KAF Investment Bank
22	Turkiye Finans Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.2	HSBC, Citigroup, Emirates NBD, QInvest
22	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	500	1.2	Mashreqbank, Standard Chartered Bank, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
22	Al Hilal Bank	UAE	Sukuk Mudarabah / Wakalah	Euro market public issue	500	1.2	CIMB Group, RHB Capital, Bank Islam Malaysia, AmInvestment Bank
25	Midciti Sukuk	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1.2	RHB Capital, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
26	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	473	1.2	RHB Capital, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
27	Imtiaz Sukuk II	Malaysia	Sukuk Musharakah	Domestic market public issue	460	1.1	Maybank, CIMB Group
28	Maybank Islamic	Malaysia	Sukuk	Domestic market private placement	455	1.1	Maybank
29	Bandar Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	455	1.1	AmInvestment Bank
30	Almarai	Saudi Arabia	Sukuk	Domestic market private placement	453	1.1	Banque Saudi Fransi, Standard Chartered Bank, BNP Paribas, HSBC
					40,600	**100**	

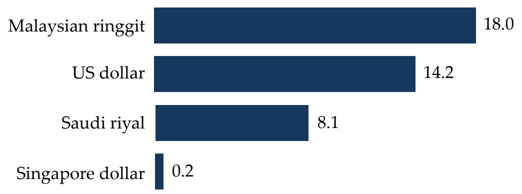
Top Managers of Sukuk

12 Months

	Manager	US$ (mln)	Iss	%
1	HSBC	7,187	24	17.7
2	CIMB Group	6,309	44	15.5
3	Maybank	4,156	31	10.2
4	AmInvestment Bank	2,917	21	7.2
5	RHB Capital	2,755	32	6.8
6	Saudi National Commercial Bank	2,361	2	5.8
7	Standard Chartered Bank	2,180	14	5.4
8	Deutsche Bank	1,810	6	4.5
9	JPMorgan	1,167	2	2.9
10	Citigroup	1,031	7	2.5
11	National Bank of Abu Dhabi	924	8	2.3
12	QInvest	866	4	2.1
13	Banque Saudi Fransi	713	2	1.8
14	Emirates NBD	577	6	1.4
15	Dubai Islamic Bank	468	4	1.2
16	DBS	345	3	0.9
17	First Gulf Bank	338	2	0.8
18	Gulf International Bank	333	1	0.8
19	Natixis	313	2	0.8
20	Affin Investment Bank	298	4	0.7
21	Goldman Sachs	284	3	0.7
22	Al Hilal Bank	275	3	0.7
23	KAF Investment Bank	271	1	0.7
24	Qatar National Bank	250	1	0.6
25	BNP Paribas	188	2	0.5
26	Commerzbank Group	188	1	0.5
27	UOB	180	2	0.4
28	OCBC	160	5	0.4
29	Kenanga Investment Bank	153	1	0.4
30	Mashreqbank	150	2	0.4
	Total	40,600	108	100

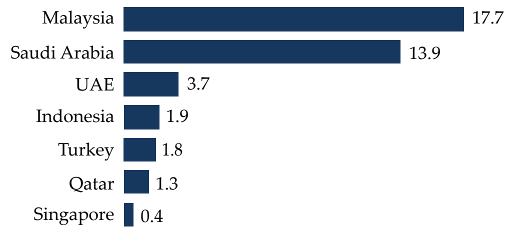
Sukuk Volume by Currency US$ (billion)

12 Months



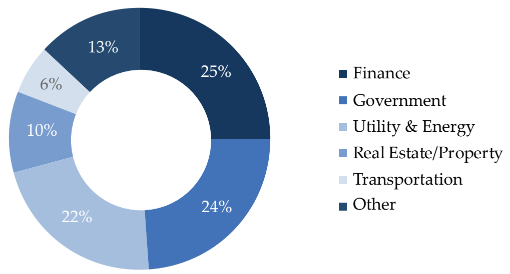
Sukuk Volume by Issuer Nation US$ (billion)

12 Months

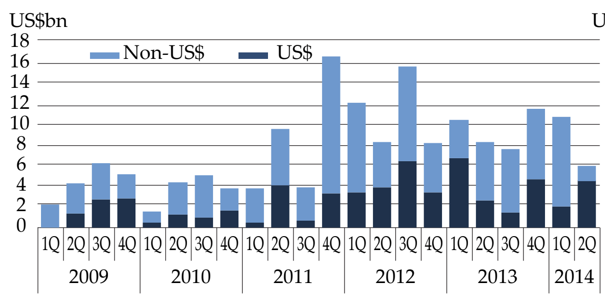


Global Sukuk Volume by Sector

12 Months



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Finance Mandated Lead Arrangers

12 Months

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

Top Islamic Finance Related Project Financing Legal Advisors Ranking

12 Months

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	3,065	4	45.1
2	Clifford Chance	2,300	2	33.8
3	Baker Botts	668	1	9.8
3	Chadbourne & Parke	668	1	9.8
5	Mohammed Al Zamil & Emad Al Kharashi Law Firm	97	1	1.4

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking
12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	Standard Chartered Bank	494	5	7.1
2	Abu Dhabi Islamic Bank	453	4	6.5
3	HSBC	439	3	6.3
4	Abu Dhabi Commercial Bank	397	3	5.7
5	Emirates NBD	375	4	5.4
6	Saudi National Commercial Bank	324	3	4.7
7	Dubai Islamic Bank	314	3	4.5
8	Citigroup	283	2	4.1
9	National Bank of Abu Dhabi	256	2	3.7
10	Riyad Bank	236	2	3.4
10	National Bank of Kuwait	236	2	3.4
10	Arab Petroleum Investments	236	2	3.4
13	Barwa Bank	209	3	3.0
14	Samba Capital	169	2	2.4
15	Deutsche Bank	160	1	2.3
15	Credit Agricole	160	1	2.3
17	Sumitomo Mitsui Financial Group	156	1	2.2
17	Gulf International Bank	156	1	2.2
17	Arab Bank	156	1	2.2
20	First Gulf Bank	155	2	2.2
21	Arab Banking Corporation	155	3	2.2
22	Noor Bank	149	3	2.1
23	Qatar Islamic Bank	140	2	2.0
24	Sberbank	111	2	1.6
25	Masraf Al Rayan	90	1	1.3
26	Banque Saudi Fransi	89	1	1.3
27	Islamic Development Bank	61	1	0.9
28	Union National Bank	58	1	0.8
28	Mashreqbank	58	1	0.8
28	Bank Islam Brunei Darussalam	58	1	0.8
28	Ahli United Bank	58	1	0.8

Top Islamic Finance Related Loans Mandated Lead Arrangers
12 Months

	Bookrunner	US$ (mln)	No	%
1	Emirates NBD	604	3	17.9
2	Barwa Bank	435	2	12.9
3	HSBC	419	1	12.4
3	Citigroup	419	1	12.4
3	Abu Dhabi Commercial Bank	419	1	12.4
6	Noor Bank	336	3	10.0
7	Standard Chartered Bank	186	2	5.5
7	Arab Banking Corporation	186	2	5.5
9	Al Hilal Bank	100	1	3.0

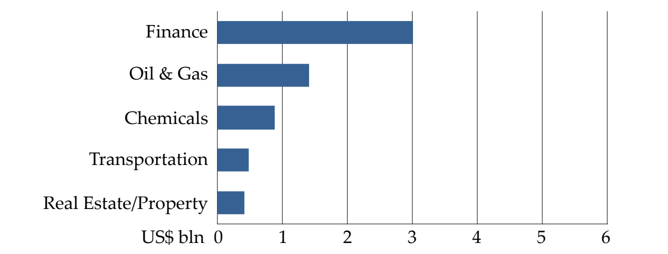
Top Islamic Finance Related Loans Deal List
12 Months

Credit Date	Borrower	Nationality	US$ (mln)
10th Jun 2013	ICD	UAE	1,675
5th May 2013	Saudi Aramco	Saudi Arabia	1,400
17th Jul 2013	Al Jubail Petrochemical (Kemya)	Saudi Arabia	800
18th Jun 2013	Turkiye Finans Katilim Bankasi	Turkey	502
18th Jul 2013	Albaraka Turk Katilim Bankasi	Turkey	427
23rd Dec 2013	Kuveyt Turk Katilim Bankasi	Turkey	388
24th Mar 2014	Ezdan Real Estate	Qatar	350
5th Jun 2013	Gulf Marine Services	UAE	340
1st Jun 2013	Mobily	Saudi Arabia	321
26th Sep 2013	Qatar Electricity & Water	Qatar	271

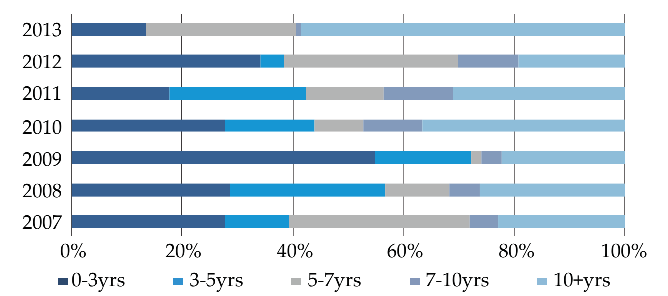
Top Islamic Finance Related Loans by Country
12 Months

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,587	4	37.1
2	UAE	2,333	4	33.5
3	Turkey	1,317	3	18.9
4	Qatar	621	2	8.9
5	Malaysia	116	2	1.7

Top Islamic Finance Related Loans by Sector
12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



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

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MAY 2014			
13th — 14th	Bonds, Loans and Sukuk Middle East 2014	Dubai	GFC Conferences
26th — 27th	**IFN Asia Forum 2014**	**Kuala Lumpur, Malaysia**	***REDmoney Events***
JUNE 2014			
5th — 6th	Moscow Halal Business Forum	Moscow, Russia	Halal Holding
10th	**IFN Iran Forum**	**Tehran, Iran**	***REDmoney Events***
26th	**IFN Europe Forum**	**Luxembourg**	***REDmoney Events***
SEPTEMBER 2014			
15th – 16th	**IFN Global Forum**	**Dubai**	***REDmoney Events***
29th	**IFN Kuwait Forum**	**Kuwait**	***REDmoney Events***
OCTOBER 2014			
13th	**IFN Sri Lanka Forum**	**Colombo**	***REDmoney Events***
20th	**IFN Bangladesh Forum**	**Dhaka**	***REDmoney Events***
NOVEMBER 2014			
4th	**IFN Africa Forum**	**Abuja**	***REDmoney Events***
6th	**IFN Turkey Forum**	**Istanbul**	***REDmoney Events***
17th	**IFN Saudi Forum**	**Riyadh**	***REDmoney Events***
DECEMBER 2014			
1st	**IFN Egypt Forum**	**Cairo, Egypt**	***REDmoney Events***

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