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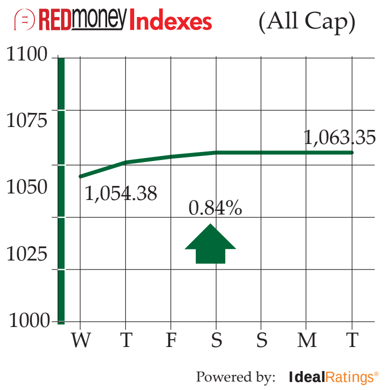

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New laws, new shores: Are Islamic funds finally growing up?

Shariah compliant funds had a choppy year in 2013, but as their offering strengthens and the product base expands, the Islamic asset management industry is this year seeing a seismic shift in investor attitudes – which could be the final push needed to drive the funds sector into a real growth curve. With growing interest from conventional investors and a geographical remit at last seeing some success in the US, could 2014 be the year that Islamic funds finally come of age?

Negating the naysayers

The Islamic asset finance industry had its worst year to date in 2013, with net outflows reaching a record US$10.3 billion (compared to inflows of US$7 billion in 2012) – primarily due to a dip in large fund commodity investing which was down by over 24% last year, combined with a sharp reaction to US Federal Reserve tapering, especially in the Middle East and Asia. "We saw significant outflows for that reason," said Mohammad Hassan, an analyst with Eurekahedge. "Islamic fund managers have not been successful in hammering home their fund proposition."

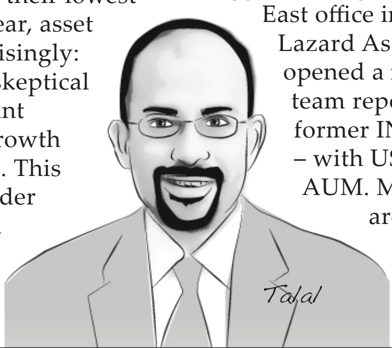
A positive first half

Although the industry saw its highest level of fund launches and their lowest level of liquidations last year, asset levels have dropped surprisingly: with investors remaining skeptical regarding Shariah compliant funds despite an overall growth trend over the past decade. This year saw current assets under management (AUM) stand at US$88.58 billion according to the most recent Eurekahedge data, managed by a total of 829 Shariah compliant investment vehicles. This grew by US$1.92 billion in the first quarter, driven largely by performance-based gains, totaling US$1.56 billion, resulting in a total 3.93% rise in the Eurekahedge Islamic Fund Index for April 2014 (year-to-date).

The Eurekahedge Islamic Funds Index has gained 60.9% since its inception in December 1999 until April 2014. Comparatively, the MSCI World Index was up 20.47% over the same period of time, while the Dow Jones Islamic World Index rose 16.02%.

Gulf growth

Malaysia and Saudi Arabia unsurprisingly remain the central fund locations, although the GCC overall increased its share to host 40% of all Islamic funds currently in operation. International asset management firms are interestingly showing more interest in setting up in the region, as markets perform better and large investors such as the local sovereign wealth funds look more closely at domestic markets rather than the traditional western investment destinations.



Nomura Asset Management, one of Asia's biggest managers, opened its first Middle East office in Dubai in June; while Lazard Asset Management also opened a new Dubai office with a team reportedly poached from the former ING Investments Group – with US$176 billion in global AUM. More western groups are also showing interest in the region – Oyster

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"Wealth, properly employed, is a blessing and a man may lawfully endeavour to increase it by honest means."
Hadith narrated by Bukhari

CIMB Islamic Bank Berhad (671380-H)
CIMB ISLAMIC

DEALS

Central Bank of Bahrain's monthly Sukuk Ijarah issuance oversubscribed by 410%

Kuveyt Turk looks to price benchmark-sized five-year Sukuk

Banque Saudi Fransi completes US$533.14 million Sukuk with proceeds set to boost the bank's Tier 2 capital

Bank Internasional Indonesia to issue IDR300 billion (US$25.41 million) Sukuk to finance domestic lending

Participation bank **Kuveyt Turk** launches US$500 million Sukuk, according to reports

Sukuk plans for Luxembourg in motion once again as revised bill makes its way to the Council of State

Government of Pakistan reaches Sukuk Ijarah auction target, raises PKR49.54 billion (US$498.43 million)

Pricing for **Al Hilal Bank** Sukuk expected, according to sources

Albaraka Turk issues pricing for planned dollar-denominated benchmark Sukuk according to reports

Salam-based structure for short-term Islamic instruments approved by **State Bank of Pakistan**

National Petrochemical Co completes its SAR1.2 billion (US$319.89 million) debut Sukuk issuance

NEWS

Oromia Cooperative International Bank launches interest-free pilgrimage savings account for Ethiopian Muslims

Maybank Islamic introduces new Shariah compliant credit card to the Malaysian market

Lembaga Tabung Haji introduces non-banking Islamic debit card in collaboration with **MasterCard**

Hong Kong affirms commitment to become a regional player in the Islamic capital market

Tourism industry, hotels and spa services to receive Shariah compliance guidelines from **Malaysia Islamic Development Department**

Unified banking law could be presented to the Kazakhstan government by the middle of 2015 according to **IDB** executive director

Development of Islamic finance highlighted as a campaign promise by Prabowo Subianto ahead of Indonesia's election

Sitara Chemicals signs up for PKR2 billion (US$20.14 billion) diminishing Musharakah facility

OJK amends Islamic financial institution reserve requirement regulation to meet **IFSB**-15 standards

ASSET MANAGEMENT

Azzad Asset Management selects **Federated Investment Management Company** to sub-advise US' pioneering Halal fixed income mutual fund

Arabesque receives regulatory approval to begin operations as part of UK's Islamic finance community

Global Investment House Saudia's Shariah compliant Al Noor fund outperforms benchmark with 27.5% return

Saudi Arabian capital market sees more activity buoyed by local demand and economic stability

TAKAFUL

Arab Orient Takaful Insurance opens new branch in Masr El Gedida

Auditor-General highlights good performance of Perak's poverty eradication programs which includes a Takaful Tabarru' protection scheme

Amãna Takaful extends partnership with **Sri Lanka Auto-sports Drivers' Association** for the second consecutive year

New guidelines for Brunei's Takaful and insurance industry to come into effect on the 1st July 2014

Nigeria actively working to develop its Takaful industry in the face of provider and consumer interest according to commissioner for insurance

Egyptian Takaful Insurance plans to boost investment for the upcoming fiscal year to EGP410 million (US$57.2 million)

MAA Group to utilize Takaful business to lift PN17 status, negating need for purchase of additional company

Takaful Oman Insurance Company launches officially

RATINGS

Capital Intelligence affirms 'BBB' rating for **Bank Islam Malaysia** based on improving asset quality and sound capital adequacy ratio

Fitch assigns 'A+' rating to **Boubyan Bank** based on high probability for support from the Kuwait authorities

RAM maintains ratings on **MRCB Southern Link**'s Islamic facilities

Turkish asset leasing company's proposed US$500 million Sukuk receives 'BB' preliminary rating from **S&P**

IDB's 'AAA' rating affirmed by **Fitch** due to status as one of the strongest-capitalized multilateral development banks

RAM assigns 'P1' rating to **Cagamas'** proposed US$20 billion Islamic and conventional CP programs

Capital Intelligence assigns 'BB' financial strength rating to **Albaraka Islamic Bank**

AM Best affords ratings to **Solidarity General Takaful**

Sepangar Bay Power Corporation's RM575 million (US$178.3 million) Sukuk Murabahah receives 'AA1' rating from **RAM**

Fitch affirms Bahrain at 'BBB' with a stable outlook with the expectation of the country's non-oil economy driving activity in the medium term

Fitch affirms Kuwait at 'AA' with the country's exceptionally strong sovereign balance sheet acting as support for the ratings

MOVES

Zaid Al Farisi rejoins **King & Spalding** as Islamic finance partner

Agus Sudiarto named president director of **Bank Syariah Mandiri**

Islamic Bank of Britain names **Sultan Choudhury** in newly created role of CEO and director

National Bank of Abu Dhabi chief investment officer resigns according to sources

Securities Commission Malaysia appoints new chairman for the **Federation of Investment Managers Malaysia**

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New laws, new shores: Are Islamic funds finally growing up?

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Funds has expanded its expansion plans to the Gulf with a new office in the UAE announced in June as part of its second phase of growth due to scope for a Shariah compliant fund range. "In the second phase we will look at creating strategies which are more geographically-relevant in that sense," said CEO Sebastian Guillon. "We are expecting to see real demand, special demand if you will, so it remains a long-term option."

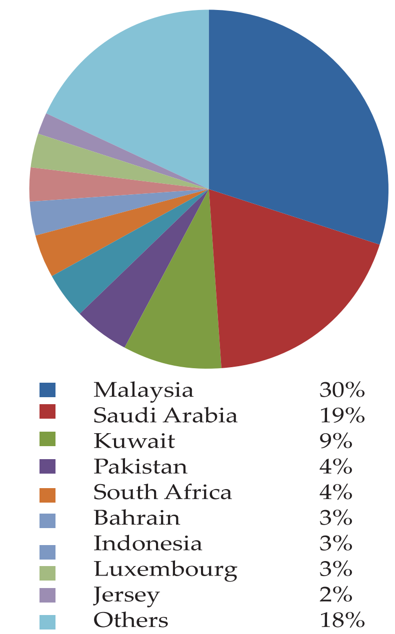
Ashmore Group (with around US$70 billion of AUM globally) is also rumored to have hired a head of MENA ahead of opening its first regional office, as assets in the MENA region are expected to grow almost three-fold to US$1.5 trillion, according to PwC. This is still a tiny proportion of the estimated US$94 trillion in AUM of the global funds industry – but exceptional performance in several regional markets such as Saudi Arabia have driven a significant increase in investor interest which has benefited the Islamic sector – especially in the equities asset class, which has recently (despite trouble from Iraq adding to market volatility) seen a bull run with the value of regional exchanges increasing by up to 50% – while Dubai has grown even further by an estimated 115% in the first quarter.

Real estate returns

Returns were positive across the board for all asset classes as at April 2014 year-to-date, with the strongest return posted by real estate funds which were up 6.79%. Equity funds followed behind with returns of 5.88%, lifted significantly by managers investing in the GCC region. However, cash-rich Gulf investors have been funneling money into the recovering property asset class which saw Shariah compliant real estate funds constitute 19% of all Islamic funds in 2013 (compared to just 5% fixed income).

New entrants are demonstrating this increase in interest. Pinebridge Investments Middle East (PBME) recently raised US$144 million (almost 50% over its initial target of US$100 million) for its Pinebridge GCC Real Estate Fund, with a final close target of US$200 million. The Shariah compliant fund will invest in income-producing

Figure 3: Fund domicile by numbet of funds



Source: Eurekahedge

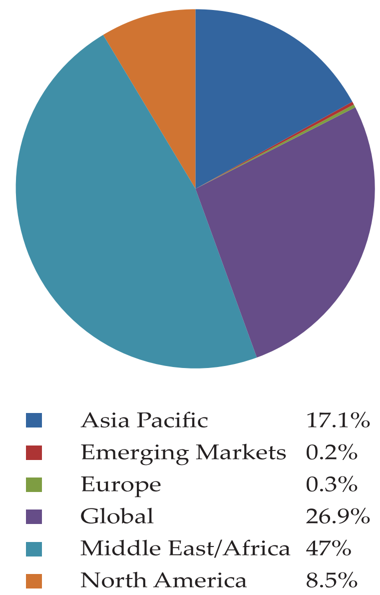
assets across the Gulf: including assets such as the UAE-based GEMS school campus acquired in a sale-and-leaseback transaction last year.

"There are a number of opportunities to invest in specialist real estate assets that generate stable returns and unlock capital for business owners in the GCC," said Talal Al Zain, CEO of Bahrain-based PBME. "The target sectors – logistics, social infrastructure and community retail – are key contributors to the economic growth and development of the region, as well as for job creation."

New markets

However, the Islamic asset management industry has not only been gaining ground in its core markets of the GCC and Malaysia but pushing into new markets as it develops its own unique value proposition. The MENA region and Asia Pacific retain the majority share of 64% of all Islamic fund assets under management, but globally invested funds now constitute over a quarter (26.9%), driven by an urgent need for diversification amongst both Muslim and conventional investors.

Figure 4a: Geographic mandates by assets under management



Source: Eurekahedge

This has seen traditional market players move into regions less familiar to them in an attempt to gain first mover advantage. Malaysia-based RHB Asset Management last month unveiled a Shariah compliant actively managed Islamic balanced fund in Hong Kong, the first in a country that has long announced its intentions to issue sovereign Sukuk in order to enter the Islamic market, a transaction now expected in the third quarter of this year. According to the bank, the fund has seen "significant interest" in Islamic finance from Hong Kong and cross-border investors, following a recent mutual agreement between the Securities and Future Commission of Hong Kong and the Securities Commission Malaysia to develop their Islamic capital markets and Islamic collective investment schemes. The balanced fund will invest around 40% of its assets in Shariah compliant equities and the remaining 60% in non-equity Islamic investments such as Sukuk, Islamic money market instruments and Islamic deposits. "We believe there is significant appetite by investors interested in participating in Islamic investment products as an alternative to other traditional

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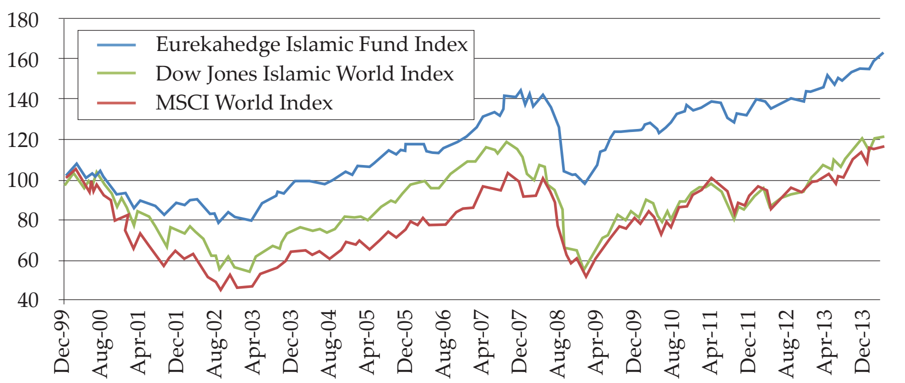
options," said Ho Seng Yee, CEO and head of retail distribution for RHB Asset Management.

And Hong Kong is not the only new market looking towards Shariah investors. Banco do Brasil, Latin America's largest bank by assets, is also seeking Middle East and Asian investors with the launch of the region's first Shariah compliant equity fund in June this year.

The fund will focus on shares of companies in industries including commodities, energy, mining and retail, according to CEO Carlos Takahashi. "We've been studying and considering this fund for the past three years, and we recognize we are ready to launch it," he said in a recent media interview. "It took us a while to understand all of the particularities of Islamic finances, and it's important for us to reach for those investors and get closer to them."

Even in more established Islamic finance centers, new players are attempting to tap the opportunity – with UK stalwart Threadneedle Investments recently obtaining a license to offer Islamic products to institutional investors in Malaysia in January 2014.

Figure 8: Performance of Islamic funds versus stock market indices



Source: Eurekahedge

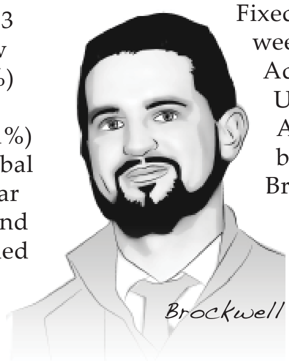
Looking west

One of the biggest trends in the sector is the increasing interest from US investors, which could revolutionize the industry. Outside of the main Islamic finance centers, Eurekahedge notes that North America commands just 8.5% of total assets, despite possessing the largest and most liquid capital market in the world. However, Islamic funds investing in North America delivered the strongest performance over the past three years, with three-year annualized returns of 8.66%. Although there are relatively few Islamic funds invested in the region, they contributed an "out-sized" return of 27.58% in 2013 alone, outperforming the Dow Jones Index (which rose 26.5%) and MENA managers (who posted average returns of 8.51%) as well as Asia Pacific and global funds (who reported three-year annualized returns of 4.46% and 1.86% respectively). This has led new firms to enter the US market as well, with players such as RiverCrossing Capital Partners setting up a US$125 million fund earlier this year to invest in US real estate.

American interest

The US resurgence is not just led by a sectoral drive, however. Joshua Brockwell of Azzad Funds explained to Islamic Finance *news* that a key factor in the market is the renewed interest from the conventional market. "Islamic finance in the US is really still in its infancy, but we have seen a lot of traction with a lot more conventional, bigger players in investment management looking to make a move into this space – if for no other reason than to grow their pie – because there are plenty of Shariah sensitive investors."

Speaking at the Morningstar Investment Conference in June this year, Brockwell confirmed to IFN that: "The interest in our Shariah compliant fixed income fund is really phenomenal. A lot of it has to do with client demand – the advisors have seen a lot of that, and they have mentioned that specifically."



The Azzad Shariah compliant Fixed Income Fund was last week taken on by Federated Advisors, one of the largest US fund managers with AUM of over US$360 billion, which according to Brockwell marks a landmark moment for the industry in the States. "There are clearly advisors here that are interested in Shariah compliant strategies for their clients, and a lot of these are high net worth individuals – but there are also advisors here that are very interested in the fact that Federated has dipped its toe in the water and is now managing a Sukuk fund – that is really a coming of age for Islamic finance in the US, that we were able to cut this deal with them."

The US advisors like it because not only are they able to pitch it to their Shariah sensitive clients, but they are also able to use it in their portfolios as a diversification play. "It is certainly growing and taking on added interest within the advisor community," emphasized Brockwell. "And the American Muslim community is an affluent and fast-growing demographic."

Conventional strength

However, the key expansion tool for the Islamic funds industry is its increasing attraction to conventional investors. Giorgio Medda, CEO of AZ Global Asset Management, the Turkish subsidiary of Azimut Holding, commented to Islamic Finance *news* that: "We had no name in the Islamic asset management space, and within four months we raised US$55 million in Europe and Turkey for our fully UCITS and Shariah compliant Global Sukuk fund. We did not market the product in the GCC, or in Asia as of yet. And most of the money was from conventional investors. We have seen a huge surge in interest from the conventional side – they are looking for diversification, and

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for access into these markets."

Search for Sukuk

The fixed income space is becoming increasingly popular for fund managers, despite the low yield environment. According to Eurekahedge, equity investments account for 43% of Islamic fund assets so far this year, primarily because allocating to Shariah compliant companies is the most popular form of Islamic investment among retail investors who find it easier to understand as compared with other more complicated Islamic finance instruments. However, fixed income investments constitute 19% of the assets, while commodities are the third-largest asset class by AUM with a total of 17% of fund assets.

"The latest Sukuk issues, you see that half of the demand is coming from non-Islamic institutions," explained Medda. "Equities is still small in the Middle East although capitalization has increased – Sukuk are becoming the investment tool of choice for foreigners looking at the region." This has seen some regional funds post exceptional performance despite the Fed tapering effects. On the 20th June Al Rajhi Bank, Saudi Arabia's biggest lender and the world's largest Islamic bank by assets, received regulatory approval for a mutual fund investing in Sukuk, specifically to to meet client demand.

Limitations

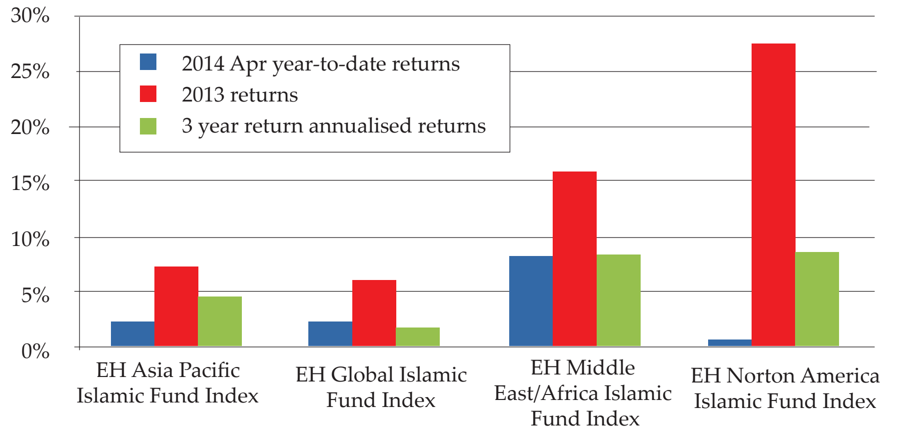
However, although Eurekahedge data shows that net flows turned positive for the Islamic funds sector in the first quarter of 2014, the bulk of the US$1.92 billion asset growth during this period is attributed to performance-based gains. This follows a longer-term trend in the asset growth since 2012. While performance has been relatively remarkable (the Eurekahedge Islamic Fund Index has outperformed the Eurekahedge Hedge Fund Index every year since 2012) this has apparently failed to translate into increased asset allocations to Islamic funds.

Part of this is due to the systemic restrictions in the industry. Despite the recent limit increases, foreign funds are still very limited in what they can purchase in the GCC region. In addition, the predominance of retail investors in the sector makers markets vulnerable to volatility. And while new players setting up shop encourages consumer participation, it increased competition for local players who cannot make fees meet costs due to a smaller customer base. This has led to a number of domestic participants tying up with international names – such as UAE-based Emirates NBD Asset Management, which recently signed a deal with Jupiter Asset Management – while others are moving their operations overseas to new domiciles such as Luxembourg and Dublin. According to Eurekahedge data, out of the approximately 829 active funds offered by Middle Eastern firms around 78 are domiciled outside the region.

The fee structure is also evolving – with a gradual increase since 2009 to an average 1.38% as of April 2014 suggesting growing investor confidence in Islamic funds. New structures are also emerging as investors grow more demanding – with some funds now switching to performance-based fees rather than annual subscriptions, while others split the fee with half paid upfront and the rest when the fund is liquidated.

However, the industry remains fragmented and small, with a significant concentration of assets in just a few major funds. Shariah compliant funds over US$500 million comprise only 4% of the overall fund population, but manage a total of 34% of Islamic assets under management – while the 68% of funds below US$50 million in size manage only 14% of sector assets. "With little product differentiation between similar classes of instruments, investor flows naturally gravitate towards the market leaders within their respective segments, creating this concentration," explains Eurekahedge. "This could have severe implications for the industry, as it means that over two-thirds of all Islamic funds fall below the estimated US$100 million threshold required to break even and would likely face liquidation or be forced to merge with a larger fund."

Figure 9: Performance of Islamic funds by geographic mandates



Source: Eurekahedge

Global harmony

The ongoing absence of a central authority for the interpretation of Shariah law also continues to create impediments to industry growth, by resulting in widely differing Shariah standards and interpretations for permissible investment. Although countries such as Malaysia have made attempts to standardise the recognition of Islamic finance, this fragmented global Islamic finance framework continues to work against the development of a global Islamic finance market.

"Any steps towards developing a universally acceptable Shariah framework will go a long way in persuading investors that their Shariah compliant products are not merely traditional investments re-packaged with a 'Halal' logo," insisted Eurekahedge: "And thus instill more confidence in the industry". — *LM*

DEALS

CBB Sukuk oversubscribed by 410%

BAHRAIN: Central Bank of Bahrain (CBB)'s monthly BHD20 million (US$52.79 million) Sukuk Ijarah has been oversubscribed by 410% to BHD82 million (US$216.43 million). The 182-day facility carries an 85bps profit rate and will mature on the 18th December 2014.

BSF completes the deal

SAUDI ARABIA: Banque Saudi Fransi (BSF) has announced the completion of a private placement SAR2 billion (US$533.16 million) Sukuk issue, intended to boost the bank's Tier 2 capital. The 10-year Sukuk priced at 140bps over the three-month Saudi interbank offered rate and has an option for the bank to repay investors after five years.

Kuveyt Turk launches Sukuk

TURKEY: Participation bank Kuveyt Turk has launched its five-year US$500 million Sukuk, with the pricing spread set at 340bps over midswaps, according to a document from the lead managers. This was at the tight end of final guidance of 350bps plus or minus 10bps given earlier on Thursday, according to a report from Reuters. The final pricing is yet to be confirmed though it had been revised from initial pricing thoughts in the area of 375bps over midswaps on Wednesday. The bank has received orders worth more than US$3.25 billion.

Sukuk plans for BII

INDONESIA: Bank Internasional Indonesia (BII), a local unit of Maybank, has announced plans to raise IDR1.8 trillion (US$152.46 million) to finance its domestic lending, with the sale of Sukuk and conventional bonds between the 19th and 25th June. The bank will be offering Sukuk worth IDR300 billion (US$25.41 million) with a tenor of three years and an indicative rate of 9-10% per year.

The Sukuk are expected to be listed on the Indonesian Stock Exchange on the 10th July according to a statement issued by the bank and all proceeds from the sale will be used to support business growth, at the bank's Shariah subsidiaries for Islamic financing. HSBC Securities Indonesia, Indopremier Securities, Mandiri Sekuritas, and Maybank Kim Eng Securities have been hired to help manage the issuances.

Revised bill to be approved by Council

LUXEMBOURG: Luxembourg's plan to issue its debut sovereign Sukuk is moving once again, following a three-month halt due to revisions of the initial proposed bill, allowing the securitization of three government assets as backing for the intended Sukuk. The revised bill has been presented by the government to the Council of State for review on the 1st July.

M-3 Motorway Sukuk sold

PAKISTAN: The government of Pakistan has concluded the auction of its Sukuk Ijarah, reaching its target of PKR49.5 billion (US$498.43 million). Approximately PKR113.72 billion (US$1.14 billion)-worth of bids were received at a margin range of -30 to -355bps (of weighted average of six-month market treasury bills).

Carrying a tenor of three years, the Sukuk will be issued in multiples of PKR100,000 (US$1,008.39) and will utilize the M-3 Motorway as underlying asset.

Pricing expected for benchmark Sukuk

UAE: The planned US$500 million Sukuk from Al Hilal Bank to raise the bank's Tier 1 capital will be a perpetual Sukuk with a buyback clause after the fifth year, a document from the lead arrangers has stated. The Sukuk is predicted to price in the area of 6% and order books for the issuance are currently worth about US$1 billion.

According to sources, although no official timeframe has been given, it is expected that the Sukuk, which is being arranged by Citigroup, Emirates NBD, HSBC, National Bank of Abu Dhabi and Standard Chartered, would be priced on the 24th June.

Debut Sukuk for Petrochem

SAUDI ARABIA: Saudi Arabia's National Petrochemical Co (Petrochem) has completed its debut Sukuk issue worth SAR1.2 billion (US$319.89 million), according to a statement to the bourse. The five-year issuance was priced at 170bps over SAIBOR and was arranged

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Quantum Investment Bank and Palma Capital launch new Islamic aircraft leasing fund with Airbus

GLOBAL: DIFC-based Quantum Investment Bank (Quantum) and Palma Capital (Palma), have collaborated to launch the ALIF Fund, a Shariah compliant aircraft leasing fund.

Launched in London yesterday, Airbus and the IDB are the anchor investors and strategic partners for the new fund. It will be managed by International Airfinance Corporation (IAFC), with Quantum and Palma as placement agents.

In an exclusive statement to Islamic Finance *news*, Moulay Omar Alaoui chairman of Palma, and president and CEO of IAFC said: "The establishment of ALIF Fund was derived from the strong interest of both investors and financiers for Shariah compliant instruments that generate attractive and stable returns stemming from the ownership of commercial aircraft assets over an extended period of time. This is further reinforced by the inherently significant, growing need and demand for aircraft by airliners in the GCC and OIC member states."

"We are extremely pleased to partner with Airbus in this transaction as we believe this is a pioneering Islamic investment initiative that will contribute to the development of Islamic capital markets. Quantum Investment bank will always be dedicated towards financial innovation and our goal is to propose to our clients new investment opportunities tailored for their financial needs," said Dr. Idriss Ghodbane, CEO and board member of Quantum.

At a targeted size of US$5 billion from a combination of equity and debt, the fund will focus exclusively on Airbus aircraft. The objective of the fund is to achieve a risk-adjusted medium to long-term capital appreciation while generating a quarterly cash dividend to investors.

The Fund will operate according to Shariah principles and will purchase brand new and second hand Airbus aircraft to be leased to airline companies in the GCC and OIC member countries.

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by the Saudi Arabian arm of Deutsche Bank and Riyad Bank's investment banking arm.

Further issuances from SBP

PAKISTAN: The State Bank of Pakistan (SBP) has approved a Salam-based structure for a short-term Islamic instrument, backed by petroleum imports into the country according to Ahmed Ali Siddiqui, the executive vice-president of Meezan Bank as reported in local press. The recent PKR49.5 billion (US$501.52 million) issuance from the SBP will expand the size of Pakistan's Islamic bond market by about 15% according to Ujala Adnan, a research analyst at Elixir Securities. Net investments by Pakistan's Islamic banking industry declined by 17.7% or PKR76 billion (US$ 770.01 million) in the 12-month period ending in March, mainly due to a lack of new government Sukuk issuances according to SBP data.

Progress for Albaraka Turk Sukuk

TURKEY: Participation bank Albaraka Turk, aims to price its planned dollar-denominated benchmark Sukuk in the area of the low 6% a document from the lead arranger has stated. Order books for the deal being arranged by Emirates NBD, Nomura, QInvest and Standard Chartered are open, with completion of the five-year Sukuk predicted for the 23rd June.

Hong Kong affirms commitment to become a regional player in the Islamic capital market

GLOBAL: The Securities & Futures Commission of Hong Kong (SFC) and the Securities Commission Malaysia (SC) have announced that they will continue to enhance cross-border co-operation in Islamic finance, especially in the area of fund management. The regulators recently organized a joint seminar in Hong Kong in response to the growing interest in Islamic finance within the city-state.

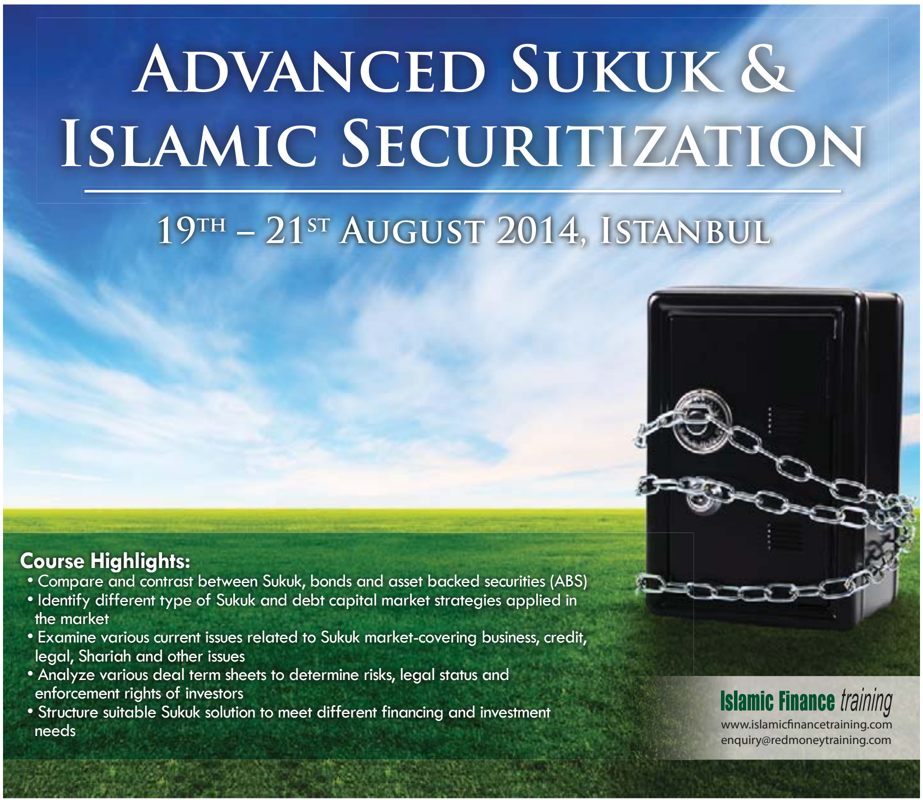
Ranjit Ajit Singh, the chairman of the SC, highlighted that Malaysia has been the Islamic funds gateway in Asia, linking the Middle East and Europe to this part of the world. "While Hong Kong can leverage on Malaysia's Islamic fund management capabilities, Malaysia at the same time would benefit from Hong Kong's strength as an international financial center," he said. The collaboration of both parties is expected to add a new dimension to the global Islamic finance market.

Echoing similar sentiments, Alexa Lam, SFC's deputy CEO and executive director for investment products, international and China, affirmed Hong Kong's commitment to develop its Islamic finance market. "We see Islamic finance as a valuable proposition, one which can contribute towards innovation and diversity in our financial market. Our robust infrastructure and world-class reputation as well as first mover advantage in renminbi finance and products, all combine to make Hong Kong an excellent platform to further develop Islamic finance products for sale to investors domestic and internationally."

The seminar also witnessed the launch of the first SFC-authorized Islamic balanced fund in Hong Kong under the Mutual Recognition Agreement between the SFC and the SC. Offered by Malaysia-based RHB Asset Management (RHBAM), the RHB-OSK Islamic Regional Balanced was launched to further the aim of enhancing the Islamic capital markets and Islamic collective investment schemes in Hong Kong and Malaysia.

DEAL TRACKER Full Deal Tracker on page 38

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Bank Internasional Indonesia	IDR	25.41 million	20th June 2014
International Finance Corp	TBA	TBA	17th June 2014
Bank Negara Malaysia	RM	various	13th June 2014
Al Hilal Bank	US$	500 million	13th June 2014
IOI Properties	RM	265.98 million	9th May 2014



AFRICA

A new way to save

ETHIOPIA: Private bank Oromia Cooperative International Bank has signed an agreement with the Islamic Affairs Supreme Council to provide an interest-free savings account called 'Lebeik' to allow Ethiopian Muslims to save for their Hajj and Umrah pilgrimage. The bank will also provide money in interest-free credits for beneficiaries whose savings would not be enough to pay for travel to perform the pilgrimage.

ASIA

Maybank Islamic targets new customers

MALAYSIA: Maybank Islamic has launched a new Shariah compliant credit card, Maybank Islamic MasterCard Ikhwan Card-I, and aims to secure up to 15,000 new credit card holders by the end of the year.

Non-banking Islamic debit card launched

MALAYSIA: Malaysia's Hajj pilgrimage board, Lembaga Tabung Haji, has launched the Tabung Haji Debit-i MasterCard, in collaboration with MasterCard.

New industries to receive Shariah guidelines

MALAYSIA: The National Council for Islamic Affairs in Malaysia has appointed the Malaysia Islamic Development Department (Jakim), to set Shariah compliance guidelines for new areas including the tourism industry, hotels and spa services.

New Islamic banking law for Kazakhstan

KAZAKHSTAN: Drafting of Kazakhstan's new Islamic banking law could take between four to six months and the proposed legislation could be presented to the government by the middle of 2015, according to Yerlan Baidaulet, the Kazakhstan member of the IDB board of executive directors.

The new law would aim to avoid any complicated Arabic terms and will focus on a certain set of financial instruments, the structures and mechanisms of the industry and a clear tax regime. Drafting of the law is being funded by a grant from the IDB.

Islamic finance pledge

INDONESIA: Presidential candidate Prabowo Subianto has pledged to make Indonesia a global Shariah compliant finance hub, in a statement submitted to the election commission ahead of the country's election.

The submission stated plans to establish an independent body to manage the country's Hajj fund and introduction of a Shariah compliant option for purchase of low-cost housing if Subianto wins the country's upcoming election. Voting will be held on the 9th July and Subianto has the backing of three of the country's four major Islamic parties. Islamic finance was not mentioned in the statement submitted by the election frontrunner Joko Widodo.

Sitara signs Islamic contract

PAKISTAN: Sitara Chemicals has procured a PKR2 billion (US$20.14 million) diminishing Musharakah facility. Jointly advised and arranged by MCB, United Bank and Meezan Bank, the facility will be used towards setting up a new 35 MW coal-based power plant in Faisalabad.

Banks meeting targets

PAKISTAN: Three Islamic microfinance banks have collectively achieved 98.5% of their annual targets disbursing PKR523.9 million (US$5.31 million) against the target of PKR532 million (US$5.39 million) in agriculture loans during July-May 2014.

Amendments to regulation

INDONESIA: In order to comply with Islamic Financial Services Board standard IFSB-15 issued in December Otoritas Jasa Keuangan (OJK), Indonesia's financial services authority, will revise a regulation relating to the reserve requirement for Islamic banks, according to Edy Setiadi, the Islamic banking director for OJK. Two risk factors relating to profit-sharing and investment in assessing capital adequacy for Islamic financial institutions will be added, with the changes coming into effect in July.

ADX and NBAD collaborate to facilitate listing and trading of Sukuk and bonds

UAE: Abu Dhabi Securities Exchange (ADX) and the National Bank of Abu Dhabi (NBAD) have contracted an agreement to pave the way for the listing and trading of bonds and new debt instruments on the exchange as their primary platform. The move is a part of the emirate's initiative to cultivate a more attractive and dynamic climate for investment in Abu Dhabi.

Under the listing arrangement for the bonds, NBAD will act as ADX's account operator. Settlement and clearing will take place via NBAD through ADX's participant account at Euroclear, which specializes in the settlement of securities transactions as well as the safekeeping and asset servicing of these securities. NBAD's role will provide a window for investors who wish to trade or hold investments in the bonds through ADX without holding an account with Euroclear, and will facilitate cross border settlement and clearing of trades in the bonds.

According to Rashed Al Balooshi, CEO of ADX, the initiative is also a means of attracting investment into Abu Dhabi through the exchange. "We have all the modern infrastructure and procedures to support such new investment, whether it is denominated in UAE dirhams or in foreign currencies. Longer term, local fixed income and Sukuk issuances will encourage more infrastructure funding and attract institutional capital flows, as well as the creation of a local yield curve."

The signing of the agreement comes in accordance with ADX strategic objectives of diversification of products and to a bond market operating under the best standards. "The new regulations introduced by the Emirati Securities and Commodities Authority are an important step in this process and remove yet another reason for companies and institutions to look elsewhere for raising capital," Rashed added.

EUROPE

EIIB proposes capital reduction plan

UK: In a bid to enhance shareholder returns, European Islamic Invesment Bank (EIIB) is proposing a capital reduction plan next month. If approved by its shareholders, the plan may be in the form on a share buyback or tender offer, reported Reuters.

GLOBAL

ICIEC celebrates 20th year

GLOBAL: In conjunction with its 20th anniversary this year, which coincides with IDB's 40th anniversary, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) will organize a seminar on 'The Future Role of ICIEC in Supporting Trade and Investments in Member Countries' on the 24th June, just two days before the IDB Group's board of governors' annual general meeting.

IDB awards Ghana Islamic Microfinance

GLOBAL: The IDB has awarded its IDB Women's for Development Award to Ghana Islamic Microfinance, a project which utilizes a micro Ijarah scheme to replace conventional loan through asset delivery, with an exclusive aim towards smallholder women farmers.

Islamic banks join ADFIMI

GLOBAL: The acceptance of six new members to the Association of National Development Finance Institutions (ADFIMI) was announced at its 30th general assembly held on the 22nd June. The six new members are: Tadamon Islamic Bank, Jordan Islamic Bank, the Kazakhstan Fund for Financial Support of Agriculture, Malaysia-based TEKUN Nasional, Sudan-based Al Shamal Islamic Bank and Bangladesh Development Bank.

IDB year in review

GLOBAL: A Omani delegation led by Darwish Ismaeel Ali al Balushi, minister responsible for financial affairs and governor of IDB, as well as minister of finance, economics and planning from the bank's 56 member states, will be present at the three-day annual meeting of the IDB board of governors to be held in Jeddah this week. At the meeting the board of governors will review the implementation of a decision made in last year's annual meeting to increase the capital of the bank for the fifth time.

Building ties

GLOBAL: Islamic finance has been highlighted as one of the areas for potential joint ventures between businesses in Dubai and Malta, on a recent trip by a delegation from the Dubai Chamber of Commerce and Industry to Malta.

ICD outlines plans

GLOBAL: The Islamic Corporation for the Development of the Private Sector (ICD) plans to establish SME funds with local partners for equity and quasi-equity investments and debt financing in small and medium enterprises, according to Khaled Al-Aboodi, ICD's CEO and general manager in local news reports.

In Saudi Arabia the ICD established a fund for investment in SMEs and raised SAR1 billion (US$266.58 million), with the ICD investing SAR1 million (US$266,581) of its own funds.

MIDDLE EAST

Luxury car financing by QIB

QATAR: Qatar Islamic Bank (QIB) and Qatar's official BMW Group importer Alfardan Automobiles have signed an exclusive partnership to provide Shariah compliant auto financing.

DSG and DIB linked

UAE: The Dubai Smart Government (DSG) has activated the electronic linkage with Dubai Islamic Bank (DIB), in line with its strategy to fully automate the financial processes for government suppliers and salary payments.

Potential acquisition for Abraaj

UAE: Private equity firm Abraaj Group has announced submission of a tender offer to acquire up to 100% of the shares of Egypt-listed Cairo Medical Center, founded in 1976 as the country's first private sector hospital. The offer has been made through one of the firm's funds, although no financial details have been released. Abraaj has already obtained

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New guidelines for Brunei's Takaful and insurance industry to come into effect on the 1st July 2014

BRUNEI: The Autoriti Monetari Brunei Darussalam (AMBD) and Brunei Insurance and Takaful Association (BITA) have introduced new guidelines for the Takaful and insurance sector in Brunei with the aim of ensuring professionalism within the industry and furthering the sultanate's financial sector.

Guidelines on registration of General Takaful agents, registration of general agents and fit and proper criteria for key responsible persons in Takaful and insurance have been issued. The new requirements also call for all Takaful and insurance agents to be registered with AMBD and BITA either as sole proprietors for individual agents, or as companies for corporate agents.

Under the new parameters, which will come into effect from the 1st July, agents will be required to place a deposit with their principals as a form of minimum capital requirement. All agents are expected to fully comply with the guidelines by the 1st January 2015.

As at September 2013, according to AMBD data, 150,000 Family Takaful plans and life policies were in force, covering around 38% of Brunei's total population. Takaful adoption in Brunei increased in 2013, with Takaful assets growing by 21% and totaling BN$425 million (US$334.9 million) accounting for 33% of total insurance assets, whilst conventional insurance experienced a 1.3% drop according to AMDB figures.

However, despite the growth of the industry, the financial sector still only accounts for 3% of Brunei's GDP, according to Lily Kula, AMBD's deputy managing director, speaking at the briefing held to introduce the new guidelines. "It is hoped that by ensuring professionalism and market discipline of the Takaful and insurance industries, (this) will increase public confidence and attract interest of international players to do business in Brunei."

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irrevocable sale undertakings from the shareholders owning 50.09% of the company. Its offer is now conditional to 51% of the total outstanding shares being tendered.

No change for Saudi Arabia

SAUDI ARABIA: The central bank of Saudi Arabia will maintain its current strategy for management of the country's foreign reserves worth about US$730 billion, according to Fahad Al Mubarak, the governor of the central bank. Ibrahim Alassaf, the country's finance minister, affirmed that the Saudi riyal would continue to be pegged to the US dollar. No comment was made regarding a Shura Council decision on the establishment of a sovereign wealth fund, as was reported being considered earlier this month.

Bigger stake for First Energy Bank

BAHRAIN: First Energy Bank has purchased 10.9 million shares in Shariah compliant Al Salam Bank — Bahrain (ASBB) taking First Energy's stake in ASBB to 6.28%. The deal was valued at BHD2.43 million (US$6.41 million), with the purchase made at BHD0.22 (US$0.59) per share.

KHCB launches Call Mudarabah account

BAHRAIN: Khaleeji Commercial Bank (KHCB) has introduced a Shariah compliant investment account known as Call Mudarabah Account, which combines the features of a current account and Mudarabah investment account.

Egypt eyes US$10 billion

EGYPT: Egypt is expecting to attract up to US$10 billion in foreign direct investment for the coming fiscal year and US$14 billion over the next three years, according to newly appointed finance minister, Ashraf Salman.

Bid approved

EGYPT: The Egypt Financial Supervisory Authority has approval the US$257 million bid for a 20% stake of investment bank EFG Hermes, which offers Shariah compliant products. The bid was led by Egyptian businessman Naguib Sawiris, who via the New Egypt Investment Fund will purchase 17.82% EFG Hermes and Beltone, along with investment company Beltone Capital Holding, will each buy 1.09% of the bank. A statement from the regulator said that the deal would stand for 10 working days after its official publication.

SEC agrees loan

SAUDI ARABIA: National power producer Saudi Electricity Co (SEC) has signed an agreement with the Saudi Ministry of Finance for an interest-free loan of SAR49.4 billion (US$13.17 billion) according to a statement from the company. The 15-year loan has a 10 year grace period before repayments are slated to begin.

Barwa to sell Barwa City

QATAR: Shariah compliant Barwa Real Estate Company has entered into a share sale and purchase agreement with Labregah Real Estate Company over the sale of Barwa City. Barwa Real Estate expects to conclude the sale in the near future.

Shariah compliant savings

EGYPT: The Egyptian National Post Authority (ENPA) has established a Shariah board of five members of Egypt's Dar al-Iftaa according to Ashraf Gamal El Din, chairman of the board of directors. The ENPA has also issued a tender to find a financial advisor specialized in Islamic finance to establish regulations for new products and ensure their Shariah compliance.

The planned Shariah compliant savings passbook is expected to raise the total value of postal savings passbooks held by 22.5 million people, which currently stands at EGP129 million (US$17.99 million) to EGP2 billion (US$278.97 million). The new product is targeting savers looking for quick returns, with future Shariah compliant instruments planned for those looking for longer-term investments.

Changes for future issuances?

QATAR: Qatar Central Bank (QCB) has said that it will be more flexible in the planning of future government Sukuk and bonds, with the timing and characteristics of the issues more open to adjustment depending on market conditions. Liquidity would also be a factor considered prior to future auctions and the introduction of longer term

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Saudi Arabian capital market sees more activity buoyed by local demand and economic stability

SAUDI ARABIA: Industry observers projected that the kingdom's capital market would witness increased interest and activities this year. Bearing testament to this expectation, two financial institutions this week demonstrated their interest in the country's equity market.

In an announcement on Tadawul on the 19th June, Al Rajhi Capital stated that it has received regulatory approval to launch its first Sukuk-investing mutual fund. Earlier in January, the company revealed its intentions to expand its Sukuk business on the back of improving investor appetite for equities and regulatory initiatives to develop the equity markets. Issuance of Sukuk in Saudi Arabia has surged on the back of increased liquidity and comparatively low borrowing costs, as corporates look to diversify their funding sources from the traditional mode of bank financing.

Similarly, Saudi Kuwaiti Finance House, a wholly-owned subsidiary of Kuwait Finance House, introduced the Baitk IPO Fund, a collective investing tailored for investors who wish to achieve actual returns that are competitive to the returns of other enlisted shares investing products. According to CEO, Tarek Al-Rakhemi, the fund comes in light of the remarkable and continuous improvement in the Saudi stock market index, in addition to the appealing investment environment, and rewarding investment opportunities in the Saudi market.

Numerous market participants have indicated a comeback for the Saudi capital market. The IPO scene anticipates the float of: Al-Hokair Group, one of the largest hospitality firms in the Middle East; the kingdom's largest lender, National Commercial Bank; as well as other healthcare chains and corporates looking to diversify their funding sources. Several listings are expected to emerge in the second half of 2014 as the Saudi equity market maintains its strong economic growth supported by companies that serve the local economy and that have limited reliance on international demand.

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issuances according to Sheikh Abdullah Saud Al-Thani, the QCB governor.

MSM's new Shariah index sample

OMAN: Muscat Securities Market (MSM) has launched a new Shariah index sample for the first quarter of the year with two newly added companies and the removal of another, bringing the total number of listed firms in the list to 31.

QIB extends branch network

QATAR: Qatar Islamic Bank has announced the opening of a new branch at Umm Salal City, located along Umm Salal Mohamed Road in Barzan Souq. The branch is divided into sections to serve men and women, with a dedicated Tamayuz center for high net worth customers.

New purchase for Bahri

SAUDI ARABIA: National Shipping Co of Saudi Arabia (Bahri) shareholders have approved the acquisition of Saudi Aramco's marin e unit, VELA. The approved purchase is being funded with new shares amounting to a 20% stake in Bahri issued to Aramco and a SAR3.18 billion (US$ 847.72 million), 12-month Shariah compliant bridge loan which was agreed in February 2013 but signed on Sunday, the company stated in a in a filing to the bourse. JPMorgan, Samba Financial Group and Saudi British Bank are the banks providing the funding for the bridging loan, secured against the vessels being received from Saudi Aramco.

Growth for Qatar banks

QATAR: Loan book growth for Qatar-based banks has been the highest in the GCC for the first quarter of 2014, with Qatar Islamic Bank registering loan book growth of 30.1% compared to figures from the previous year, according to a report by Global Investment House. Non-interest income of GCC banks also grew in the first quarter of 2014 by 7.9%, with Qatar-based Islamic financier Masraf Al Rayan reporting 62.1% growth in non-interest income and 96.6% growth in fee income.

IDB plans for 2020

SAUDI ARABIA: The IDB aims to become a world class development bank by 2020. The 'AAA' rated bank is currently celebrating its 40th anniversary as it holds its 39th annual meeting of the board of governors, this week.

RESULTS

Maybank Islamic

MALAYSIA: For the first quarter of 2014, Maybank Islamic posted a 7% decline in pre-tax profit and Zakat to RM315.1 million (US$97.59 million) due to an increase in overhead expenses. Total income was up 26% to RM1.32 billion (US$408.83 million) as compared to the same period last year.

Maybank Islamic accounts for 40% of Maybank Group's revenue and profits for the first quarter of 2014, and is confident in a projected growth figure of between 10-12% for 2014, according to Muzaffar Hisham Maybank Islamic CEO.

Public Islamic Bank

MALAYSIA: Public Islamic Bank released an unaudited statement of its financial position as at the 31st March which saw its profit after Zakat and tax for the first quarter stand at RM96.18 million (US$29.77 million), up from the RM88.99 million (US$27.55 million) registered in the same period last year.

Total assets reached RM34.39 billion (US$10.65 billion), a slight drop from the RM34.47 billion (US$10.67 billion) recorded at the end of last year.

EXIM Bank

MALAYSIA: The Export-Import Bank of Malaysia (EXIM Bank) has announced a full year net profit of RM144.7 million (US$ 44.95 million) for the year ended 31st December 2013; a 16.9% improvement on full year results of RM123.8 million (US$38.45 million) for the year 2012. Profit before tax saw a 12% increase to RM190.3 million (US$59.11 million) boosted by strong contributions from Islamic business.

The bank's share of Islamic banking assets was recorded at RM1.5 billion (US$465.98 million), a 189% increase from the 2013 figure of RM524 million (US$162.78 million).

Jordan Islamic Bank

JORDAN: Jordan Islamic Bank posted a net profit of US$14.71 million in the first quarter, a slight growth from the US$14.68 million registered in the corresponding period last year. The bank managed a 16.01% return on average equity.

ASSET MANAGEMENT

Federated as sub-advisor to Azzad fund

US: Federated Investment Management Company, a subsidiary of Federated Investors, has been selected by Azzad Asset Management to sub-advise the Azzad Wise Capital Fund, the first Shariah compliant fixed income mutual fund in the US, launched in 2010.

Arabesque joins UK's Islamic finance community

UK: Asset management firm Arabesque, which focuses on value-based investment strategies based on religious and ethical principles, has been granted regulatory approval to begin operations in the UK.

Al Noor outperforms

SAUDI ARABIA: Global Investment House Saudia's Global Saudi Islamic Equity Fund (Al Noor) has outperformed its 12.5% benchmark with a 27.5% return since the beginning of the year. Since its inception in January 2009, the fund has achieved a 172.4% return against a benchmark of 131.8%.

TAKAFUL

New branches for Egyptian Takaful firm

EGYPT: Arab Orient Takaful Insurance has announced the opening of a new subsidiary in Masr El Gedida 'Heliopolis'. This follows the recent opening of the company's fourth branch in Port Said.

Takaful plan for MAA Group

MALAYSIA: Insurance firm MAA Group, which offers Islamic products, is caught between two financial regulations, Bursa Malaysia's PN17 rules, which require the company to purchase another business to lift its status and the Islamic Financial Services Act 2013, which mandates that it can only purchase a financial services

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company. MAA Group is in talks with Bursa Malaysia and has informed the regulator that it will not be proceeding with a regularization plan and instead utilizing its existing Takaful business to seek a negation of its PN17 status. The company has been provided with an extension until the 31st July to provide a regularization plan to Bursa Malaysia.

The group is keen to introduce new insurance schemes, Takaful in particular, to the Filipino market, according to CEO Muhamad Umar Swift. Two areas of particular focus are: Southern Philippines and Mindanao.

Poverty eradication plan praised

MALAYSIA: Perak state government's overall expenditure performance for the year 2013 has exceeded 100% of its allocation, benefiting 152,194 recipients, according to the 2nd Series of Auditor-General Report 2013. The evaluation covered program expenditure aspect as well as the implementation of a Takaful Tabarru' protection program, housing aid and monthly food aid.

Official launch for Takaful Oman

OMAN: Takaful Oman Insurance Company celebrated its official launch on the 22nd June in a ceremony at the InterContinental Muscat. Sayyida Rawan Ahmed al Said, the managing director and CEO of Takaful Oman, said that the firm will be targeting corporates as well as individuals and will also be looking into bancassurance, bank re-Takaful and agencies.

The company also has plans to open two new branches in Oman by the end of the year.

Takaful in Nigeria

NIGERIA: The development of the Takaful insurance sector in Nigeria is being actively pursued according to Fola Daniel, the county's commissioner for insurance, in a recent interview. A number of companies have indicated their interest in Takaful and a recent survey has ascertained that there is a ready market for Takaful products.

Amãna Takaful extends partnership

SRI LANKA: Amãna Takaful has extended its partnership with Sri Lanka Auto-sports Drivers' Association (SLADA) for the second consecutive year through which the operator will be a strategic partner for championship races hosted by SLADA as well as provide the Takaful Total Drive motor insurance policy to all its drivers and riders.

Egyptian Takaful eyes investment

EGYPT: Egyptian Takaful Insurance, whose investments for the current fiscal year reached EGP375 million (US$52.32 million) is targeting to boost the figure to EGP410 million (US$57.2 million) within the upcoming fiscal year of 2014/15, said its managing director, Ahmed Arfeen.

Maybank eTiQa

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Islamic Finance *news*

Energetic debate at IFN Dubai roundtable events

UAE: The Dubai-focused Roundtable Series held by Islamic Finance *news* (IFN) in collaboration with the Dubai government, the Dubai Economic Council and Dubai International Financial Center (DIFC) continued this week with the successful completion of a further three events in the series.

Held over the 22nd-23rd June at the DIFC and chaired by IFN managing editor Lauren McAughtry, the events focused on a further selection of key issues facing the Islamic financial industry.

The first event, 'Liquidity management: Requirements for the continued development of the global Islamic market', brought together a room of highly skilled and experienced practitioners including Moinuddin Malim, senior advisor with NASDAQ Dubai; Fadi Yazbeck, product manager for Islamic banking with Temenos; Cassim Docrat, director of DDCap; and Basheer Ahmed, senior manager for markets with the Dubai Financial Services Authority (DFSA). The debate was not only comprehensive and informed, but a number of interesting proposals were tabled which could have the potential to make a significant impact on the industry.

The series continued on the 23rd June with an energetic and hotly debated session on 'Wealth creation and management in a Shariah compliant manner', attended by Moinuddin Malim in his role as managing partner of Alternative International Management Services (AIMS); Giorgio Medda, CEO of AZ Global Asset Management; Prasanna Seshachellam, the director and head of Islamic finance for the DFSA; Issam Al-Tawari, chairman and managing director of Rasameel Structured Finance; and Ayman Khaleq, managing partner of Morgan Lewis.

The two-day program finished off with a final roundtable on 'Building bridges to create a global Islamic trade finance network' which saw a complex and wide-ranging discussion between Paul McViety, head of Islamic finance at DLA Piper; Prasanna Sesachellam, Moinuddin Malim and Fadi Yazbeck.

RATINGS

Bank Islam Malaysia affirmed at 'BBB'

MALAYSIA: Bank Islam Malaysia's financial strength rating has been affirmed at 'BBB' by Capital Intelligence (CI), with the rating underpinned by the bank's good and improving asset quality and sound capital adequacy ratio. CI has also affirmed the bank's long and short-term foreign currency ratings at 'BBB+' and 'A2' respectively, with a support level of '2' reflecting the bank's role in the development of Islamic finance in Malaysia. The outlook for all ratings is stable.

'A+' rating for Boubyan Bank

KUWAIT: Fitch Ratings has assigned Shariah compliant Boubyan Bank a long-term issuer default rating of 'A+' with a stable outlook, as well as a viability rating of 'bb+'. The strength of the ratings is based on the extremely high probability of support of the Kuwait authorities, if required.

MRCB Sukuk affirmed

MALAYSIA: MRCB Southern Link's RM845 million (US$261.57 million) secured senior Sukuk (2008/2025) and RM199 million (US$61.6 million) junior Sukuk (2008/2027) have been reaffirmed at 'BBB3' and 'BB1' respectively by RAM. The facilities are also maintained on the rating agency's developing rating watch.

Turkish Sukuk rated

TURKEY: Asset leasing company Bereket Varlik Kiralama's US$500 million lease certificates have been assigned a preliminary rating of 'BB' by S&P. The firm will enter into a Murabahah agreement for 49% of the issued amount and the remaining 51% will be under a Wakalah contract with Albaraka Turk Katilim Bankasi.

'AAA' for IDB

SAUDI ARABIA: Fitch Ratings has affirmed the IDB's long-term Issuer Default Rating (IDR) at 'AAA' with stable outlook. The bank's short-term IDR has been affirmed at 'F1+'.

RAM assigns 'P1' rating

MALAYSIA: The proposed RM20 billion (US$ 6.21 billion) Islamic and conventional CP programs from Cagamas have been assigned 'P1' ratings by RAM Ratings, reflecting the company's strong asset quality, solid capitalization and its position with the domestic capital markets as a liquidity provider.

Albaraka Islamic rated

BAHRAIN: Albaraka Islamic Bank's financial strength rating has been affirmed at 'BB' by Capital Intelligence, based on the bank's strong ownership, high liquidity and solid customer deposit funding, together with a moderately improved asset quality.

Solidarity General Takaful affirmed

BAHRAIN: Solidarity General Takaful has been assigned a financial strength rating of 'B++' by AM Best, while its issuer credit rating has been affirmed at 'bbb'. The ratings carry a stable outlook.

'AAA' for Sepangar

MALAYSIA: Independent power producer Sepangar Bay Power Corporation's Sukuk Murabahah of up to RM575 million (US$178.3 million) has been rated 'AA1/Stable' by RAM.

Rating affirmed for Bahrain

BAHRAIN: Bahrain's long-term foreign currency issuer default rating has been affirmed at 'BBB' by Fitch Ratings, with the country's local currency IDR affirmed at 'BBB+'. Both ratings have been granted a Stable outlook. At the same time, Bahrain's country ceiling has been affirmed at 'BBB+' and its short-term currency IDR at 'F3'. The issue ratings on Bahrain's senior unsecured foreign and local currency bonds have been affirmed at 'BBB' and 'BBB+' respectively.

'AA' for Kuwait

KUWAIT: Fitch Ratings has affirmed Kuwait's long-term and local currency issuer default ratings (IDR) at 'AA', with the outlook for both ratings at Stable. The country ceiling has been affirmed at 'AA+' and the short-term foreign currency IDR at 'F1+', with Kuwait's exceptionally strong sovereign balance sheet referenced as the key support for the ratings assigned.

MOVES

King & Spalding

SAUDI ARABIA: **Zaid Al Farisi** has rejoined King & Spalding as a partner of the firm's Islamic finance practice in Saudi Arabia and throughout the region. Zaid was previously counsel in the firm's New York and Riyadh offices before joining a law firm in Iraq as managing partner.

Bank Syariah Mandiri

INDONESIA: **Agus Sudiarto** has been appointed president director of Shariah compliant Bank Syariah Mandiri at a recent general meeting of the bank's shareholders. Sudiarto was formerly the bank's senior vice president of special asset management and has also been appointed to the bank's board of directors, alongside colleague **Agus Dwi Handaya**, formerly senior vice president of strategy and performance. **Achmad Syamsudin**, **Putu Rahwidhiyasa** and **Fahmi Ridho** were also appointed to the board of directors.

Islamic Bank of Britain

UK: **Sultan Choudhury** has been appointed to the newly created role of CEO and director of the Islamic Bank of Britain (IBB). Joining the bank in 2004, Choudhury is IBB's longest serving employee and moves on from his former role of IBB interim managing director.

National Bank of Abu Dhabi

UAE: **Mark Watts**, chief investment officer at the National Bank of Abu Dhabi, which offers Islamic products, has confirmed to Islamic Finance *news* that he has resigned for personal reasons. Watts joined the bank in 2010.

Federation of Investment Managers Malaysia

MALAYSIA: The Securities Commission Malaysia has announced the appointment of **Siti Hadzar Mohd Ismail** as chairman of the Federation of Investment Managers Malaysia (FIMM). The post is for two years and comes into effect on the 24th June 2014. Siti Hadzar has also held the post of public interest director of FIMM since 2011 and is currently chairman of the Malaysian Technology Development Corporation, as well as advisor to the deputy chairman of Khazanah Nasional.

SHARIAH PRONOUNCEMENT

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Query:
An Islamic bank has approved a Mudarabah facility for a customer based on which the Islamic bank will provide funds (i.e. the Mudarabah Capital) to the customer. The Mudarabah capital will be utilized by the customer to undertake its business project.

The Islamic bank is conscious of the investment risks inherent to Mudarabah facility and is desirous of addressing them prior to the release of funds. The bank is seeking guidance from its Shariah Board on the following points:

a. The options available to the Islamic bank to mitigate such risks;
b. The possibility of the Islamic bank to obtain collaterals or guarantee and exercise them in case of the loss of the Mudarabah capital by the customer.

Pronouncement:
An Islamic bank mainly adopts the following structures for undertaking an investment with a customer:

(i) Mudarabah: The Islamic bank provides capital to the customer which is then invested by the customer by utilizing its expertise and efforts. The profit earned is distributed as per a pre-agreed ratio;
(ii) Musharakah: The Islamic bank and the customer both provide the capital and the profit earned is distributed as per pre-agreed ratio; and
(iii) Wakalah: The Islamic bank provides the capital and the customer manages the investment at a certain agreed fee as the agent.

In all types of the above investment structures, the manager, the partner or the agent (i.e. the "customer") cannot guarantee the profit or safe return of the capital. However, the customer shall be liable for the loss in case of fraud, misconduct or negligence.

From a Shariah perspective, eliminating essential risks from the investment structures and shifting them to the customer is not permissible. The traditions of Prophet Muhammed lay down the core Shariah principle in a financial transaction that — it is necessary to bear essential risks to be eligible to earn profit.

However, it is permissible for the Islamic bank to adopt such ways to minimize or mitigate the risks which do not contravene the Shariah principles. Some of them are provided below:

Risk mitigation within the structure and documentation:

- The Islamic bank may ask the customer to submit a comprehensive feasibility study which includes the financial projection for profit based on its past track record and expertise. The customer will be responsible for the accuracy of the projection as well as to act to get the result as per feasibility study. The customer will be deemed to have committed a breach if it appears that the feasibility study was not accurate and based on false assumptions in order to entice the Islamic bank to invest with it. Hence the customer will be deemed to be negligent in case it did not act within the framework of the feasibility study;
- The Islamic bank may oblige the customer to inform the bank immediately if the customer foresees loss situation due to change in the market dynamics, and seek further guidance from the Islamic bank. The customer's failure to keep the Islamic bank informed in such situation shall be considered as negligence and therefore the customer will be held liable for such loss;
- Agreement between the Islamic bank and the customer may provide that in case the customer claims loss in an investment structure, the 'burden of evidence' will be on the customer to prove that it has not been caused due to it its negligence and there was no misconduct or fraud committed in the transaction;
- The Islamic bank may also oblige the customer that all accounts management and cash flows shall be conducted through the Islamic bank.

Risk mitigation with a guarantee or collateral:

- With respect to the possibility of obtaining a collateral or guarantee under the investment structures, it is permissible for the Islamic bank to seek from the customer either:
  - a voluntary guarantee/collateral from a third party; or
  - a guarantee/collateral from the customer itself.
- In case the customer itself provides the guarantee/collateral, the Islamic bank cannot exercise it except in case where the customer was negligent or has committed misconduct or fraud;
- However, Islamic bank may exercise the guarantee or collateral in all cases where such guarantee/collateral is provided on a voluntary basis by a third party.

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

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Sukuk race: The last hurdle

We are almost there — regulations in place, deal marketed, investors met and now, all that's left is for the UK to finally issue its much-awaited government Islamic bond for our sovereign Sukuk race to come to an end with a victorious champion on the podium. And this week, as we have done faithfully in the past 10 weeks, Islamic Finance *news* (IFN) once again brings to you updates from the ground on all four of our race contenders and their progress in the competition.

The UK

What an eventful week it has been! After four days of meeting investors in Saudi Arabia, the UAE, the UK, Malaysia and Qatar, it's only a matter of time before the UK government finally issues its highly anticipated sovereign Islamic bond — to overwhelming demand. The GBP200 million (US$340.34 million) five-year debt will be marketed against the reference 1.75% July 2019 Gilt through HSBC as its structuring bank. Other banks involved include: Barwa Bank, CIMB, National Bank of Abu Dhabi and Standard Chartered. General consensus among industry insiders on when the Sukuk Ijarah will come to market? This week.

Hong Kong

So what of Hong Kong, our previously favored race contender? The Chinese city-state is still going strong with eyes on an issuance in the third quarter. IFN has it on good authority that the banks mandated for Hong Kong's inaugural sovereign Islamic debt are CIMB, National Bank of Abu Dhabi, Standard Chartered and HSBC. Our source revealed that the issuance will take the form of a 144A facility — which makes it interesting that no US bank is mandated as arranger given that the issuer is clearly hoping to market to US investors with this choice.

When Hong Kong issue's it will be the first international issuance that the city state has done in a decade, which will be a landmark moment not only for the island but for the Islamic finance industry in general: and should make a significant stamp on the overall market.

> ***"After a three-month hiatus, Luxembourg's benchmark Sukuk plans are finally back in motion again"***

Luxembourg

After a three-month hiatus, Luxembourg's benchmark Sukuk plans are finally back in motion again. The Grand Duchy has allowed for the securitization of three government assets as backing for the proposed Sukuk and the revised bill is being presented to the Council of State for review, subject to a final vote. While no official timeframe has been announced, sources working on the deal has told IFN in confidence that the EUR200 million (US$272.03 million) Sukuk will most likely be issued in the third quarter; with HSBC taking the lead.

South Africa

Delay after delay — it almost looked as if South Africa had abandoned its Sukuk ambitions, but according to IFN sources, this may not be the case. Our sources in South Africa has confirmed that the unexpected delay was a result of a ministerial cabinet shuffle brought on by the May elections. And while it is taking time for the new line of authorities to understand and support the need (and mechanics) for a Shariah compliant bond, it seems that the government is nonetheless adamant to raise money via a benchmark-sized Sukuk before the end of the year, possibly early fourth quarter.

Although no exact size has been specified, IFN hear that the issue will be in US dollars, possibly around the US$500 million mark — and we assume Standard Bank, as the leader in the market, will be playing a leading role.

The last dash

Oh, how the race has changed since the first day we begun covering what is arguably, one of the most defining moments in Islamic finance. From Hong Kong and South Africa being in the lead, and the two European nations being left behind; the tables have certainly flipped. And in the days to come, be rest assured that for one particular potential issuer, it is a sprint to the finish line. — *VT*

Egypt turns its attention outwards once again

Following the deposition of the Morsi administration it seemed as if Islamic finance was once again to be put on the back burner for Egypt, with the anticipated Sukuk law shelved and the prospect of an updated regulatory framework receding. But as the country courts foreign capital to help rebuild its troubled infrastructure and its newly appointed minister of investment calls for international investors, opportunities for Islamic transactions could be looking up.

The new minister, veteran banker Ashraf Salman, has made his intentions regarding the importance of foreign investment abundantly clear, and is working to remove obstacles that could hinder entry to the market: including streamlining the bureaucratic processes and increasing the capital gains tax threshold on the stock exchange. "We will witness a total rise on both internal and external fronts, to compensate what we have missed and correct the mistakes of the past," he insisted at his swearing in ceremony.

At the recent general assembly of the Africa Reinsurance Corporation, Ashraf confirmed that his first priority was to attract more investment into Egypt as well as tap new markets for Egyptian investment abroad. Arab direct investment into Egypt currently averages around US$1.6 billion annually, and this week the investment minister announced a target of US$10 billion in total FDI for 2015. According to Ashraf, Egypt ranks second globally (behind Brazil) in terms of returns on investment, with the rate reaching up to 30%.

This could explain the recent spate of renewed GCC investor activity in the country: which most recently saw The Abraaj Group tender an offer for the Cairo Medical Center on the 19th June. The UAE has been one of the strongest supporters of Egypt with up to US$7 billion pledged in support. It currently runs 14 projects across the country according to an Egyptian government website, with an invested value of around US$3 billion. According to sources, the privately-owned UAE-based conglomerate Al Habtoor Group is also planning "huge investments" in the country, following a recent visit by chairman Khalaf Al Habtoor last week. In total, the GCC has injected an estimated US$12 billion into the Egyptian economy over the past 10 months, including through bank deposits into the central bank, long-term loans and non-refundable grants.

This uptick in activity has seen increasing interest in Islamic instruments and the popularity of Shariah compliant financing is growing. In April the country saw its largest Islamic financing to date signed by Al Nouran Sugar, a EGP1.5 billion (US$215 billion) loan to build a factory — following close on the heels of the previous record-holder, a EGP1.1 billion facility for Egyptian Steel six months earlier. "The perception of Egypt is changing with political risk coming down," said Montasser Khelifi, the senior manager for global markets at Dubai-based Quantum Investment Bank, in a recent media interview. "For Egyptian borrowers, it allows them to tap into GCC funds since there are some institutions here that only deal in Islamic financing. We may be seeing a landmark deal that opens the door for other corporates to consider this kind of financing."

The domestic industry remains limited, with just three fully-fledged Islamic banks and 11 windows, with total assets estimated at around EGP128 billion (US$18.4 billion) – around 5-7% of total banking assets, although growing at an annual rate of 10-12%. And although the country announced its optimistic intention of raising US$10 billion a year in sovereign Sukuk during the Morsi government, no further news has been heard since the Al-Sisi administration took control.

However, with significantly depleted foreign exchange reserves and a huge budget deficit, the new authorities may consider revisiting the idea in order to tap into the significant pool of funds available in the Islamic capital market. And with an urgent need to finance infrastructure projects, this could become increasingly attractive. Last year an advisor to the Ministry of Finance confirmed at the second annual PPP Investment Summit in Cairo that 17 new Public-Private Partnership projects would be financed using Sukuk, although again no further information has been forthcoming. — *LM*

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Iraq instability: Blessing or curse for Gulf markets?

The recent insurgence in Iraq has sent renewed shockwaves through the MENA region, with markets bracing themselves for a beating as the continued turmoil impacts everything from debt yields to oil prices. But in stark comparison to the impact of the Arab Spring just a few years ago, this time around the signs seem to suggest that the markets are taking the instability largely in their stride.

While stock markets across the region have dropped, the trend appears to be more towards correction than crash: with Dubai's index last week recovering strongly from an 11-week low on the 16th June. Abu Dhabi, Bahrain, Qatar and Kuwait have all seen slight falls but Saudi Arabia's index rose last week and remains steady: while the disruption in Iraqi supply is currently creating a positive situation for the region's oil-producing nations.

Foreign investors seem to feel the same, with no lessening in appetite for Gulf debt issuance: which in the conventional market saw the region's biggest ever corporate issuance last week from Etisalat, in a US$4.3 billion deal which reportedly also set a record for the cheapest pricing of a Gulf issuance; while Emaar Malls group recently priced a 10-year US$750 million Sukuk issuance at a surprisingly tight 4.564%, which traded at a premium in the secondary market and saw an enthusiastic reception with an orderbook of US$5.4 billion.

Five-year Saudi credit default swaps (CDS), which insure against sovereign default, have also remained stable, compared to significant spikes during former periods of instability; while currency exchange rates have seen little movement against the dollar, reflecting general confidence in the markets.

However, while the signs are encouraging, a few recent ripples suggest that all may not be as rosy as the initial reaction might suggest. The yield on the October 2017 callable Sukuk from Dana Gas jumped 43bps last week to reach 9.06%, compared to an average 4bps increase for Middle East Sukuk in general, according to data from JPMorgan Chase — its highest level since November 2013, suggesting that investors are jittery about interrupted supply. The company has issued repeated assurances that its Iraqi operations (which accounted for 53% of revenue in the first quarter) are safe — but widening spreads and increasing volatility in yield behavior suggests that investors remain unconvinced.

As the Iraq situation continues to deteriorate however, safe haven instruments could look to be an increasingly appealing choice: with many analysts issuing recommendations on dividend-yielding baskets and defensive stocks. And with new issuances of Sukuk coming thick and fast with recent roadshows from a slew of players including Al Hilal Bank, Al Baraka Turk, Sberbank and Kuveyt Turk, the fixed income space looks to be comfortable in its current environment; while investors may seek to move further towards the debt space in a hedge against the more volatile equity markets. — *LM*

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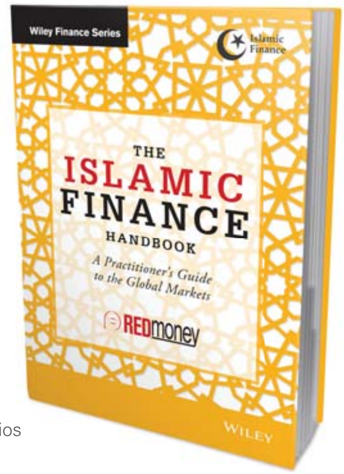

About REDmoney

REDmoney is a publishing and events company focusing purely on the global Islamic finance market. The company was started in mid-2004 in Kuala Lumpur, Malaysia, by Andrew Morgan and Andrew Tebbutt, and initially rolled out two products: Islamic finance training and Islamic finance news. Since then, a range of other products have been introduced including conferences, print media, and consulting.

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Arabesque — a new entry to London's Islamic asset management landscape

As the UK's Islamic financial industry braces itself for an onslaught of attention with the launch of the country's sovereign Sukuk this week, one of the industry's newest asset management firms, Arabesque, is also celebrating the launch of its first three global Shariah and SRI compliant funds as it seeks to cement its impact on the value-based asset management scene in London and beyond.

Although Arabesque has every intention of ultimately being multi-asset as a fund manager, the firm's first three fund offerings are all equity-based for a reason — as Dr Dominic Selwood, the firm's general counsel and compliance officer, explained to Islamic Finance *news*: "[Equities] are inherently Shariah compliant, they're very transparent and a sensible and very in demand asset class currently, which is why they are all equities strategies, which build sequentially."

With its flagship funds, the firm is trying to help people to reassess the way they view investing. "We need to rethink the way we approach finance and the way finance operates. Whilst Islamic finance has been doing that for many years, the conventional financial community has also been doing it in the form of social(ly) responsible investing and ESG which all mean the same thing," explained Dr Selwood. "And so it struck us that actually, if we bring those together, the values are 100% consistent across both and that gives us the opportunity to learn from and contribute to both camps, both traditions, and create something that appeals to both East and West and is still making sure that everybody is focusing nicely on the impact of their investing; looking to the double bottom line."

The Arabesque Prime League contains 1,500 specially selected socially responsible global equities, targeting a 1% outperformance rate over the MSCI and MSCI All Country World Index. The equities chosen are both SRI and Shariah compliant, passing 200 ESG indicators with other aspects factored into selection such as liquidity. As a passive index this can be invested in and will outperform due to the fund "zoning in on a core of well-run, well-governed institutions that do things properly and reasonably and prudently." The Arabesque Fundamental Fund narrows the selection of equities down further to 400-500 of the Prime League, targeting a 5% outperformance over passive global funds and utilizing fundamental investment technology which has a five-star rating from US-based investment research firm Morningstar. Arabesque Systematic, the third fund, has an investment pool of 100-200 Prime League equities, risk-managed by a quantities model developed by Barclays with a targeted return of 10% and maximum drawdowns of less than 25%.

Formally licensed by the UK Financial Conduct Authority on the 4th June and developed by the firm's senior management in their previous roles at Barclays in the UK, Frankfurt and the GCC prior to a 100% management buyout, Arabesque has a team of 18, based in London and Frankfurt. The senior management team, including Omar Selim, Arabesque's CEO, and Dr Selwood, are both based in London, where the trading and compliance teams are also resident, while Germany is home to the firm's research contingent. The research hub takes a two pronged approach to its work, with value based research being conducted in collaboration with the UK-based University of Cambridge and the US-based University of Stanford on financial mathematics, with the UK-based University of Oxford on sustainability and the Germany-based University of Maastricht on SRI.

The firm is considering options for an office in the Middle East, but choosing London as a base of operations was a considered decision: "We could have established anywhere in the world, we looked at a great number of jurisdictions and we purposely chose London because we're very firm believers in what London has to offer the Islamic finance community."

Arabesque is the latest addition to a growing community of asset management firms in London offering Shariah compliant options. Another is Edale Group, based in London's Berkeley Square and established at the start of the year by Lawrie Chandler carrying on from the work Emirate NBD Capital was undertaking prior to the close of its London office for wealth management. Offering Shariah compliant funds, research and product work with a focus on Europe and Northern Africa, the firm aims to "provide best in class products that can fit into any environment." Edale launched a Shariah compliant multi-asset fund in April investing in Sukuk, Ijarah, Wakalah and physical commodities. — *RS*

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Islamic Finance *news*

SocGen seeking to expand in Southeast Asia with debut Sukuk issuance

In a discussion held last week, representatives from Societe Generale (SocGen) disclosed the rationale behind its decision to tap into the Sukuk market. SocGen gained regulatory approval from the relevant Malaysian authorities last week, receiving a mandate to raise RM1 billion (US$310.6 million) in Sukuk. The first issuance of the Sukuk Wakalah is to be made within two years from the date of the approval.

According to Pascal Lambert, the chief country officer for Singapore and head of Societe Generale corporate and investment banking for Southeast Asia, the Sukuk will hold a tenor of 15 years and first tranche will be made "soon — subject to market conditions". Malaysia is a market that has not yet been tapped by the French bank.

With a view to growing its business in the Southeast Asia, SocGen seeks to address the dearth of supply in Shariah compliant structured products across the region. Malaysia was selected for the Sukuk issuance to assist in wooing European and global investors into Malaysia as well as the rest of the region, in addition to bringing new credit into the country, explained Jacqueline Tan, the head of global market sales for Southeast Asia at SocGen. She also highlighted that the group is seeking to leverage the high savings rate in Malaysia as well as the significant project-funding opportunities available in the country.

After successfully closing the deal, SocGen should also be able to demonstrate its structuring expertise for Shariah compliant products and instruments. The issuance is expected to assist in creating a stronger presence for SocGen in Malaysia. It also acts as a means for the bank to diversify and tap into a new pool of investors. Demand for Malaysian assets does not only lie in Malaysia, but also from the surrounding regions. SocGen is also looking to release the pressure outside domestic markets.

It must also be noted that the Sukuk issuance is a relatively small portion compared to the funding needs of SocGen, which are approximately EUR20-22 billion (US$27.20-29.9 billion) for 2014. Over the next five years, the bank looks to continue building its franchise in the Islamic finance industry. The bank revealed that it will be working on developing Shariah compliant risk management and hedging products as well as investment and finance solutions. — *NA*

Turkey: Tough position

Things were finally looking up for Turkey, one of Islamic finance's most promising young markets, following the conclusion of local elections in March. After a tumultuous period of unrest, the financial markets were finally showing signs of stabilization; the central bank slashed interest rates, the bourse charted upward trajectory and national GDP growth for the first quarter exceeded the 4.1% average at 4.3%, beating projections of the IMF (2.3%) and the World Bank (2.4%). The tables however have since turned with the emergence of the Islamic State of Iraq and al-Sham (ISIS), which has dealt a severe blow to Turkey with the seizure of Mosul — and has pushed the country, along with its once-promising Islamic finance industry, precariously close to the edge of the cliff.

"The entire financial system — both conventional and Islamic — is affected considerably," an official with the Capital Markets Board told Islamic Finance *news*. The source, who requested to remain anonymous, added that apart from the present regional political chaos, Turkey's economic performance is also tied to the decisions of western central banks (i.e. the European Central Bank) due to the fact that more than half of its stock market is owned by foreign entities. "It is difficult to predict; interest and exchange rate hikes have made it expensive for corporates to borrow money."

> ***"The entire financial system — both conventional and Islamic — is affected considerably"***

With ISIS capturing Iraqi states, global oil prices surged to US$104 per barrel as of the 11th June, from US$93 per barrel at the start of 2014 (American crude oil), affecting countries worldwide — and unfortunately Turkey stands to lose more than most due to its economic position and, more significantly, strong ties with Iraq.

Left with a reported current deficit of US$55.5 billion, the republic is struggling to cope with the escalating cost of oil as its entire budget for the year was designed around an estimated oil price of US$103.2 per barrel. To make matters worse, Iraq is Turkey's second-largest trade partner (after Germany), with exports reaching US$11.9 billion last year. Turkish companies and employees in Iraq have been called home and the exodus could partly explain the staggering drop in the Turkish exchange — 3,954 points were lost after only four days since the Mosul occupation, from 81,600 to 77,646.

Yet for all the negativity that hangs around Turkey at the moment, our source remains boldly optimistic: "Turkey is in a reckless neighborhood — we have seen chaos and instability many times, in Iraq, in Syria but somehow or rather, we have managed to survive."

What about Islamic finance? "Participation banks will continue to issue Sukuk and we will see more issuances in the second part of the year from corporates," said the industry insider. And his expectations seem to be ringing true, as Bereket Varlik Kiralama, a Turkish asset leasing company has recently announced that it will issue Shariah compliant lease certificates in US$500 million.

Whether or not the wider market holds the same optimism as the source, we can only hope that the market is as resilient as hoped, to insulate itself from further damage should the Iraq situation continue to deteriorate. — *VT*

Islamic finance in Qatar: Building for the future

Islamic finance in Qatar is an industry that has flourished since the central bank's introduction of laws regulating the implementation of the practice. However, as the lead established by the country's Islamic banks reduces, is the established system robust enough to continue to grow? REBECCA SIMMONDS explores the Islamic finance sector in Qatar.

Legal and regulatory

Qatar has a mixed legal system of civil law and Islamic law. Qatar's Islamic banking industry formally started in 1982 and the launch of Islamic windows was approved in 2005. However, regulations issued in 2010 stated that the country's conventional banks were not allowed to allocate more than 10% of issued capital to Islamic banking operations and prohibited the use of Islamic windows, effectively mandating that all Islamic banks must be standalone. The new laws were issued with immediate effect, but the affected banks were given until the end of 2011 for full compliance.

In January 2013, regulations came into force defining the scope of Islamic banking in Qatar as including non-interest based banking with the aim of generating profit via the utilization and development of Shariah compliant savings and investment products and increasing the knowledge and understanding of Shariah compliant finance by the country's Islamic finance institutions.

Islamic banking in Qatar was to also provide socially beneficial financial services based on the concept of mutual benefit. Each Islamic institution is required to have a Shariah Supervisory Authority, made up of at least three members.

The QCB has also announced a three-year strategic plan to develop a consistent risk-based regulatory framework for the country's financial system, which will in particular benefit the Islamic finance industry with the creation of consistent regulations for Islamic finance and enabling the creation of an Islamic economy of scale.

Business environment

Despite some controversy surrounding the forthcoming 2022 World Cup and a review being undertaken regarding the bidding process, Qatar currently remains on course to host the event. As such, a large number of infrastructure projects have been planned, with the government announcing a program of works to be completed both for the development of the country and before the games.

A budget of US$24.03 billion has been allocated for key projects, with total spending expected to reach US$182.35 billion over the next five years. Projects include the Hamad International Airport, the New Doha Port Project, rail and metro projects, and a roads program, with upgrades to the country's sewage and electricity systems also included in the spend. Qatar Islamic Bank in October 2013 announced that it would be co-financing the development of the Red Line North Underground project as part of a consortium of banks

Banking and finance

Qatar has four fully-fledged Islamic banks: Qatar Islamic Bank (QIB), Masraf Al Rayan, Qatar International Islamic Bank (QIIB) and Barwa Bank. QIB was established in 1982 as the country's first Islamic finance institution and holds a 36% share of Qatar's Islamic banking market.

As well as being a successful standalone bank, QIB holds interest in a number of international banking concerns, including 37% stake in Arab Finance House in Beirut, established in 2003, following in QIB's footsteps as the first fully-fledged Islamic bank in Lebanon. The bank also holds a 41.7% stake in the Malaysia-based Asian Finance House and a 70% share of QIB-UK, which was established in London in 2008.

However, at the beginning of 2014 the bank's chairman stated that QIB would be focusing on operations within its mandate as a Shariah compliant bank and looking to shed non-performing investments. Shariah compliant investment firm QInvest, which is 47% owned by QIB, in February this year collaborated with its major shareholder to launch a range of three multi-manager Islamic funds accounting for a platform of around US$750 million in capital.

Masraf Al Rayan, which was established in 2006, at the beginning of 2014 completed its acquisition of the UK-based Islamic Bank of Britain and raised the Tier 1 capital of the bank to GBP100 million (US$164.74 million), holding 98.34% of the bank's issued shares.

Whilst conventional banks in Qatar are not allowed to operate Islamic windows, they do still form a part of the Islamic banking market with Qatar National Bank selling three and five-year Sukuk totaling US$1 billion, while Doha Bank and Commercial Bank both recently announced plans to raise QAR2 billion (US$548.84 million) in Tier I capital earlier in the year.

Indexes

In January 2013 the Qatar Exchange launched the Al Rayan Islamic Index, which is based on Shariah compliant stock listed on the exchange of minimum free float size and liquidity. In May 2014, following a long wait, Qatar was upgraded to emerging status and a select group of companies including QIB were included on the MSCI Emerging Markets Index.

Outlook

Qatar currently holds 4% of global finance assets, however the bold move to restrict Islamic finance to standalone entities may not have the lasting results that were envisaged for the industry. Recent asset growth rates at Islamic banks in Qatar have dropped to just above those of their conventional peers, with the lead held since the implementation of the regulation falling over time.

According to central bank data Islamic banking assets grew 12.2% in 2013 to OMR218.8 billion (US$60 billion) compared to conventional banking assets which grew by 11.2% in the same period. Whilst the country's wealth and the wealth of its individuals is perhaps enough to inure it against most financial ills, the slowdown of the Islamic economy, given the rapid growth of the industry in neighboring UAE, could be a cause for concern.

Islamic private equity and venture capital: A land of opportunity

Equity-based and profit and loss sharing in nature, private equity is an inherently Shariah compliant form of investment, and as such, many private equity investments can be classed as Shariah compliant even if there has been no conscious effort made to adhere to Islamic principles. As an asset class, private equity can for this reason be difficult to quantify — especially given that the nature of its investment centers around participation in non-publically listed companies. REBECCA SIMMONDS analyzes.

Much of the investment in the area is made via private investment funds and their fund managers, and the GCC remains the largest market for Shariah compliant private equity investment. However the market has shown that following a period where most managers and investors were compelled to remain with their investments due to poor exit opportunities, exiting investments now is an option that many are taking. A lack of exit routes is something that has been highlighted in the Egyptian market by investment bank EFG Hermes, which has predicted that Egyptian private equity sales will see an increase this year in the form of IPOs and strategic acquisitions.

Successful exits

Under its 2012-16 strategy, Shariah compliant UK-based firm EIIB has stated that it is restructuring its business by exiting higher-risk private equity investments, turning to the more stable income opportunities such as asset management and advisory services under its EIIB-Rasmala brand. In March, Saudi-based asset management and investment firm Alkabheer Capital announced a successful exit from its Land Development Fund I which launched in 2010 with capital of SAR142 million (US$37.85 million).

The exit was completed with the sale of the fund's portfolio assets including development on over 300,000 square meters of land in Mecca, achieving a net profit on investment of 85%. The offering of Gulf Capital-backed Gulf Marine Services on the London Stock Exchange in the first quarter of the year was one of a number of private equity exits in the Middle East in that period, raising almost US$300 million.

SMES, PE and venture capital

Alkhabeer Capital also recently announced the launch of its new SME private equity strategy which will focus on companies based in Saudi Arabia and the UAE. Targeting high growth Shariah compliant companies, the company aims to leverage private equity capital and experienced investor support to implement a pre-agreed growth strategy with the business concerned.

In investments of this sort there is a certain overlap into the region of venture capital: another inherently Islamic form of financing, which shares many characteristics with private equity but tends for center more around funding for startups and new ventures in return for an equity share — a prime example of risk sharing.

One of the challenges for Shariah compliant private equity is that the number of appropriate vehicles for investment is small, and this is where venture capital firms, angel investors and investment schemes aimed at entrepreneurs can make a difference.

There are few statistics for the number of Shariah compliant startup funded by Islamic venture capital funds, although there are a number of Shariah compliant venture capital firms in business around the world: such as Qatar Venture Capital located in London, and Shariah compliant India-based Cheraman Financial Services — which announced in December last year that it would be launching a venture capital fund with capital of INR2.5 billion (US$41.80 million) in 2014.

In November 2013, the UK government announced the establishment of a GBP100 million (US$169.60 million) fund to attract Islamic technology entrepreneurs to London.

According to the Emerging Markets Private Equity Association's 2014 Global Limited Partner Survey, 41% of limited partners plan to increase the percentage of their total private equity allocation targeted at emerging markets over the next two years, with Southeast Asia set to see the biggest influx of new investors.

In Southeast Asia, private equity fund manager Nevis Capital (which has offices in both Malaysia and Singapore) has concluded its most recent round of fundraising with US$1.25 million raised for its Shariah compliant funds. Despite this and similar sentiments voiced in other private equity fund manager surveys, currently the International Finance Corporation (IFC), a member of the World Bank Group, has stated recently that only 10% of private equity funding makes it through to emerging markets.

The IFC is putting money behind its drive to draw attention to this discrepancy: with Egypt, Jordan and Lebanon key markets set to see investment from the IFC. The agency also announced in June that it had committed US$15 million to EuroMena III, a private equity fund to aid the development of SMEs in Egypt, Lebanon and Jordan and contribute to job creation in the region.

Challenges and opportunities

One of the challenges for private equity fund managers is that investments are predominantly long-term — funds are invested and then cannot be exited for a set period of time usually measured in years — unlike other forms of investment.

While in the past, the illiquid nature of the investment and smaller returns with greater involvement than conventional investment may have caused many to disregard private equity as an option, now it is being considered as investors become both more educated and more sophisticated in their investments, and witness the success of the growing private equity market.

Reflections on the mid-term review of the 10-Year Framework and Strategies for the Islamic financial services industry: A joint initiative by IRTI and IFSB

The long-anticipated mid-term review (MTR) of the 10-Year Framework and Strategies was recently launched in conjunction with the 11th IFSB Summit, hosted by the Bank of Mauritius. It discussed the proposed measures to address the gaps or challenges in meeting the objectives of the 10-Year Framework, as well as the roles of the public and private sectors and other stakeholders of the Islamic financial services industry in carrying out the 16 recommendations, taking into account the state of development of the industry in the respective jurisdictions. DR HYLMUN IZHAR talks us through the changes.

It is important to note that the 10-Year Framework, which initially consisted of 13 core recommendations, was first published by the Islamic Research and Training Institute (IRTI) of the IDB in collaboration with Islamic Financial Services Board (IFSB) in March 2007. The main idea which underlies the creation of such a document is to have a strategic framework document to systematically study, discuss and propose policy responses for the orderly development of the Islamic financial services industry. It was primarily expected that the framework document could ultimately provide a general blueprint or guideline for new and existing Islamic finance jurisdictions in designing and developing their national plans and major initiatives as part of their financial sector development policies.

The 10-Year Framework Document: How did it come into being?

The idea of preparing such a strategic framework was first considered during the seminar on challenges facing the Islamic financial industry, held on the 1st April 2004 in Bali, Indonesia. The seminar, which was jointly organized by IRTI and IFSB, was held in conjunction with the meeting of the IFSB Council hosted by Bank Indonesia. As a follow-up on the issues discussed in the seminar, IRTI and IFSB undertook a joint initiative to address the challenges in a systematic manner in the form of a comprehensive document. Subsequently, preparation of the document was formally initiated by IRTI and IFSB.

As a first step, a number of leading specialist and practitioners were requested to prepare technical papers on various themes. These were presented in a technical workshop jointly organized by IRTI and IFSB, held on the 31st May till the 1st June 2005 in Dubai, hosted by the Dubai Financial Services Authority. Subsequently, IRTI and IFSB jointly organized a policy dialogue on the same theme on the 22nd June 2005 in Putrajaya, Malaysia, which was facilitated by Bank Negara Malaysia. A drafting committee was as a result formed, which held three meetings and finalized a draft document. The draft document was distributed by IFSB to solicit feedback from its members and other interested parties. It was also discussed in the Islamic Bankers' Forum held on the 28th May 2006 in Kuwait, jointly organized by IRTI, IFSB and the General Council for Islamic Banks and Financial Institutions (CIBAFI). At its final meeting held on the 17th August 2006 in Kuala Lumpur, Malaysia, the drafting committee reviewed all the comments and the feedback received and reached a consensus on the revised document.

Why a mid-term review?

In 2013, IRTI and IFSB initiated a mid-term review of the 10-Year Framework as more than half of the period has passed since its publication in 2007. The MTR was aimed at assessing the impact of macroeconomic events, to monitor progress in implementing the recommendations, and to propose additions or modifications to the recommendations to guide the industry. Such a pivotal effort was considered crucial due to the increasingly challenging economic and financial environments as well as the significant developments taking place in the international financial landscape, particularly after the 2008 global financial crisis; and more importantly it is to ensure that the 10-Year Framework document remains relevant as a platform for various Islamic finance jurisdictions to assist them in orchestrating the future direction of the industry. Therefore, throughout the process of conducting the MTR, the following objectives were targeted:

- To assess the impact on the respective Islamic finance segments arising from the development in the global financial system post-crisis;
- To examine the progress and current status of the priorities and initiatives suggested in the 10-Year Framework and Strategies;
- To identify the gaps involved in implementing the priorities and initiatives; and
- To assess the need of a re-orientation of such priorities and initiatives

The MTR thus seeks to both assess progress made by the industry in implementing the 2007 recommendations, and amend the recommended 10-Year Framework in the light of developments since its publication.

In conducting the MTR, IRTI and IFSB were supported by a number of prominent research institutions and have engaged with leading regulators, market players, academicians and Shariah scholars through various intensive discussions during the roundtables held in Qatar, Malaysia and Turkey whereby IRTI and IFSB had an opportunity to obtain further insights from the key

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stakeholders and the panel of Review Committee.

> ***"The MTR seeks to both assess progress made by the industry in implementing the 2007 recommendations, and amend the recommended 10-Year Framework in the light of developments since its publication"***

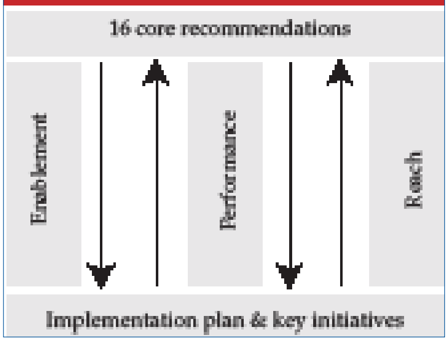
MTR's key findings

Following an in-depth research and engagement with key stakeholders in the industry, the MTR document has generated the following key findings:

(i) The industry has shown growth and resilience, with growing market share and profitability, an expanding number of institutions, and numerous industry-level initiatives under way, reflecting customer confidence in the sector, whose concept is proven in many markets.

(ii) Macroeconomic events or external factors have brought both challenges and opportunities to the sector, which has not been immune to the effects of the global financial crisis, by way of the economic impact, the approach to financial regulation, the strength of partners and counterparties, and the value of assets and investments. Nevertheless, some countries have acted as important centers of growth as the global economy has stumbled.

Figure 1: Integrated framework of the features of the MTR document



Political developments in recent years have also made several countries more open to Islamic financial services. Technological innovations such as branchless financial services are now available, and can allow the industry to broaden its future reach.

(iii) The development of the industry has varied by sector, while estimates of its total asset size and growth rate vary significantly (either near or well above US$1 trillion). As a key example, Islamic microfinance has transitioned from a concept with isolated case studies to a fledgling sector across multiple markets. Moreover, although the market values of certain Shariah compliant instruments have shown mixed performance due to overall capital market challenges, and Shariah-related challenges remain, the breadth and sophistication of such instruments has improved.

What are the distinct features of the MTR?

Inevitable modifications on the original document have therefore been made, in order to reflect the current status of the Islamic financial services industry, which distinctively characterize the current MTR document; explicated as follows:

1. Introduction of three additional recommendations (in addition to the existing 13 recommendations in the original document); which state:

   a. (Recommendation no. 14): Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken

   b. (Recommendation no. 15): Foster and embrace innovative business models, including new technologies and delivery channels, in offering Islamic financial services

   c. (Recommendation no. 16): Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.

2. Introduction of three-pillar framework: namely enablement, performance, and reach. Whilst the original document categorized the recommendations into institutional and infrastructural; the new categorization emphasizes more on the outcome desired from the framework. While the first pillar (enablement) was meant to reflect fostering conditions for the industry to thrive; the second pillar (performance) was set up to essentially enhance the effectiveness of institutions active in the industry, and the third pillar (reach) was established to substantially increase the commitment in expanding the set of potential beneficiaries in the industry.

3. Development of key performance indicators (KPIs) to help address weaknesses and monitor progress in a more focused manner. As mentioned earlier that progress made on the original recommendations has been mixed. For instance, many countries have adopted international standards specific to Islamic financial services; however, many have not yet fully done so. At this mid-term juncture, most recommendations require greater focus from various countries in order to reach the aspirations envisioned. Metrics for tracking progress; which initially were not articulated are, therefore, now considered crucial for assessing progress. Consequently, the MTR proposes a set of KPIs, for which different countries are urged to set national targets

4. Establishment of a stronger implementation plan to be undertaken by a range of

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stakeholders. Among the stakeholders, it is suggested that the role of central banks and governments are especially important in driving implementation.

5. Identification of 20 key initiatives which have been synthesized and prioritized based on their potential impact and the feasibility of implementation.

The 20 key initiatives classified based on the three pillars of the framework is summarized in Table 1:

It is depicted in Figure 1 that the spirit of three main pillars permeates into the 16 core recommendations, implementation plan and identified key initiatives in order to achieve the desired outcome.

> ***"The industry has shown growth and resilience, with growing market share and profitability, an expanding number of institutions, and numerous industry-level initiatives under way, reflecting customer confidence in the sector, whose concept is proven in many markets"***

Table 1

Enablement	Integrate Islamic finance in national development plans
	Introduce national Islamic financial services master plans
	Enhance regulatory implementation and enforcement
	Harmonize, where possible, regulation and regulatory frameworks across borders
	Adopt and strengthen national Shariah governance frameworks
	Where mandates overlap, align the positions of industry bodies
	Link Islamic financial markets across borders
	Form a 'Technical Assistance and Linkage Network'
	Form regional working groups
	Foster information-providing institutions that support the provision of Islamic finance
	Incorporate Islamic finance data in statistical and official reporting
Performance	Institute centralized R&D for Islamic financial products in addition to the decentralized R&D
	Establish diversified financial institutions
	Demonstrate the industry's distinctive value proposition
	Fund public infrastructure projects to build Islamic capital markets
Reach	Revitalize Zakat and Waqf for greater financial inclusion and make them an integrated part of Islamic financial system
	Ensure that regulations allow for the use of new technology to provide affordable services
	Engage with newly-opened markets
	Foster the financing of a wider set of economic sectors
	Brand Islamic financial services for wider markets

Lessons learnt

The world consists of a diverse group of nations; which span a range of regions, cultures and stages of economic development in which Islamic law, common law, and civil law jurisdictions are adopted. In conducting the MTR, it was observed that diverse views were particularly salient in regards to:

- Whether countries should have specific laws for Islamic financial services or rather fit Islamic structures into a single set of financial services laws;
- Whether countries should adopt national-level Shariah boards or retain Shariah governance solely at the institutional level;
- Whether central banks should allow conventional institutions to offer Islamic financial services;
- Whether the adoption of international standards specific to Islamic finance is essential; and
- Whether product standardisation should be a policy objective or not.

While diversity of use in these areas is appreciated, a key underlying theme is that a supportive public policy stance is essential for enabling the industry to reach its full potential. Different countries have been successful under various models; each choice brings benefits and drawbacks. Nevertheless, a strong and supportive public policy stance can help contribute to greater confidence that energises the private sector.

The MTR therefore does not seek to prescribe specific approaches to the choices above. It does, however, urge various jurisdictions to deliberate carefully on these matters and form well-considered strategies. The MTR also indicatively suggests that Islamic financial services offer benefits to the people and economies of the public at large, and advocate thoughtful strategies on how best to avail of these benefits.

Dr Izhar is an economist at IRTI-IDB and is the co-chair of this joint initiative. He can be reached at hizhar@isdb.org.

Debut Sukuk: Emaar Malls Group

Emaar Malls Group (EMG), a Dubai-based shopping mall developer and management company, made its debut in the Sukuk market with a US$750 million Sukuk issuance, which closed on the 18th June 2014. The Sukuk carry a tenor of 10 years at a profit rate of 4.56% per annum, payable semi-annually in arrears, on the 18th December and 18th June of each year (commencing on 18th December 2014) up to and including the maturity date. Proceeds from the issuance will be utilized for the company's general corporate purposes.

In an exclusive interview with Islamic Finance *news*, the debt capital markets and syndications team at Dubai Islamic Bank (DIB) revealed the workings of EMG's issuance.

> *"Although Emaar Properties is currently the ultimate owner of 100% of Emaar Malls Group, Emaar Malls has announced its intention to sell up to 25% of its shares through an IPO and subsequent listing on the Dubai Financial Market"*

A subsidiary of Emaar Properties, the paper was auctioned ahead of the company's proposed IPO. "Emaar Malls has spun off from Emaar Properties and is planning an IPO in the near future. Although Emaar Properties is currently the ultimate owner of 100% of Emaar Malls Group, Emaar Malls has announced its intention to sell up to 25% of its shares through an IPO and subsequent listing on the Dubai Financial Market," said DIB.

The deal was structured according to the principles of Wakalah because the structure fits the underlying assets, as they are revenue-generating retail units. Furthermore, Wakalah is one of the most utilized structures for Sukuk issuances and provides investors with adequate comfort and confidence in the instrument.

According to DIB, interesting aspects faced in the arrangement process of the Sukuk issuance were that the marketing documents had to be prepared in conjunction with the appointed equity IPO team and the limited time period afforded to close the deal. The transaction came on the back of an expedited, yet comprehensive, global roadshow covering the key financial centers: London, Singapore, Hong Kong and the UAE. In spite of the small timeframe, the Sukuk were well received as the orderbook grew to US$5.4 billion and the price tightened from MS+200's to close at MS+182.5bps, indicating a high demand for the paper.

Due to EMG's investment grade rating, business strengths and brand name reputation, there was a relatively equal split: with strong demand coming from Europe, Middle East and Asia. At a fairly balanced distribution, Middle East accounts allocated 33%, European investors represented 38% of the allocations, and Asian investors picked up the 29% balance. The success of the transaction effectively highlights the confidence that fixed income investors have displayed with regards to the strength and appeal of the EMG credit story. — *NA*

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Emaar Malls Group Sukuk

US$750 million

EMAAR

18th June 2014

Issuer	EMG Sukuk
Obligor	Emaar Malls Group
Issuance price	100%
Purpose of issuance	General corporate purposes
Trustee	Deutsche Trustee Company
Tenor	10 years
Coupon rate/ return	4.56% per annum
Payment	US$750 million
Currency	US dollar
Maturity date	18th June 2024
Lead managers and bookrunners	Dubai Islamic Bank, Abu Dhabi Islamic Bank, Al Hilal Bank, Emirates NBD Capital, First Gulf Bank, Mashreqbank, Morgan Stanley & Co. International, National Bank of Abu Dhabi, Noor Islamic Bank, Standard Chartered Bank and Union National Bank
Governing law	English Law, the laws of the Emirate of Dubai and the federal laws of the United Arab Emirates
Legal advisor/ counsel	Issuer: Linklaters
Joint lead managers	Allen & Overy
Listing	Nasdaq Dubai
Underlying assets	Retail Units
Rating	Moody's: 'Baa2' S&P: 'BBB-'
Structure	Sukuk Wakalah
Face value/ minimum investment	US$200,000 and integral multiples of US$1,000 in excess thereof

Government of Pakistan plans to issue another Sukuk Ijarah

PAKISTAN

By Muhammad Shoaib Ibrahim

Following previous successful launches of Sukuk by the Government of Pakistan (GOP), the State Bank of Pakistan (SBP) on the 17th June announced a further issuance of GOP Sukuk Ijarah against the M-3 Motorway. The central bank did not give target size of the deal; however, it has been suggested that the upcoming issuance is expected to be approximately PKR49 billion (US$493 million) and will be issued against the M-3 Motorway for a period of three years. This will be the first Sukuk issuance of the fiscal year 2014-15 by the GOP.

The central bank did not give target size of the deal; however, it has been suggested that the upcoming issuance is expected to be approximately PKR49 billion (US$493 million) and will be issued against the M-3 Motorway for a period of three years

The M-3 is a long strip of motorway situated in the Punjab province. The valuation of the assets will be carried out by at least two approved independent valuators and the lower of the two valuations will be used to determine the purchase price of the assets.

According to the SBP, the GOP Sukuk Ijarah will be issued as per the Transaction Structure described by the central bank. As per the transaction mechanism, profit on the GOP Ijarah Sukuk will be based on the rental rate benchmarked against the latest weighted average yield of the six-month market treasury bills. In addition, the rental rate as mentioned may be adjusted based on the difference between estimated supplementary rental and actual maintenance expenses of the underlying asset.

As per the SBP circular, the participation of a single primary dealer (PD) will be capped at PKR25 billion or 20% (whichever is the lower) of total demand and time liabilities of bank of that particular PD. All Islamic and commercial banks with Islamic branches are designated as primary dealers for participating in the auction of Sukuk. For this purpose a service agency agreement will be executed between the investment agent and GOP.

The SBP further stated that all the Islamic banks and commercial banks with Islamic branches are designated as primary dealers for participating in the auction of GOP Sukuk Ijarah. All designated primary dealers for the issuance are advised by the SBP to ensure meticulous compliance and instructions.

The announcement of issuance of local currency Sukuk is welcomed by Islamic banks and financial institutions in Pakistan as this will greatly support efforts to channel their excess liquidity into sovereign Shariah compliant securities.

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Skill mismatch: A talent development issue within the Takaful industry

TAKAFUL & RE-TAKAFUL

By Dr Sutan Emir Hidayat

Despite its significant growth for the last decade, Takaful is still the smallest segment within Islamic finance. KFH Research in 2014 reported that in 2013 Takaful only contributed 1% of global Islamic finance assets. In addition, the market share of Takaful within the total insurance industry is also still relatively small.

One of the challenges that may hinder the development of Takaful is the lack of adequately trained human resources. Most practitioners within the Takaful segment do not have a formal Islamic finance or specifically Takaful qualification. They use their experience in conventional insurance companies before embarking into this Islamic finance segment.

In fact, this issue is applicable in all segments of Islamic finance. A survey conducted by the Finance Accreditation Agency (FAA) and Islamic Finance *news* this year on human capital development within Islamic finance industry indicates that 75% of respondents believe that practitioners without a formal Islamic finance qualification are less capable of doing their job than those with a formal education.

However, surprisingly it was also found that there are many Islamic finance qualification-holders who find difficulties in getting a job within the industry. Thus, it is clear that there is a skill mismatch within the Islamic finance industry in general.

The issue of skill mismatch becomes worse in the case of Takaful. PwC reported in 2012 that the biggest deficit of skilled candidates among Islamic finance segments existed in Takaful. It is more difficult to hire a qualified person in Takaful than in Islamic banking, Islamic capital markets and asset management.

As a result, the development of Takaful is still far from its maximum potential. In order to overcome the challenge, intensive collaboration between Takaful qualification providers and Takaful practitioners is needed. Takaful qualification providers should continuously revise their curricula in order to meet the industry needs. They have to ensure that their graduates hold certain specific skills that the industry is looking for.

In addition, every Takaful qualification provider should get full accreditation not only from an academic accreditation agency but also from an industry-based accreditation agency such as the FAA. This is because accreditation has been proven by many studies to be an effective method of quality assurance.

Therefore, the involvement of industry-based accreditation agencies is important to help the qualification providers in ensuring their syllabus and their programs' intended learning outcomes are up to date and in line with what the industry needs.

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Qatar: Dedication to Islamic banking

There are few economies that have invested in and promoted their Islamic banking sector as much as Qatar has over the recent years. Industry commentators have estimated that the volume of Shariah compliant banking in Qatar is expected to grow to over US$100 billion by 2017, even outpacing growth in other regional Islamic banking centers such as Saudi Arabia and the UAE. AMJAD HUSSEIN discusses recent developments.

The Qatari government's efforts, chiefly coordinated by the efforts of the Qatar Central Bank (QCB) and the Ministry of Finance have focused on carrying out significant reforms in the finance sector aimed at creating the right conditions to nurture this growth.

Much of the sectoral growth has been driven by government-led demand with infrastructure project activity having a strong influence on lending growth. Domestic lending reached approximately US$146 billion at the end of 2013 with government lending accounting for around 50% of this. Overall growth of the domestic loan market, along with the ban on Islamic windows for conventional banks that was introduced in 2011, has allowed Qatar's Islamic banks' lending to grow twice as fast as their conventional counterparts, acquiring a significantly increased market share (estimated at around 25% of the total Qatari banking sector).

One of the most significant recent developments is the MSCI upgrade of Qatar from 'frontier market' to 'emerging market' which has helped improve the perception in the international markets of Qatar's investment climate and triggered increased flows of foreign funds into Qatar. With major Qatari Shariah compliant institutions such as Masraf Al Rayan (MAR), Qatar Islamic Bank (QIB) and Barwa Real Estate (BRE) included in the MSCI Emerging Markets Index, we expect the Qatari Islamic finance sector to share significantly in the benefits of this influx of investment. A further key market development is the recent announcement by the Qatari government regarding the raising of the cap on foreign ownership in publicly traded Qatari companies to 49% (up from the previous cap of 25%). This will also no doubt attract further foreign investment into the fast growing Qatari Shariah compliant industry, allowing foreign investors to become strategic partners in the growth of these institutions, rather than just passive investors.

From a regulatory perspective, Qatar has announced various initiatives at providing the Islamic financial sector with the appropriate infrastructure to conform it to the best international standards. One such example is the recent announcement of plans to establish a deposit insurance framework that will also include a Shariah compliant scheme. While government support for domestic banks is considered implicit in many cash-rich Gulf countries, explicit deposit insurance is rare in the region.

"A further key market development is the recent announcement by the Qatari government regarding the raising of the cap on foreign ownership in publicly traded Qatari companies to 49% (up from the previous cap of 25%)"

The QCB also plans to introduce a regulatory framework for local credit rating agencies that would be licensed in the near future as part of its plans to further develop the domestic loan market. These initiatives are expected to help the Shariah compliant loan market grow in a sophisticated and transparent manner, with the aim of developing Qatar into a regional hub for Islamic finance.

The QCB has also been particularly proactive in ensuring that Qatari banks, both conventional and Shariah compliant, are taking measures to comply with its capital adequacy directives in relation to Basel III. Over the past year various banks have undertaken efforts to raise capital through the issuance of conventional bonds and/or Sukuk in order to improve their capital adequacy ratios.

Notably in 2013 Qatar National Bank sold US$3 billion-worth of three and five-year bonds as well as three and five-year Sukuk totaling US$1 billion. Due to the abundance of domestic liquidity however, Qatari banks are not expected to rely heavily on international debt markets for their bond and Sukuk issuances in the foreseeable future, but rather more by way of private placements to Qatari institutions, government-related entities or other institutional investors in Qatar.

Finally, as the domestic conditions for the growth of Qatar's Islamic financial institutions are optimized and the resources and investment appetite of those institutions grow, various Qatari Islamic institutions have been making investments abroad.

Barwa Bank was announced as one of a syndicate of five banks arranging the UK's highly publicized GBP200 million (US$320 millin) Sukuk, broadly seen as a major success for the bank. The QCB has also reportedly signed an agreement with the People's Republic of China's Bank of China that will allow the QCB to purchase Chinese bonds for its foreign exchange reserves as China moves to gradually open its financial system to foreign investment.

Most significantly however, it has been reported that various Qatari banks have expressed an interest in expanding Islamic banking operations into China, demonstrating that as the popularity of Islamic finance as an alternative source of finance grows globally, Qatar is positioning itself to be a major player in this rapidly growing market.

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Challenges in developing Shariah compliant retirement annuity plan for Takaful

The concept of Takaful is established on the notion of mutual assistance (Ta'awun), mutual security, responsibility (Tadhamun) and mutual protection and assurance which are incorporated into the concept of donation (Tabarru'). This notion has been used to structure various Takaful products, ranging from General to Family Takaful, featuring most of conventional insurance. However, not all conventional features can be easily adopted and offered by Takaful operators: particularly demonstrated by the absence of Shariah compliant retirement annuity plans so far in the Takaful industry. T M MAHBUBI ALI and LOKMANULHAKI HUSSAIN highlight the complex challenges and issues in offering these products.

The absence of model

One of the most crucial issues in developing the Shariah compliant retirement annuity plan is the absence of appropriate Shariah compliant model that underlies the operationalization of this scheme, which can resemble the features of conventional annuity. Recently there have been a few attempts to develop the Shariah compliant model for retirement annuity plans by Takaful operators using the Waqf model and Hibah Mu'allaqah (conditional gift).

Nevertheless, the proposed models seem to face several challenges and concerns in term of their operationalization. How can the proposed model eliminate the Shariah prohibitions and offer genuine Shariah products? How is the model commercially viable? What types of investment can guarantee the income stream? How can we manage the risks inherent in the nature of annuity funds, such as solvency risk and longevity risk?

Limited investment availability

As retirement annuity plan is designed to provide benefit for the long-term, so there is a need for investment avenues which can offer a regular income stream for long duration of time. A conventional type of investment that is able to meet these requirements is bonds.

Sukuk, otherwise referred to as Islamic bonds, are an investment instrument that resemble in most aspects the characteristics and features of conventional bonds. However, the availability of Sukuk, long-term Sukuk in particular, is very limited. According to Thomson Reuters, there are only 33 Sukuk that have a maturity of 20-50 years available in the market. The rest are short and medium-term Sukuk: 189 Sukuk have maturity of less than one year; 1,134 Sukuk have maturities of one to 9 years; and 302 Sukuk have maturity of 10-19 years. On the conventional side, there are approximately 7,093 bonds with tenure between 20-50 years.

In addition to that, the coupon (in the form of rental fees or profit sharing) for long-term Sukuk (20 years and above) in the market is commonly distributed semi-annually. In contrast, the coupon for long-term bonds is issued quarterly or even monthly. This fact will certainly lead to mismatch and liquidity issues as the annuity is required to provide regular fixed income stream commonly on monthly basis.

> *"As retirement annuity plan is designed to provide benefit for the long-term, so there is a need for investment avenues which can offer a regular income stream for long duration of time"*

Longevity risk

According to the UN, the population aged 60 and above is the fastest growing segment in the world. It is expected that this number will increase by three-fold by 2100: from 841 million in 2013 to two billion in 2050, and three billion by 2100. Furthermore, UN also reports that the population aged 80 years or over is projected to increase to nearly seven-fold by 2100.

In view of what is stated above, the International Shariah Research Academy for Islamic Finance (ISRA) in collaboration with Kolej Pengajian Islam Johor (MARSAH), Johor Corporation and Institut Integriti Kepimpinan dan Latihan Semangat (IKLAS) organized the 8th Muzakarah Cendekiawan Shari'ah Nusantara (MCSN) on the 28-29th May, 2014; bringing together reputable Muftis, scholars, academician, practitioners and representatives of regulatory institutions from different countries in the ASEAN region. The objective of the dialogue was to deal with the various issues in the Islamic finance industry, to enhance the collaborative efforts on Shariah matters and to strengthen the framework for mutual respect and harmonization among Shariah scholars.

Among the main issues deliberated on during the event was the Shariah compliant structure for retirement annuity plans. After lengthy discussions on the issue, the participants acknowledged that there is a need to develop a Shariah compliant retirement annuity plan in Islamic financial institutions. The participants also agreed that the plan can be structured based on the contract of Wakalah bil Istithmar or Mudarabah together with the concept of Tabarru'. Furthermore, to overcome complex operational issues the participants proposed for active support and involvement from different stakeholders, particularly regulators, in providing a clear regulatory framework and supporting infrastructure for the development of the plan.

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of ISRA and should not be attributed to it.

M Mahbubi Ali and Lokmanulhakim Hussain are researchers at the International Shari'ah Research Academy for Islamic Finance (ISRA) Malaysia. They can be contacted at mahbubi@isra.my and lokman@isra.my respectively.

A review on the performance of Islamic funds

The primary goal of Islamic funds is to engage in 'ethical investing' into products and companies that are compliant with Islamic guidelines, covering the investment needs of the largely ignored Muslim population. As such, Islamic funds are wealth management vehicles that cater to investors who want exposure to capital markets inside a Shariah framework, which is the key distinguishing factor from other conventional funds. CHENG HONG YAP charts the progress that Islamic funds have made since they first appeared in the 1970s, with assets under management currently standing at US$88.58 billion.

Islamic funds have received relatively little attention from interested investors and the media alike, especially considering the size and wealth of their potential client base. Roughly a quarter of the world's population is comprised of Muslims, while revenues from oil have produced no lack of high net worth individuals in the GCC countries. This gap between actual and expected demand has been attributed to lack of investor awareness and product differentiation from conventional asset classes. This article aims to shed some light on the historical and current performance of Islamic funds, helping bridge some of that informational gap between investors and Islamic fund managers.

The chart above displays the performance of the Eurekahedge Islamic Fund Index, Eurekahedge Long-Only Absolute Return Fund Index, Dow Jones Islamic World Index, MSCI World Index and the MSCI World SRI Index since January 2008. Islamic funds are comparable investments with equivalent equity market indices despite requiring an additional layer of compliance. Islamic funds, long equity indexes and socially responsible investing are all approximately in line with each other over the period under study.

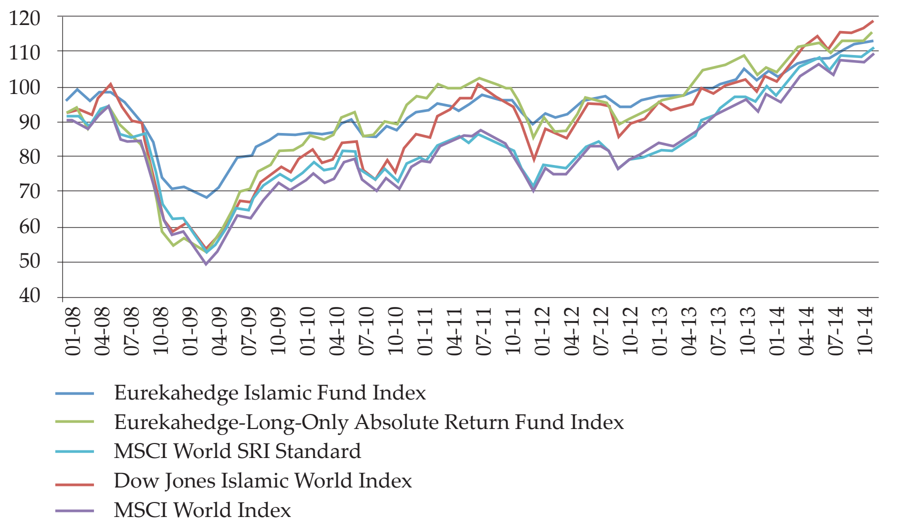
A closer look at the chart also reveals the extent of the correlation between the different indices. Most Islamic funds are simply invested long in local equities or follow widely available broad Shariah indices. Many of them naturally focus on emerging markets, due to their potential growth and the fact that many Islamic fund managers hail from these very regions, while a smaller fraction invests in North America and Europe. As such, the performance of Islamic funds tends to follow that of underlying markets very closely.

In Table 1, the Eurekahedge Islamic Fund Index boasts the lowest three and five year annualized standard deviations, a product of their aforementioned conservative investment policies. Its three-year Sharpe ratio of 0.58 puts it in second place in terms of risk-adjusted returns, behind only the MSCI World SRI Index. The Eurekahedge Islamic Fund Index also had the lowest maximum drawdown of 31.25% during the peak

Table 1: Performance of Islamic funds versus other investment vehicles

	Eurekahedge Islamic Fund Index	Dow Jones Islamic World Index	Eurekahedge Long-Only Absolute Return Fund Index	MSCI World Index	MSCI World SRI Standard
2014 May YTD return	4.63%	3.94%	3.04%	2.63%	1.98%
2013 Return	9.77%	19.24%	11.08%	23.91%	27.59%
3 Year Annualized returns	5.45%	6.49%	4.42%	8.43%	9.08%
3 Year Annualized standard deviation	5.91%	14.14%	11.48%	12.13%	11.26%
3 Year Sharpe Ratio (RFR = 2%)	0.58	0.32	0.21	0.53	0.63
5 Year Annualized returns	6.35%	10.38%	8.79%	10.03%	9.50%
5 Year Annualized standard deviation	9.58%	18.55%	16.69%	17.02%	16.03%
5 Year Sharpe Ratio (RFR = 2%)	0.45	0.45	0.41	0.47	0.47
Maximum Drawdown	-31.25%	-47.37%	-47.32%	-49.86%	-47.62%
% Below HWM	0.00%	0.00%	0.00%	0.00%	0.00%

Figure 1: Index performance since 2008



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of the global financial crisis. Shariah compliant investing avoids derivatives and highly leveraged companies which helped to reduce the losses suffered when global capital markets collapsed. In fact, Islamic investing offers some advantage over other investment vehicles in the form of lower volatility and drawdowns.

As can be seen, their returns are not any inferior to other investment vehicles, yet to date the Islamic fund industry has failed to make much of a mark on the asset management industry with a poor take-up rate even among the Muslim public, of which only a small percentage subscribe to Islamic funds. This is partly the Islamic fund industry's own fault. Many of them target high net-worth clients because of the large wealth gaps among Muslim countries, resulting in a relatively small pool of potential investors. Poorer Muslim countries and the retail investor are generally overlooked in favour of oil magnates and other high net worth individuals. The participation rate among the Muslim public could be significantly increased by marketing to and educating investors on how Islamic funds could meet their needs. More transparency, as with any developing industry, is vital to earn investors' confidence.

> ***"The participation rate among the Muslim public could be significantly increased by marketing to and educating investors on how Islamic funds could meet their needs"***

On another note, while the Islamic asset management industry is still in the process of development and would likely expand further along with the broader Islamic finance market, the market remains relatively limited outside of equities. The requirements of Shariah compliance preclude many strategies and asset classes that have entered common practice among conventional investment vehicles. While alternatives to equity funds exist, they are still relatively limited in number and scope. To date, financial engineering has been often used to adapt conventional investment strategies to a Shariah compliant framework, but the additional complexity and compliance costs have affected their viability compared to their conventional counterparts.

The crux of the point is for fund managers to propose new products that offer value-added performance, return diversification and product differentiation for investors, convincing them of the value proposition of Islamic funds. The goal is that any investor who is diligent with his portfolio construction would be able to create a Shariah compliant portfolio that would offer risk-adjusted returns comparable to a conventional one.

Cheng Hong Yap is a hedge fund junior analyst with Eurekahedge and he can be contacted at chenghong@eurekahedge.com.

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ISSUER	SIZE	DATE ANNOUNCED
Bank Internasional Indonesia	IDR300 billion	20th June 2014
International Finance Corp	TBA	17th June 2014
Bank Negara Malaysia	Rmvarious	13th June 2014
Al Hilal Bank	US$500 million	13th June 2014
IOI Properties	RM1.5 billion	9th May 2014
Jeddah Economic Co	TBA	17th June 2014
UEM Sunrise	RM2 billion	21st January 2014
Aktif Bank	Up to TRY200 million	17th June 2014
Government of Ras Al Khaimah	TBA	6th June 2014
Government of Jordan	TBA	5th June 2014
Bank of Tokyo-Mitsubishi UFJ	Up to US$500 million	5th June 2014
Al Othaim Real Estate and Investment Co	Up to SAR1billion	2nd June 2014
Bank Islam Malaysia	Up to RM1 billion	2nd June 2014
Government of the Philippines	TBA	26th May 2014
Felda Global Ventures Holdings	US$1 billion	22nd May 2014
Al Baraka Banking Group	US$200 million	20th May 2014
Government of Tunisia	US$140 million	7th February 2014
South African Government	US$500 million	26th November 2013
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
Dubai Islamic Bank	TBA	18th April 2014
KLCC REIT	RM3 billion	11th April 2014
Emaar Misr for Development	TBA	10th April 2014
Sabah Credit Corp	Up to RM1.5 billion	
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
FGB Sukuk Company II	US$1.07 billion	7th March 2014
IDB	TBA	7th March 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
Turkiye Finans	RM3 million	
Flydubai	TBA	4th February 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

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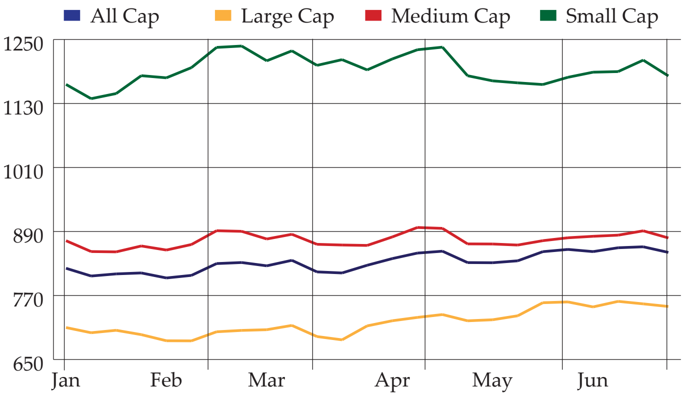

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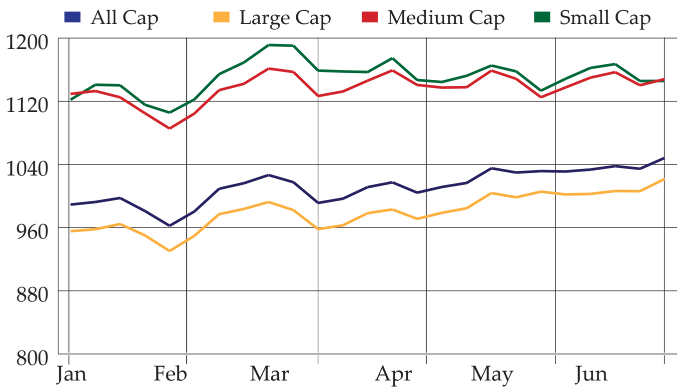

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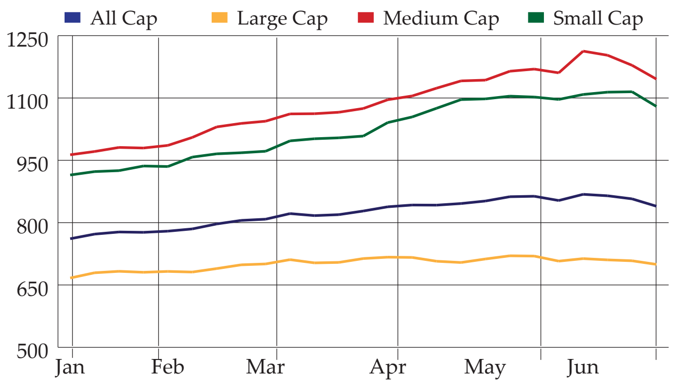

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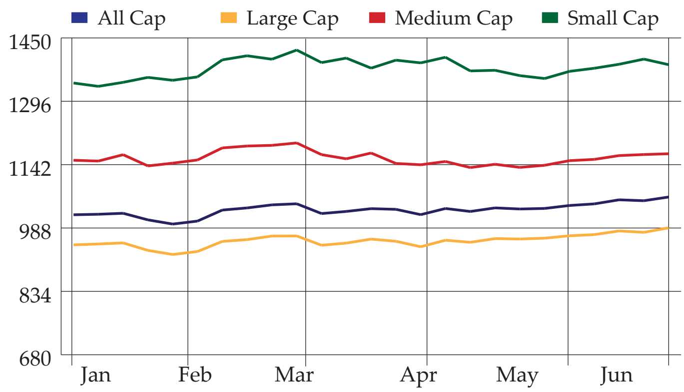

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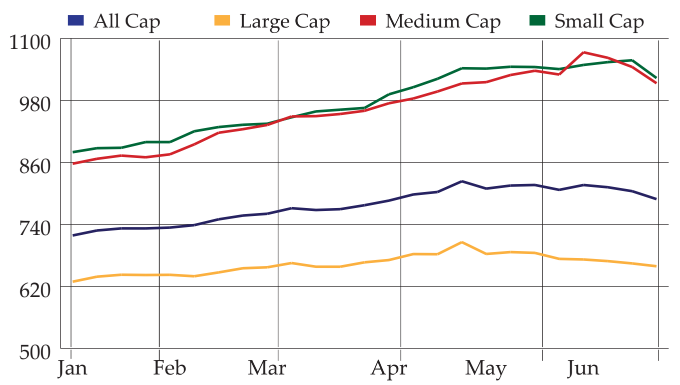

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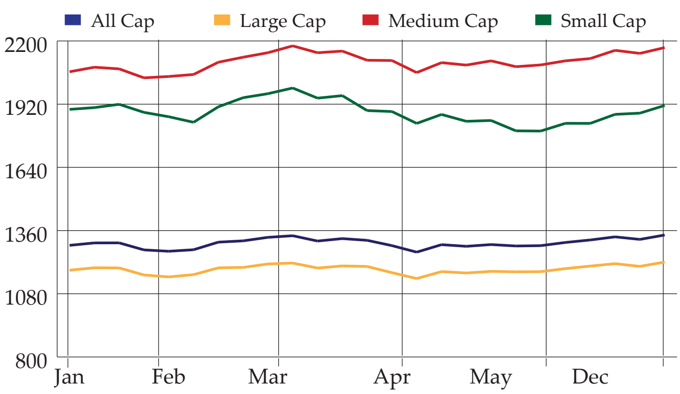
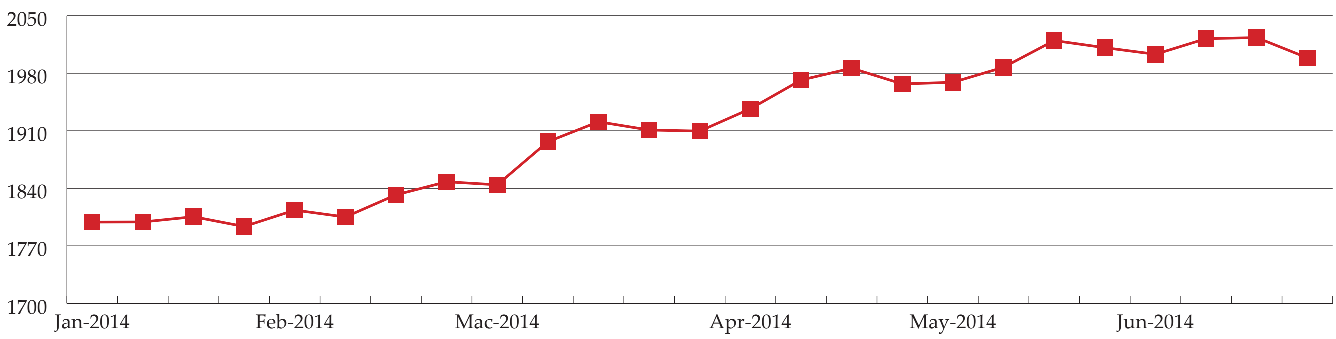
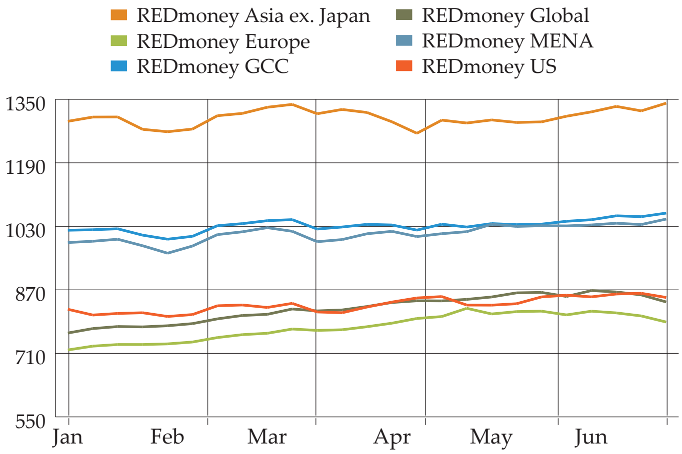


SAMI Halal Food Participation (All Cap) *6 months*



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



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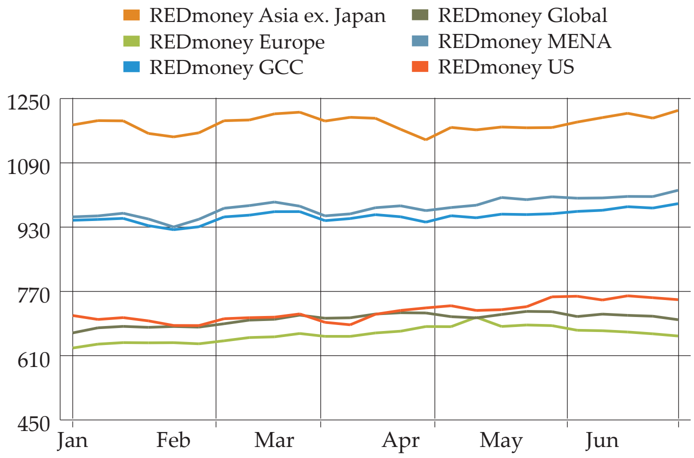
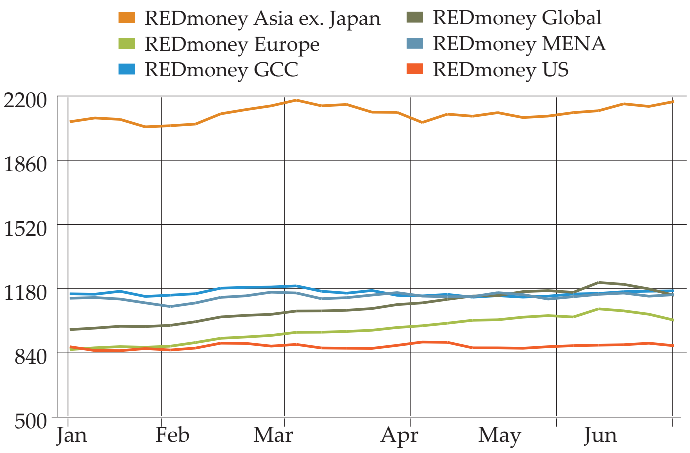
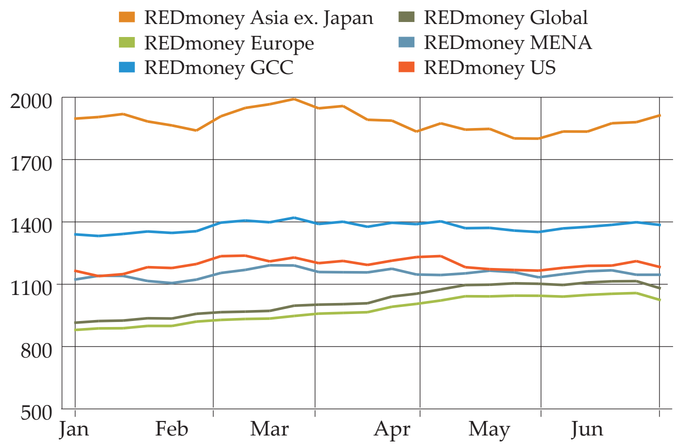


REDmoney Global Shariah Index Series (Medium Cap) *6 Months*



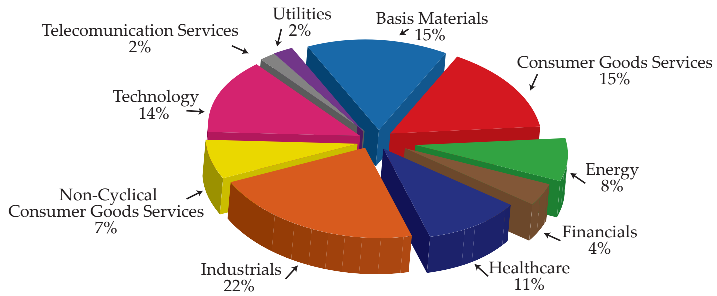
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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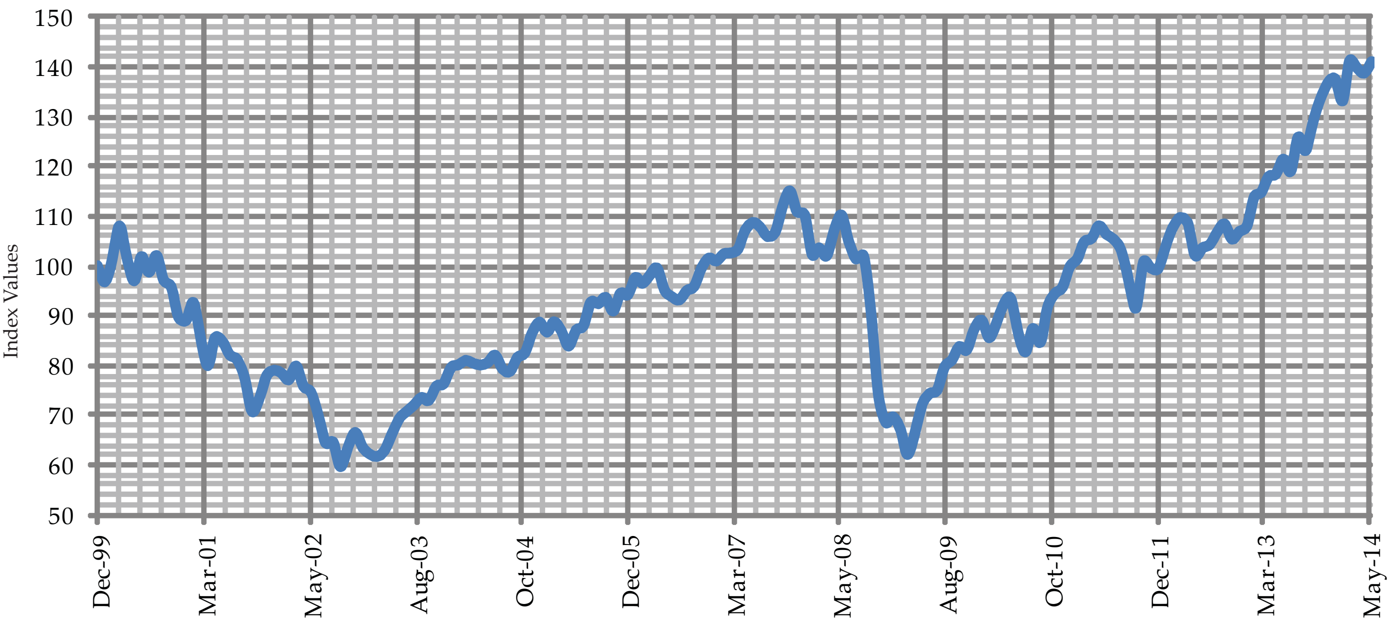
Eurekahedge North America Islamic Fund Index



Top 10 Monthly Returns for ALL Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al-Beit Al-Mali	Global Investment House	11.28	Qatar
2	India	Al-Madina for Finance and Investment Company	7.48	Kuwait
3	Emirates MENA Opportunities	EIS Asset Management	6.40	Jersey
4	Markaz Real Estate	Kuwait Financial Centre	5.99	Kuwait
5	AlAhli Asia Pacific Trading Equity	The National Commercial Bank	5.57	Saudi Arabia
6	Global GCC Islamic	Global Investment House	4.98	Bahrain
7	AlAhli Emerging Markets Trading Equity	The National Commercial Bank	4.42	Saudi Arabia
8	Al-Mubarak Pure Saudi Equity	Arab National Bank	4.31	Saudi Arabia
9	ETFS Physical Palladium	ETFS Metal Securities	4.07	Jersey
10	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	3.98	Saudi Arabia
	Eurekahedge Islamic Fund Index		**0.62**	

Based on 80.32% of funds which have reported May 2014 returns as at the 23rd June 2014

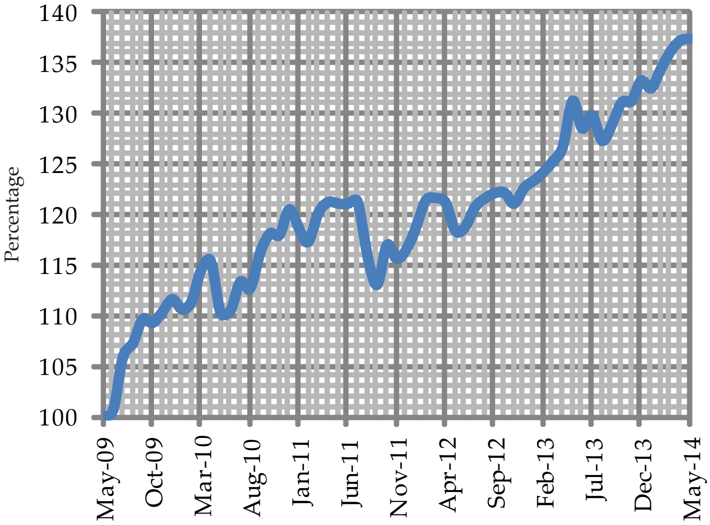
Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	16.31	Saudi Arabia
2	Oasis Crescent Global Property Equity	Oasis Global Management Company (Ireland)	6.29	Ireland
3	Al-'Aqar KPJ REIT	AmMerchant Bank	3.76	Malaysia
4	Al Dar Real Estate	ADAM	1.23	Kuwait
5	Markaz Real Estate	Kuwait Financial Centre	1.10	Kuwait
	Eurekahedge Islamic Fund Index		**5.74**	

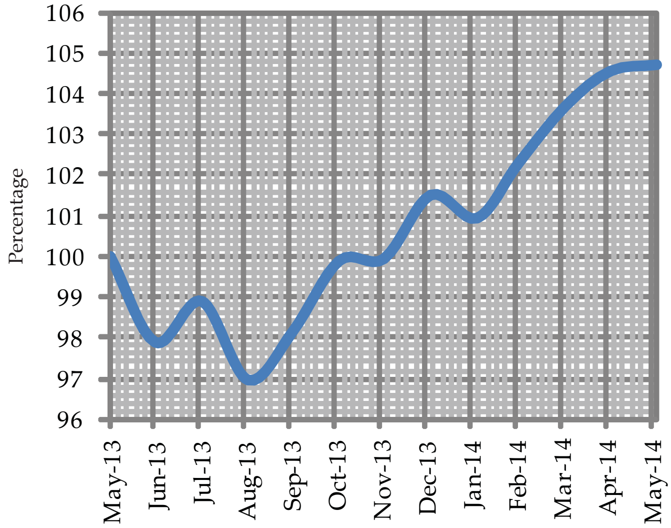
Based on 100.00% of funds which have reported April 2014 returns as at the 23rd June 2014

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 Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Monthly returns for Global Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Palladium	ETFS Metal Securities	4.07	Jersey
2	AlAhli Global Real Estate	The National Commercial Bank	3.34	Saudi Arabia
3	ETFS Physical Platinum	ETFS Metal Securities	2.77	Jersey
4	Al Rajhi Global Equity	UBS	2.44	Saudi Arabia
5	JPM Islamic Global Dynamic Equity (USD) A (acc)	JPMorgan International Bank	2.40	Luxembourg
6	Al Shamekh Islamic Portfolio	Riyad Bank	2.27	Saudi Arabia
7	AlAhli Global Trading Equity	The National Commercial Bank	2.20	Saudi Arabia
8	Al-Mubarak Global Equity	Arab National Bank	2.07	Saudi Arabia
9	Global Equity - Musharaka	Riyad Bank	1.93	Saudi Arabia
10	WSF Global Equity - USD I	Cogent Asset Management	1.91	Guernsey
	Eurekahedge Islamic Fund Index		**0.53**	

Based on 81.82% of funds which have reported May 2014 returns as at the 23rd June 2014

Top 5 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Yusr Tamoh Multi Asset	Saudi Hollandi Bank	9.24	Saudi Arabia
2	Al Rajhi Multi Asset Growth	Al Rajhi Bank	5.67	Saudi Arabia
3	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	4.48	Saudi Arabia
4	Al Dar Fund of Funds	ADAM	3.25	Kuwait
5	Al-Mubarak Balanced	Arab National Bank	2.04	Saudi Arabia
	Eurekahedge Islamic Fund Index		**3.07**	

Based on funds which have reported April 2014 returns as at the 23rd June 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

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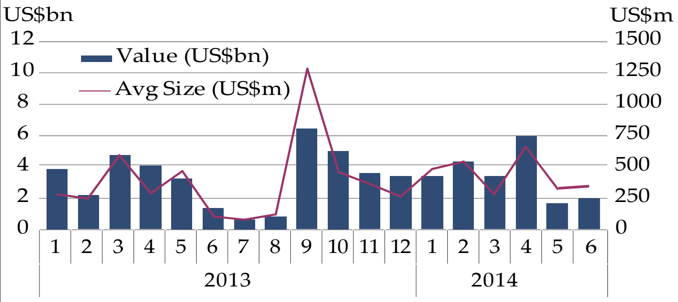
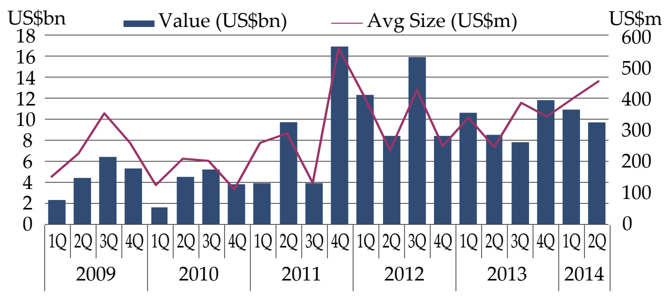
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
19th Jun 2014	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Kuwait Finance House, Citigroup, Emirates NBD
11th Jun 2014	Emaar Malls Group	UAE	Sukuk Wakalah	Euro market public issue	750	Mashreqbank, Standard Chartered Bank, Morgan Stanley, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Union National Bank, Abu Dhabi Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
5th Jun 2014	Public Islamic Bank	Malaysia	Sukuk	Domestic market public issue	155	Public Bank, AmInvestment Bank
4th Jun 2014	Saudi Telecom	Saudi Arabia	Sukuk	Domestic market public issue	533	Saudi National Commercial Bank, Standard Chartered Bank, JPMorgan
28th May 2014	Pengurusan Air SPV	Malaysia	Sukuk Ijarah	Domestic market private placement	187	Maybank
21st May 2014	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	400	Goldman Sachs, Deutsche Bank, Masraf Al Rayan, Emirates NBD, Al Hilal Bank, QInvest, Barwa Bank, Bank Alkhair
20th May 2014	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	491	RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
14th May 2014	ICD	UAE	Sukuk	Euro market public issue	700	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Citigroup, Emirates NBD
30th Apr 2014	RHB Islamic Bank	Malaysia	Sukuk	Domestic market public issue	153	RHB Capital
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	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

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter

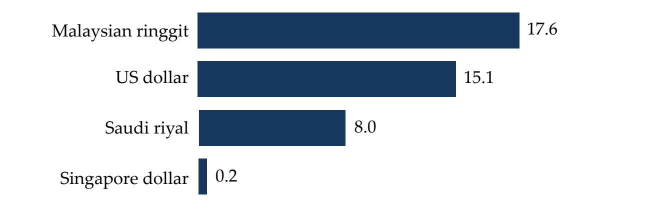


Top 30 Issuers of Global Sukuk							*12 Months*
	Issuer	**Nationality**	**Instrument**	**Market**	**US$ (mln)**	**Iss(%)**	**Managers**
1	General Authority for Civil Aviation	Saudi Arabia	Sukuk	Domestic market public issue	4,056	9.9	Saudi National Commercial Bank, HSBC
2	Saudi Electricity Company	Saudi Arabia	Sukuk Istithmar	Domestic market public issue	3,700	9.0	Banque Saudi Fransi, HSBC, JPMorgan, Deutsche Bank
3	DanaInfra Nasional	Malaysia	Sukuk Murabahah	Domestic market public issue	1,621	4.0	RHB Capital, Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank, HSBC
4	Malakoff	Malaysia	Sukuk	Domestic market public issue	1,521	3.7	Maybank, CIMB Group
5	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	1,500	3.7	Standard Chartered Bank, Deutsche Bank, Citigroup
5	IDB Trust Services	Saudi Arabia	Sukuk Wakalah	Euro market public issue	1,500	3.7	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, RHB Capital, Natixis, CIMB Group, Commerzbank Group
7	National Commercial Bank	Saudi Arabia	Sukuk	Domestic market public issue	1,333	3.3	Saudi National Commercial Bank, JPMorgan, HSBC, Gulf International Bank
8	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,250	3.1	Standard Chartered Bank, HSBC, QInvest
8	Ooredoo	Qatar	Sukuk	Euro market public issue	1,250	3.1	Deutsche Bank, HSBC, DBS, Qatar National Bank, QInvest
10	Cagamas	Malaysia	Sukuk Murabahah	Domestic market public issue	1,247	3.1	RHB Capital, Maybank, CIMB Group, AmInvestment Bank
11	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	1,233	3.0	HSBC, RHB Capital, CIMB Group, AmInvestment Bank, Maybank, Kenanga Investment Bank
12	TNB Western Energy	Malaysia	Sukuk Ijarah and Wakalah	Domestic market public issue	1,109	2.7	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	1.8	Standard Chartered Bank, Goldman Sachs, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank
14	Government of Dubai	UAE	Sukuk Ijarah	Euro market public issue	750	1.8	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
14	Emaar Malls Group	UAE	Sukuk Wakalah	Euro market public issue	750	1.8	Mashreqbank, Standard Chartered Bank, Morgan Stanley, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Union National Bank, Abu Dhabi Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
17	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	718	1.8	CIMB Group
18	ICD	UAE	Sukuk	Euro market public issue	700	1.7	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Citigroup, Emirates NBD
19	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Wakalah	Euro market public issue	694	1.7	Goldman Sachs, Deutsche Bank, Emirates NBD, Bank of America Merrill Lynch, Bank Alkhair, Masraf Al Rayan, Al Hilal Bank, QInvest, Barwa Bank
20	Pengurusan Air SPV	Malaysia	Sukuk Ijarah	Domestic market private placement	659	1.6	CIMB Group, RHB Capital, Bank Islam Malaysia, AmInvestment Bank, Maybank
21	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
22	Kapar Energy Ventures	Malaysia	Sukuk Ijarah	Domestic market public issue	581	1.4	AmInvestment Bank
23	Saudi Telecom	Saudi Arabia	Sukuk	Domestic market public issue	533	1.3	Saudi National Commercial Bank, Standard Chartered Bank, JPMorgan
24	Turkiye Finans Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.2	HSBC, Citigroup, Emirates NBD, QInvest
24	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.2	Standard Chartered Bank, HSBC, Kuwait Finance House, Citigroup, Emirates NBD
24	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
24	Al Hilal Bank	UAE	Sukuk Mudarabah / Wakalah	Euro market public issue	500	1.2	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
28	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	491	1.2	RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
29	Midciti Sukuk	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1.2	Maybank, CIMB Group, AmInvestment Bank
30	Imtiaz Sukuk II	Malaysia	Sukuk Musharakah	Domestic market public issue	460	1.1	Maybank, CIMB Group
					40,943	**100**	

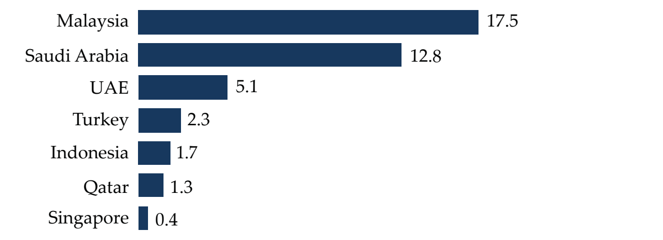
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	6,489	24	15.9
2	CIMB Group	5,989	40	14.6
3	Maybank	4,225	31	10.3
4	AmInvestment Bank	3,093	23	7.6
5	RHB Capital	2,640	35	6.5
6	Standard Chartered Bank	2,541	17	6.2
7	Saudi National Commercial Bank	2,539	3	6.2
8	Deutsche Bank	1,785	6	4.4
9	JPMorgan	1,344	3	3.3
10	Citigroup	1,271	9	3.1
11	National Bank of Abu Dhabi	867	8	2.1
12	Emirates NBD	860	9	2.1
13	QInvest	841	4	2.1
14	Banque Saudi Fransi	713	2	1.7
15	Dubai Islamic Bank	676	6	1.7
16	First Gulf Bank	406	3	1.0
17	Al Hilal Bank	393	5	1.0
18	DBS	345	3	0.8
19	Gulf International Bank	333	1	0.8
20	Affin Investment Bank	298	4	0.7
21	Goldman Sachs	259	3	0.6
22	Qatar National Bank	250	1	0.6
23	Kuwait Finance House	227	3	0.6
24	Mashreqbank	218	3	0.5
25	Abu Dhabi Islamic Bank	211	3	0.5
26	Bank Islam Malaysia	189	2	0.5
27	BNP Paribas	188	2	0.5
28	Natixis	188	1	0.5
28	Commerzbank Group	188	1	0.5
30	UOB	180	2	0.4
	Total	**40,943**	**110**	**100.0**

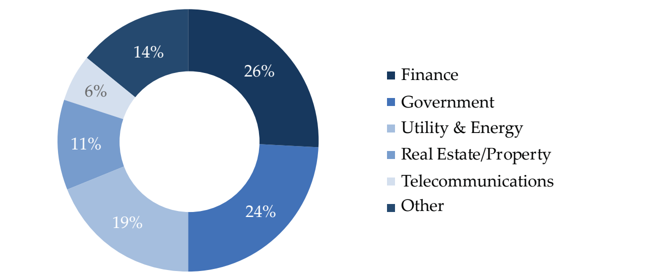
Sukuk Volume by Currency US$ (billion) *12 Months*



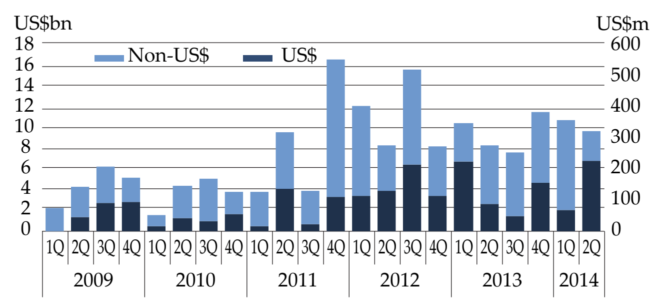
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	463	2	16.1
2	Samba Financial Group	434	2	15.1
3	Banque Saudi Fransi	283	1	9.8
4	Alinma Bank	281	2	9.8
5	National Bank of Abu Dhabi	200	1	6.9
6	Al-Rajhi Banking & Investment	188	1	6.5
7	Mizuho Financial Group	166	2	5.8
7	Standard Chartered	166	2	5.8
9	HSBC Holdings	100	1	3.5
9	Mitsubishi UFJ Financial Group	100	1	3.5

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

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	2,365	3	43.8
2	Clifford Chance	1,600	1	29.6
3	Baker Botts	668	1	12.4
3	Chadbourne & Parke	668	1	12.4
5	Mohammed Al Zamil & Emad Al Kharashi Law Firm	97	1	1.8

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Mashreqbank	1,698	3	38.2
2	Barwa Bank	209	3	4.7
3	Standard Chartered Bank	205	3	4.6
4	Saudi National Commercial Bank	169	2	3.8
4	Samba Capital	169	2	3.8
6	Arab Banking Corporation	118	3	2.7
7	National Bank of Abu Dhabi	113	2	2.6
8	Noor Bank	98	2	2.2
9	Qatar Islamic Bank	90	1	2.0
9	Masraf Al Rayan	90	1	2.0
11	Banque Saudi Fransi	89	1	2.0
12	Emirates NBD	86	2	1.9
13	Riyad Bank	80	1	1.8
13	National Bank of Kuwait	80	1	1.8
13	Arab Petroleum Investments	80	1	1.8
16	Union National Bank	72	2	1.6
16	Abu Dhabi Islamic Bank	72	2	1.6
18	Sberbank	61	1	1.4
18	Islamic Development Bank	61	1	1.4
20	Bank Islam Brunei Darussalam	58	1	1.3
20	Ahli United Bank	58	1	1.3
22	RHB Capital	58	2	1.3
22	CIMB Group	58	2	1.3
24	Citigroup	57	2	1.3
24	Abu Dhabi Commercial Bank	57	2	1.3
26	Kuwait Finance House	44	1	1.0
26	HSBC	44	1	1.0
28	Dubai Islamic Bank	38	2	0.9
29	Warba Bank	38	1	0.8
29	United Arab Bank	38	1	0.8
29	Commercial Bank International	38	1	0.8

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

	Bookrunner	US$ (mln)	No	%
1	Mashreqbank	1,639	2	57.8
2	Barwa Bank	435	2	15.4
3	Noor Bank	235	2	8.3
4	Standard Chartered Bank	85	1	3.0
4	Emirates NBD	85	1	3.0
4	Arab Banking Corporation	85	1	3.0

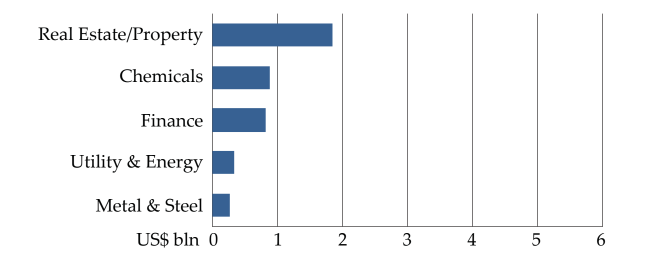
Top Islamic Finance Related Financing Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
21st May 2014	Emaar Malls Group	UAE	1,499
7th May 2014	Emirates Steel Industries	UAE	1,300
17th Jul 2013	Al Jubail Petrochemical (Kemya)	Saudi Arabia	800
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
26th Sep 2013	Qatar Electricity & Water	Qatar	271
25th Jul 2013	National Petrochemical Industrial Company	Saudi Arabia	267
18th Sep 2013	Alok International (Middle East)	UAE	150
28th Jan 2014	PIA	Pakistan	141

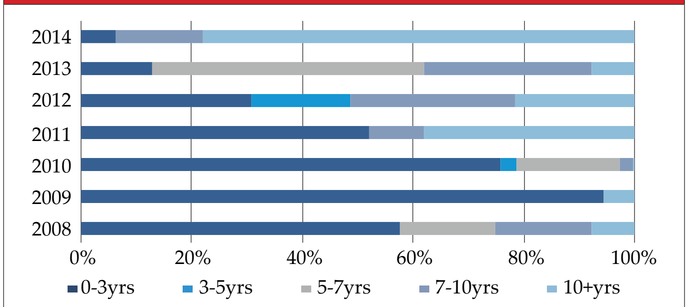
Top Islamic Finance Related Financing by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	UAE	1,891	3	42.5
2	Saudi Arabia	867	2	19.5
3	Turkey	815	2	18.3
4	Qatar	621	2	14.0
5	Pakistan	141	1	3.2

Top Islamic Finance Related Financing by Sector *12 Months*



Global Islamic Financing - Years to Maturity (YTD Comparison)



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